Delivering Value
Through Excellence

Annual Report 2013

VC GROUP
滙盈集團

# Value Convergence Holdings Limited

A Hong Kong listed company with stock code: 821
www.vcgroup.com.hk

# Corporate Information

**Executive Directors**

Mr. TIN Ka Pak, Timmy *(Chief Executive Officer)*
Mr. CHAU King Fai, Philip
Mr. CHENG Tze Kit, Larry *(Chief Investment Officer)*
Ms. SO Wai Yee, Betty *(Chief Financial Officer)*

**Independent Non-executive Directors**

Mr. IP Chun Chung, Robert
Mr. WONG Chung Kin, Quentin
Mr. WONG Kam Choi, Kerry

**Executive Committee**

Mr. TIN Ka Pak, Timmy *(Chairman)*
Mr. CHAU King Fai, Philip
Mr. CHENG Tze Kit, Larry
Ms. SO Wai Yee, Betty
Mr. NG Man Hoi, Paul$^{\Delta}$
Ms. FUNG Wai Har, Amanda$^{\Delta}$
Mr. WONG Man Hin, Charles$^{\Delta}$

$^{\Delta}$ non-voting co-opted member

**Audit Committee**

Mr. WONG Chung Kin, Quentin *(Chairman)*
Mr. IP Chun Chung, Robert
Mr. WONG Kam Choi, Kerry

**Remuneration Committee**

Mr. WONG Kam Choi, Kerry *(Chairman)*
Mr. IP Chun Chung, Robert
Mr. WONG Chung Kin, Quentin

**Nomination Committee**

Mr. IP Chun Chung, Robert *(Chairman)*
Mr. CHAU King Fai, Philip
Mr. WONG Chung Kin, Quentin
Mr. WONG Kam Choi, Kerry

**Finance Committee**

Ms. SO Wai Yee, Betty *(Chairman)*
Mr. CHAU King Fai, Philip
Mr. NG Man Hoi, Paul$^{\Delta}$
Ms. FUNG Wai Har, Amanda$^{\Delta}$

$^{\Delta}$ non-voting co-opted member

**Regulatory Compliance Committee**

Mr. CHAU King Fai, Philip *(Chairman)*
Ms. SO Wai Yee, Betty
Mr. NG Man Hoi, Paul
Ms. FUNG Wai Har, Amanda

**Authorised Representatives**

Mr. CHAU King Fai, Philip
Ms. WONG Yee Wah, Daphne

**Company Secretary**

Ms. WONG Yee Wah, Daphne

**Registered Office/Principal Place of Business**

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

**Auditor**

Deloitte Touche Tohmatsu

**Principal Banker**

Standard Chartered Bank (Hong Kong) Limited

**Share Registrar and Transfer Office**

Tricor Abacus Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

**Stock Code**

The Stock Exchange of Hong Kong Limited: 821

**Company Website**

http://www.vcgroup.com.hk

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# CEO'S STATEMENT

Year 2013 was another year of mixed challenges and uncertainties. The operating environment for Hong Kong's financial industry was characterized by a sluggish global economy, stringent regulatory requirements and considerable uncertainty in the Mainland China's financial market. Nevertheless, I am pleased to report another year of progress for the Group in which the Group had generated improved consolidated revenue and maintained a stable cost structure. Underpinning this were three main factors: excellent customer service by our business units; continued like-for-like revenue growth trends; and our ongoing focus on operational efficiency. We have achieved this against a tough economic environment and I am immensely proud of the hard work and commitment to achieve these goals shown by my colleagues around the Group.

Moreover, I believe that solid financial capability and a pragmatic operating strategy are crucial to such balanced growth. With the concerted efforts of our executive team, the Group has made progress in refocusing itself through top-down resource allocation to those businesses where can create market leading positions. Our objective is to improve and expand our market leading businesses through execution of bottom-up business unit strategies to excel our competitors in terms of growth of businesses. In particular, the Group has adhered to a professional attitude in delivering financial services and products favorably to customers. This has been well reflected in our financial results in recent years despite of the continuous global and local economy downturn.

Although the nature of our financial business makes it particularly sensitive to changes in economic conditions and investors' sentiments, our fundamental strategy is unchanged and our core focus remains on sticking to our core businesses including securities, futures and options brokering, and corporate finance services; capitalizing on the significant growth opportunities and thereon delivering shareholder value from our strength. Along with these, the Group was benefited from the expansion of money lending business by devoting more resources from mid of last year. The increased financial flexibility offered to our clients ultimately improved our customer services and promoted the continued loyalty. In 2013, the Group recorded an increase in consolidated revenue of about 14% as compared to last year and incurred loss from operation excluding the fair value changes on some financial instruments to the tune of approximately HK$21 million as compared to approximately HK$37.2 million last year.

Apart from the above, the Group always seeks opportunity to leverage its expertise in financial services industry and expand its business in the PRC markets. In November 2013, the Company announced to acquire new lines of businesses including the provision of management consultancy services for small loans companies and provision of currency exchange services and other related services in the PRC. These potential acquisitions allow the Group to expand its geographical coverage in the PRC and also complement our existing business. I believe that these potential investments will pay off and the synergy will eventually reflect on the sales growth and the Group's financial performance and cash flow in future.

Looking ahead, Year 2014 is likely to remain challenging for the global economy in light of the fragile fiscal position in Europe and the US while the major economies will stay sluggish. In addition, various adverse signs are pointing to a slowing down economy across the Mainland China, which in turn may pose a significant impact on our core businesses. Our countering strategies will include strengthening our quality services with a view to boarding our revenue base and capturing the emerging new markets.

In closing, on behalf of my fellow Directors, I wish to express our sincere appreciation and wholehearted gratitude to the management team and all staff of the Group for their dedication, commitment and contributions which keep the Group competitive throughout the year. The same thanks should also be extended to our shareholders and stakeholders for their confidence and continuous support in this challenging year. As always, we strive for creating greater value for our shareholders and investors.

**Tin Ka Pak, Timmy**
*Chief Executive Officer and Executive Director*

Hong Kong
25 March 2014

# MANAGEMENT DISCUSSION AND ANALYSIS

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

## BUSINESS REVIEW

Following the financial tsunami erupted in late 2008, the world's major financial markets have been facing different levels of uncertainties. Starting from the fourth quarter of 2012, with certain quantitative easing measures launched globally, there was a steady inflow of hot money into the markets of the Asian-Pacific region, which led to a positive impact to the growth of new listings and public offering activities as well as the merger and acquisition transactions. This had helped to improve and stabilize the global investment atmosphere for a while, however, the global economy still lacked growth momentum to sustain recovery.

In the second quarter of 2013, the global capital market continued to be sluggish and even suffered some setbacks, especially when Ben Bernanke, Chairman of the United States Federal Reserve, announced in June that the Federal Reserve had plans to taper down the quantitative easing measures commencing later the year. This resulted in significant waves in most Asian stock markets, making them to become highly volatile again. Though the Federal Reserve subsequently reaffirmed its commitment about maintaining an accommodative monetary policy, the investors remained cautious about the implications of the tapering plan towards the global economy in the second half of 2013.

As an international financial center, Hong Kong was inevitably affected by different challenges and uncertainties under the murky macro environment. The local stock market in 2013 was still volatile, and the gloomy market sentiment was manifested by the sluggishness in the Hong Kong daily trading turnover, market capitalization and other various market indices. Starting from the fourth quarter of 2012, there had been a steady inflow of hot money into the Hong Kong market. New listings and public offerings boosted and market responses were overwhelming with a number of oversubscribed initial public offerings. This, along with growing news about mergers and acquisitions, enabled the Hang Seng Index (the "HSI") to reach a 16-month high of 22,656 when the market closed at the end of December 2012 and further reaching a peak of 23,822 on 30 January 2013. This growth momentum had continued in the first quarter of 2013.

However, in the second quarter of 2013, the market had once gone downhill in the face of flagging global financial conditions as aforementioned and the HSI had even tumbled to the lowest of 19,813 on 24 June 2013. Fortunately, the local stock market picked up gradually in the second half of 2013 and the HSI had once reached a record of 24,038 on 2 December 2013. As at 31 December 2013, the HSI closed at 23,306, which was about 3% higher as compared with 22,656 as at 31 December 2012. The market volatility throughout the year indicated that the market sentiment was still easily suppressed by uncertainties.

The above review was echoed by the local stock market's average daily trading turnover and the market capitalization. The average daily trading turnover had increased significantly by about 16% to approximately HK$62.6 billion for 2013 as compared to approximately HK$53.9 billion in previous year. This was mainly attributed to the strong boom in the first quarter of 2013, in which the average daily trading turnover was approximately HK$74.4 billion. The average daily trading turnover in the remaining quarters of 2013 had dropped but was still higher than that throughout 2012. Further, the total market capitalization had also increased by about 10% from approximately HK$21,950 billion as at 31 December 2012 to approximately HK$24,043 billion as at 31 December 2013.

This was also reflected in the total fund raising in Hong Kong (including initial public offerings) of approximately HK$374.3 billion in 2013, an increase of about 23% as compared with approximately HK$305.4 billion in 2012, in which the fund raising from the initial public offerings was approximately HK$166.5 billion in 2013, a sharp increase of about 85% as compared with approximately HK$90 billion in 2012. This revealed that there were more listings and public offering completed in the Hong Kong stock market.

Being a financial services provider, our business performance in 2013 was definitely affected by both the global and local economic and market conditions. Fortunately, our sound balance sheet, together with the premium investment and wealth management products and services, enabled us to possess clear competitive advantages against our peers. We believe that those are critical elements to enhance our shareholders' value. The Group will endeavor to strive for better performance and prepare ourselves to capture any precious business development opportunities that may arise.

For details of the financial results analysis of the Group for the year ended 31 December 2013 please refer to the section "FINANCIAL REVIEW" below.

## OUTLOOK

Looking ahead, the Group expects 2014 will still be challenging for the financial sector. The global economic conditions are expected to stay volatile, which will continue to cast a gloom over investment market to different extents unless those situations are resolved and handled properly. Moreover, the sustainability of China's economic growth in the current year has raised some concerns to the global economy.

Considering the close economic ties between Hong Kong and the Mainland, the Hong Kong investment market would still head towards brighter prospects with the support from the Mainland market. Hopefully, it will create a more conducive business environment for the Group's brokerage and corporate finance businesses, which are set for cautiously optimistic prospects.

The Group will continue to apply our excellent operational capabilities to serve customers, to pursue business diversification and acquisition, to strive for innovation and to ensure that we will be able to reap benefits when the market rebounds.

## LONG-TERM BUSINESS STRATEGY

The Group's core businesses remain competitive with a focus on securities, futures and options brokering (including local and overseas securities dealing, securities borrowing and lending and short selling, futures and options trading, derivatives and other structured products trading, margin financing, placement and underwriting, etc.), corporate finance services in relation to sponsoring and underwriting initial public offerings, and mergers and acquisitions, as well as asset management.

Throughout 2013, the Group did not make any significant changes to its business strategy. Amid market volatility, the Group was able to maintain its competitive edge due to a number of factors: excellent reputation established over the years, an extensive business network with supportive business partners, quality and diversified services that cater to clients' needs, fair and competitive fees, and a proactive and professional team that is dedicated to innovation and exploration of new markets to yield greater business returns for investors and shareholders. From June 2013, the Group had expanded its money lending business so as to broaden its revenue base. In November 2013, the Group proposed to acquire the new lines of businesses including the provision of management consultancy services for small loans companies and provision of currency exchange services and other related services in the PRC. It is expected that both can further strengthen the financial position of the Group as well as increase the presence of the Group in the PRC market.

## FINANCIAL REVIEW

Under the sluggish investment sentiment and investment climate as aforementioned, the Group's consolidated revenue was approximately HK$74.4 million for the year ended 31 December 2013, which had increased by about 14% as compared with the same period in 2012. The Group recorded a consolidated loss attributable to shareholders amounted to approximately HK$40.7 million for the year ended 31 December 2013 against a consolidated loss of approximately HK$37.2 million for the same period in 2012. Excluding the recognition of the fair value changes of approximately HK$19.7 million in relation to the 80,000,000 non-listed warrants placed and issued by the Company in August 2013 and the investment of HK$20,000,000 in a non-listed convertible bond completed in July 2013, the major non-recurring and non-operating nature item, the Group generated a consolidated operating loss of approximately HK$21 million for the year ended 31 December 2013.

To facilitate the review, the Group's segment information shown in Note 7 to the consolidated financial statements is reproduced below after some re-arrangements:

| | Year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* |
| Segmental results: | | |
| Brokerage and Financing | **(2,999)** | (7,520) |
| Corporate Finance | **(7,402)** | (11,358) |
| Asset Management | **(1,407)** | (563) |
| Group segment loss | **(11,808)** | (19,441) |
| Unallocated costs, net | **(10,387)** | (16,763) |
| Impairment loss on available-for-sale investment | **(109)** | (150) |
| Fair value change on derivative financial asset | **(1,663)** | – |
| Fair value change on financial liability at fair value through profit or loss | **(18,023)** | – |
| Loss before taxation | **(41,990)** | (36,354) |
| Income tax credit (expense) | **1,249** | (1,216) |
| Loss for the year | **(40,741)** | (37,570) |
| Non-controlling interests | **–** | 327 |
| Loss for the year attributable to shareholders of the Company | **(40,741)** | (37,243) |

**Brokerage and Financing**

For the year ended 31 December 2013, the Group provides securities, futures and options brokering and dealing, margin financing, and placing and underwriting services through VC Brokerage Limited and VC Futures Limited (both are the indirect wholly owned subsidiaries of the Company), and money lending services through VC Finance Limited (also the indirect wholly owned subsidiary of the Company), which recorded revenue of approximately HK$70.1 million as compared to approximately HK$59.9 million for the same period last year, representing an increase of about 17%. Among the various revenue streams generated from the brokerage and financing businesses, both the brokerage commission income and interest income from financing had increased significantly during the year ended 31 December 2013 as compared to the same period last year.

For the year ended 31 December 2013, the Group's brokerage commission and other related fee from dealing in securities and futures and options contracts had increased to approximately HK$40.5 million from approximately HK$35.6 million for the same period last year, representing an increase of about 14%, which reflected that the Group's brokerage business kept growing at the same pace, although to a lesser extent, with the Hong Kong stock market as mentioned in the section "BUSINESS REVIEW" above.

For the year ended 31 December 2013, the Group's interest income from financing had increased to approximately HK$24.7 million from approximately HK$19.5 million for the same period last year, representing an increase of about 27%. Among these, the Group's interest income from our brokerage clients remained stable, in which an amount of approximately HK$20.2 million was recorded for the year ended 31 December 2013, which was slightly higher than that of the same period last year. Our average loan portfolio to our brokerage clients was approximately HK$245.6 million during the year ended 31 December 2013, which was closely same as that of the same period last year. Indeed, the increase in the Group's interest income in 2013 was mainly attributable to the interest income generated from the provision of money lending services to our new clients, in which an amount of approximately HK$4.5 million was recorded for the year ended 31 December 2013. By end of the first half of 2013, the Group started to devote more resources into the provision of financing services which included the expansion of our money lending business. This helps broaden our revenue base by taking the advantage of the huge growth potential from the loan market and also offering our clients with more financial flexibility to meet their personal and business needs.

Nevertheless, in view of the uncertain market conditions, the Group had continued to strengthen our credit control policies and procedures, same as the past few years, including the review of our clients' creditworthiness and credit limits, so as to minimize our credit risk exposure. For the year ended 31 December 2013, the Group had made an impairment write-back of approximately HK$2 million (2012: additional impairment of HK$1.1 million) for accounts receivable arising from the ordinary course of business of dealing in securities transactions in accordance with the Group's established credit policies and procedures which were principally based on the doubtful unsecured exposure having assessed the fair values of the clients' collaterals held, the evaluation of collectability and aging analysis of the client accounts. Such significant impairment write-back in the current year was resulted from the recovery of some irrecoverable debts recognised in previous years.

Further, the Group also offers placing and underwriting services to our customers, and acts as placing agents and underwriters for many Hong Kong listed companies' fund raising activities. For the year ended 31 December 2013, the Group's placing and underwriting commission generated had slightly increased to approximately HK$5 million (2012: HK$4.8 million). There was a strong performance in the second half of 2013, in which almost all of the revenue was recorded in that period. The Group will continue to put efforts to capture the opportunities towards initial public offerings and other fund raising exercises in Hong Kong once the market sentiments improved constantly.

Overall, the operating performance of the brokerage and financing businesses for the year ended 31 December 2013 was much better than that of last year. For the year ended 31 December 2013, the operating loss before and after tax generated from the brokerage and financing businesses was approximately HK$3 million (2012: HK$7.5 million).

### Corporate Finance

During the year ended 31 December 2013, VC Capital Limited, an indirect wholly owned subsidiary of the Company, had been appointed as the financial adviser of several Hong Kong listed companies for a number of corporate transactions and actively involved in helping some clients as sponsor to seek for new listings on both the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Growth Enterprise Market of the Stock Exchange.

For the year ended 31 December 2013, the Group's corporate financial advisory and related services recorded a revenue totaling approximately HK$4.4 million (2012: HK$5.3 million), and generated an operating loss before and after tax of approximately HK$7.4 million (2012: HK$11.4 million). The reduction in operating loss in the current year was mainly attributable to the close down of the Shenzhen office in July 2012, which had incurred operational costs of approximately HK$4.6 million for the year ended 31 December 2012. As mentioned in the section "BUSINESS REVIEW" above, though there were more companies to complete their new listings and other public offerings plans and even some merger and acquisition transactions in the Hong Kong stock market, it still takes time for the Group to capture the growing business opportunities from the more favourable and stable market conditions after the full return of a bullish market.

Generally, initial public offerings sponsorships will continue to be a major revenue driver of our corporate finance segment and will create the business opportunities in share placements and underwriting for the Group as a whole.

### Asset Management

Given the prevalently strong Mainland China economy and the solid foundation of the financial service market in Hong Kong, the Group is still pursuing new business opportunities to grow its asset management business so as to enhance our product and service offerings to cater for the diverse and growing needs of our customers. In the past few years, it is confirmed that the economic recovery continues to gain some momentum after the financial tsunami, however, it is still in the early stage of recovery and the global economic growth remains fragile, which make the development of our asset management business more difficult and competitive.

For the year ended 31 December 2013, the Group's asset management business, through VC Asset Management Limited (the indirect wholly owned subsidiary of the Company), recorded an operating loss before and after tax of approximately HK$1.4 million (2012: HK$0.6 million) which mainly comprising the general operating expenses incurred for such business.

### Fair value change on derivative financial asset

On 3 July 2013, the Company had subscribed a non-listed Hong Kong dollar denominated convertible bond in a principal amount of HK$20,000,000 issued by a company listed on the Stock Exchange, which will be matured on the second anniversary of the issue date of the convertible bond (the "Convertible Bond"). Interest of 8% per annum is payable annually until the Convertible Bond is converted. The Company is entitled to convert the Convertible Bond to ordinary shares at a conversion price of HK$0.79 each at any time from the day immediately following three months after the issue date up to the maturity date.

The Convertible Bond was split into two components, including (i) convertible bond receivable, which was carried at amortised cost, and (ii) derivative financial asset, which was measured at fair value, in the consolidated financial statements. As at 31 December 2013, the carrying amounts of the convertible bond receivable and the derivative financial asset were approximately HK$16.7 million and HK$2.6 million respectively in accordance with a valuation report prepared by an independent professional valuer as at 31 December 2013. As such, the Group had recognised a decrease in fair value on the derivative financial asset of approximately HK$1.7 million for the year ended 31 December 2013. Details had been given in Notes 20 and 21 to the consolidated financial statements respectively.

### Fair value change on financial liability at fair value through profit or loss

On 15 May 2013, the Company entered into a placing agreement with a placing agent whereby the Company had conditionally agreed to place, through the placing agent on a best effort basis, a maximum of 80,000,000 non-listed warrants (the "Warrant(s)") at an issue price of HK$0.02 per Warrant. Each Warrant carries the right to subscribe for one ordinary share of the Company at the subscription price of HK$1.20, which can be exercised at any time during a period of 24 months commencing from the date of issue of the Warrants. The placing and issue of 80,000,000 Warrants had been completed on 2 August 2013 and these Warrants can be exercised until 1 August 2015. The net proceeds from the placing and issue of the Warrants was approximately HK$1.5 million. The maximum net proceeds from the exercise of the subscription rights attaching to the Warrants will be approximately HK$96 million. The Company intends to use these net proceeds for general working capital of the Group and/or possible investment in the future when opportunities arise. Details were set out in the Company's announcements dated 15 May 2013 and 2 August 2013.

These Warrants were classified as financial liability at fair value through profit or loss and were measured at fair value. As at 31 December 2013, the carrying amount of these Warrants was approximately HK$19.6 million in accordance with a valuation report prepared by an independent professional valuer as at 31 December 2013. As such, the Group had recognised an increase in fair value on the Warrants of approximately HK$18 million for the year ended 31 December 2013. Details had been given in Note 26 to the consolidated financial statements

### Unallocated costs, net

For the year ended 31 December 2013, the net unallocated costs of the Group was approximately HK$10.4 million as compared to approximately HK$16.8 million for the same period in 2012, which mainly included the unallocated corporate rental and utility expenses, staff costs and related expenses, and professional costs, etc.

### Finance costs

During the year ended 31 December 2013, the finance costs of the Group was approximately HK$0.9 million (2012: HK$0.9 million), in which all were incurred in relation to the short-term bank loans utilised for the Group's brokerage and financing businesses.

### Income tax credit/expense

No provision for Hong Kong Profits Tax and the PRC Enterprise Income Tax had been made during the year ended 31 December 2013 as there was no assessable profit (2012: a tax provision of approximately HK$1.2 million for the PRC Enterprise Income Tax). In the current year, the tax provision of HK$1.2 million for the PRC Enterprise Income Tax was reversed, which was provided by the Group's PRC subsidiary in previous year in relation to the waiver of intercompany balance by another group entity, and had been confirmed to be not taxable.

### Liquidity and financial resources/capital structure

For the year ended 31 December 2013, the Group finances its business operations and investments with internal resources, cash revenues generated from operating activities and short-term bank loans.

The Group adopts a prudent treasury policy and intends to maintain minimum exposure to foreign exchange risks. As at 31 December 2013, all borrowings and almost all the bank balances and cash were denominated in Hong Kong dollars. Further, all the bank balances and cash were put in time deposits, saving deposits and current accounts.

The Group held banking facilities of HK$130 million granted from a bank to VC Brokerage Limited as at 31 December 2013 (2012: HK$130 million), in which HK$80 million (2012: HK$80 million) was general short-term money market loan and current account overdraft and was currently required to be secured by bank deposits of HK$40 million (2012: HK$40 million), and the other HK$50 million (2012: HK$50 million) was short-term money market loan for margin financing business and was required to be secured by VC Brokerage Limited's margin clients' listed securities when utilised. As at 31 December 2013, the Group had not utilised any of the above banking facilities (2012: general short-term money market loan of HK$40 million), which bore an interest rate at HIBOR plus 2% per annum, by pledge of bank deposits of HK$40 million (2012: HK$40 million).

As at 31 December 2013, the Group's net current assets, bank balances and cash and shareholders' equity (other than clients' segregated accounts) amounted to approximately HK$471.6 million (2012: HK$531.1 million), HK$152.9 million (2012: HK$263.4 million) and HK$503.4 million (2012: HK$538.9 million) respectively. Current ratio, expressed as current assets over current liabilities, was maintained at a very satisfactory level of 6.4 as at 31 December 2013 (2012: 6.8).

As at 31 December 2013, the total number of issued ordinary shares of the Company was 411,806,829 at HK$0.10 each (2012: 405,924,829 shares of HK$0.10 each). The increase of 5,882,000 shares during the year ended 31 December 2013 was due to the exercise of share options by the Directors of the Company and the employees of the Group.

As aforementioned, the Company had placed and issued 80,000,000 Warrants and these Warrants can be exercised until 1 August 2015. Upon full exercise of the subscription rights attaching to the Warrants, the Company will issue 80,000,000 subscription shares, representing (i) approximately 19.43% of the issued share capital of the Company as at the date of this announcement; and (ii) approximately 16.27% of the issued share capital of the Company as enlarged by the issue and allotment of the subscription shares upon the full exercise of the subscription rights attaching to the Warrants.

### Charge on group assets

As aforementioned, the Group had made a HK$40 million charge over its bank deposits to a bank (2012: HK$40 million) for securing banking facilities of HK$80 million granted to VC Brokerage Limited in general short-term money market loan and current account overdraft as at 31 December 2013 (2012: HK$80 million).

### Gearing ratio

As at 31 December 2013, the Group's gearing ratio, expressed as total borrowings (solely the bank borrowings) over shareholders' equity, was zero (2012: 0.074 times).

### Foreign exchange exposure

It is the Group's policy for all operating entities to use corresponding local currency as much as possible so as to minimize exchange related risks. During the year ended 31 December 2013, almost all of the Group's principal businesses were conducted and recorded in Hong Kong dollars. Impact from foreign exchange exposure was thus minimal and no hedging against foreign currency exposure had been necessary. In view of the operational needs, the Group will continue to monitor the foreign currency exposure from time to time and take necessary action to minimize the exchange related risks.

### Headcount and employees information

As at 31 December 2013, the Group had employed a total of 95 employees (31 December 2012: 101), of whom all are located in Hong Kong.

Staff costs (including the Directors' emoluments) and staff sales commission amounted to approximately HK$43.6 million and HK$21.9 million respectively for the year ended 31 December 2013 (2012: HK$47.4 million and HK$19.7 million respectively). The staff costs included equity-settled share-based payments of approximately HK$3.2 million for the year ended 31 December 2012 (2013: Nil). Details had been given in Notes 8 and 9 to the consolidated financial statements.

The Group's employees are selected, remunerated and promoted based on their performance and qualifications. In addition to basic salaries and participation in Mandatory Provident Fund Scheme, other staff benefits include medical coverage, sales commission, discretionary performance-based bonus, discretionary share options and share awards. Training and development programs are also provided to employees from time to time.

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

During the year ended 31 December 2013, the Group did not make any material acquisitions and disposal of subsidiaries, significant investments nor capital commitment except the Convertible Bond as aforementioned. Details are given in Notes 20 and 21 to the consolidated financial statements.

### Future plans for material investments or capital assets

On 22 November 2013, subsequent to the signing of a non-legally binding memorandum of understanding with Wide Esteem Limited on 26 July 2013, the Company through its wholly owned subsidiary, VC Financial Group (China) Limited, entered into (i) an agreement with Wide Esteem Limited to acquire the entire equity interest in Orient Xin Dai Management Co., Ltd ("Orient Xin") at a consideration of HK$260 million to be settled by way of cash of HK$100 million and issue of the share of the Company at an issue price of HK$1 per share for HK$160 million; and (ii) an agreement with Central Sino Holdings Limited to acquire the entire equity interest in High Trade International Limited ("High Trade") at a consideration of HK$210 million to be settled by way of cash of HK$100 million and issue of convertible note in the principal amount of HK$110 million, which may be converted into 110,000,000 shares of the Company at a conversion price of HK$1 each. Orient Xin and its subsidiaries are principally engaged in the provision of management consultancy services for small loans companies in the PRC. High Trade and its subsidiaries are principally engaged in the provision of currency exchange services and other related services in the PRC.

Meanwhile, on 22 November 2013, the Company entered into a placing agreement with VC Brokerage Limited as its placing agent to procure (i) not less than six placees to subscribe up to 300,000,000 shares of the Company at a price of HK$1 each; and/or (ii) not less than six placees to subscribe for the convertible note of the Company in an aggregate principal amount of up to HK$300 million and may be converted into up to 300,000,000 shares of the Company at a conversion price of HK$1 each. The Company intends to use the proceed to finance the above acquisitions, the working capital and future business expansion of the acquired businesses as well as the general working capital of the Group. Details were set out in the Company's announcements dated 26 July 2013, 24 November 2013, 13 December 2013 and 28 February 2014.

Other than aforementioned, as at 31 December 2013, the Group had no other known plans with regard to material investments or capital assets. Material capital expenditure will be incurred when the Group begins to pursue different investments or projects in the coming years. The Group will finance the respective investments or projects using its internal resources and/or different financing options available, whichever should be deemed appropriate.

As at 31 December 2013, the Group did not have any significant contracted but not provided for in respect of purchase of property and equipment in the consolidated financial statements (2012: Nil).

### Contingent liabilities

As at 31 December 2013, the Company had given financial guarantees of HK$130 million (2012: HK$130 million) to a bank in respect of banking facilities of HK$130 million provided to VC Brokerage Limited as mentioned in the section "Liquidity and financial resources/capital structure" above. As at 31 December 2013, there was no banking facilities utilised by VC Brokerage Limited (2012: HK$40 million).

## DIRECTORS

### TIN Ka Pak, Timmy

### Chief Executive Officer & Executive Director

Mr. Tin, aged 37, joined the Group as Executive Director in July 2011. He has been appointed as the Chief Executive Officer of the Company on 14 May 2013. Currently, he is the chairman of the Executive Committee and a director of certain subsidiaries of the Company. Prior to joining the Company, Mr. Tin was the executive director of PME Group Limited (Stock Code: 379) and China Oriental Culture Group Limited (Stock Code: 2371), both companies being listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and China Bio-Med Regeneration Technology Limited (Stock Code: 8158), a company listed on the Growth Enterprise Market ("GEM") of the Stock Exchange.

Mr. Tin holds a Bachelor degree of Business Administration from Oxford Brookes University in the United Kingdom. Mr. Tin has several years management experience in listed companies, whose shares are listed on the Stock Exchange, duties including group management, strategic planning, investment evaluation and investor relationship.

### CHAU King Fai, Philip

### Executive Director

Mr. Chau, aged 52, joined the Group in May 2004 and was appointed as Executive Director of the Company in September 2009. Currently, Mr. Chau is the Managing Director of VC Capital Limited, a wholly owned subsidiary of the Company. He is also the chairman of the Regulatory Compliance Committee, a member of the Executive Committee, Nomination Committee and Finance Committee and a director of certain subsidiaries of the Company. Meanwhile, Mr. Chau was a non-executive director of Pizu Group Holdings Limited (formerly known as "China Electric Power Technology Holdings Limited") (Stock Code: 8053) for the period from 6 September 2011 to 13 December 2012, a company listed on the GEM of the Stock Exchange.

Mr. Chau has over 25 years of experience in banking and corporate finance. He has held senior positions 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 from The Chinese University of Hong Kong.

# Biographical Details of Directors and Senior Management

**CHENG Tze Kit, Larry**

**Chief Investment Officer & Executive Director**

Mr. Cheng, aged 57, joined the Group as Non-executive Director in November 2009 and re-designated as Executive Director in December 2009. Currently, Mr. Cheng is the Chief Investment Officer, a member of the Executive Committee and a director of certain subsidiaries of the Company.

Mr. Cheng has over 25 years of experience in real estate development and mergers and acquisitions in Hong Kong, Canada and the PRC. He holds a Bachelor of Science (Hons) in Engineering from City University London, United Kingdom and a Master of Business Administration from the University of Management and Technology, Washington, D.C., United States. Mr. Cheng is a Chartered Engineer of United Kingdom and a member of the Institution of Mechanical Engineers, the Institution of Engineering and Technology and the Chartered Institution of Building Services Engineers.

**SO Wai Yee, Betty**

**Chief Financial Officer & Executive Director**

Ms. So, aged 32, joined the Group as Non-executive Director in November 2009 and re-designated as Executive Director in January 2010. Currently, she is the Chief Financial Officer, the chairman of the Finance Committee, a member of the Executive Committee and Regulatory Compliance Committee and a director of certain subsidiaries of the Company.

Ms. So has several years working experience in one of the major international accounting firms in Hong Kong. She graduated with a Bachelor of Business Administration (Accounting & Finance) degree from The University of Hong Kong. She is a member of the Hong Kong Institute of Certified Public Accountants.

**IP Chun Chung, Robert**

**Independent Non-executive Director**

Mr. Ip, aged 57, joined the Group as Independent Non-executive Director in March 2012. Mr. Ip is the chairman of the Nomination Committee and a member of the Audit Committee and Remuneration Committee of the Company. He is a practising solicitor in Hong Kong since 1985. Currently, Mr. Ip is the proprietor of Messrs. Robert C.C. Ip & Co. and the consultant with Messrs. Cheng, Yeung & Co., Solicitors. He is also the non-executive director and audit committee member of Poly Property Group Co., Limited (Stock Code: 119), a company being listed on the Main Board of the Stock Exchange and the independent non-executive director and audit committee member of Changhong Jiahua Holdings Limited (formerly known as "China Data Broadcasting Holdings Limited") (Stock Code: 8016), a company being listed on the GEM of the Stock Exchange.

Mr. Ip is a member of The Law Society of Hong Kong, The Law Society of England and Wales, The Law Society of Singapore and Law Society of Australia Capital Territories. He obtained his Bachelor Degree of Arts from The University of Hong Kong and studied for his Common Professional Examination and Solicitor's Final Examination in College of Law, Chester, United Kingdom and College of Law, Guildford, United Kingdom respectively. Mr. Ip has over 30 years of experience in legal aspects and more than 15 years experience in listing related and corporate, takeover, mergers and acquisition areas.

# Biographical Details of Directors and Senior Management

**WONG Chung Kin, Quentin**

**Independent Non-executive Director**

Mr. Wong, aged 42, joined the Group as Independent Non-executive Director in March 2012. Mr. Wong is the chairman of the Audit Committee and a member of the Nomination Committee and Remuneration Committee of the Company. He has set up his own practice, Quentin Wong & Co. Certified Public Accountants (Practising) since 1 January 2005. Currently, Mr. Wong is an independent non-executive director, the chairman of the audit committee and a member of the remuneration committee of China Investment Fund Company Limited (Stock Code: 612), a company being listed on the Main Board of the Stock Exchange.

Mr. Wong is a fellow member of Hong Kong Institute of Certified Public Accountants, The Taxation Institute of Hong Kong and Association of Chartered Certified Accountants. Meanwhile, he is a member of The Society of Chinese Accountants & Auditors and The Institute of Chartered Accountants in England & Wales. Mr. Wong holds a bachelor of Arts degree in Accounting and Financial Management from University of Essex and a master degree of Science in Internal Auditing and Management from The City University, London. He has over 11 years working experience in audit and accounting gained from a sizeable international firm and has had almost 9 years of practicing experience.

**WONG Kam Choi, Kerry**

**Independent Non-executive Director**

Mr. Wong, aged 47, joined the Group as Independent Non-executive Director in May 2013. Mr. Wong is the chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee of the Company. He is a substantial shareholder and a director of a design and printing company. Mr. Wong has over 10 years' experience in design and printing industry. He was an independent non-executive director of Media Asia Group Holdings Limited (Stock Code: 8075), a company being listed on the GEM of the Stock Exchange, for the period from 14 April 2010 to 11 September 2011.

Mr. Wong has been dedicating to wide range of community services in Hong Kong and Southern China. He is the chairman of Sik Sik Yuen, the committee member of Chinese People's Political Consultative Conference of Guangzhou, Liwan and chairman/vice chairman of a number of non-profit organizations.

## SENIOR MANAGEMENT

### NG Man Hoi, Paul

### Chief Operating Officer

Mr. Ng, aged 56, possesses over 28 years of experience in the finance and banking industry. Currently, he is the Chief Operating Officer of the Company, a member of the Regulatory Compliance Committee, a non-voting member of the Executive Committee and Finance Committee and a director of certain subsidiaries of the Company.

Mr. Ng joined the CEF Group in 1992 and was transferred to the present VC Brokerage Limited in December 2001. He was appointed as the Chief Operating Officer of the Company in January 2003. 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.

### FUNG Wai Har, Amanda

### Finance Director

Ms. Fung, aged 42, joined the Group in September 2009. Currently, she is the Finance Director of the Company, a member of the Regulatory Compliance Committee and a non-voting member of the Executive Committee and Finance Committee of the Company.

Ms. Fung has over 19 years extensive professional accounting experience in the auditing, information technology, investment and financial services, and leisure and entertainment sectors. She is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. She graduated with a Bachelor of Arts (Honours) Degree in Accountancy from The Hong Kong Polytechnic University.

### WONG Man Hin, Charles

### Managing Director of VC Brokerage Limited

Mr. Wong, aged 49, joined the Group in June 2004. Currently, he is the Managing Director of VC Brokerage Limited, a non-voting member of the Executive Committee of the Company and a director of certain subsidiaries of the Company.

Mr. Wong has more than 27 years of experience in securities and financial industry. Prior to joining the Group, Mr. Wong held senior management positions at various financial institutions including Kim Eng Securities (Hong Kong) Limited, Ong Asia Securities (HK) Limited, Core Pacific – Yamaichi International (H.K.) Limited and Yuanta Brokerage (HK) Limited.

Mr. Wong is a graduate of the University of East Asia, Macau and holds a Bachelor of Business Administration degree majoring in marketing.

The board (the "Board") of directors (the "Directors") of Value Convergence Holdings Limited (the "Company") believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, successful business growth and enhancing shareholders' value. As such, the maintenance of a high standard of corporate governance has been and remains a top priority of the Group (the Company and its subsidiaries). The Group is committed to promoting and maintaining the highest standard of 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 risk and the enhancement of performance by the Group.

## CORPORATE GOVERNANCE PRINCIPLES AND PRACTICES

The Company has applied the principles set out in the Code on Corporate Governance Practices (the "HKSE Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with the aforementioned objectives in mind. To this end, the Company has promulgated a set of Code on Corporate Governance (the "Company Code") which sets out the corporate standards and practices used by the Company 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 1 January 2005. In order to promote the development of a high level or corporate governance among the listed issuers, the Stock Exchange amended the HKSE Code and the revised code, namely Corporate Governance Code (the "CG Code") came into effect on 1 April 2012. The Company also amended its Company Code to in line with the standard of the CG Code. The updated Company Code is given at the Company's website under the section "Corporate Governance".

The Company Code also serves the purpose of assimilating existing practices with benchmarks prescribed by the CG Code and ultimately ensuring high transparency and accountability to the Company's shareholders.

## COMPLIANCE OF THE CODE PROVISION OF THE COMPANY CODE AND CG CODE

The Company has complied with the code provisions set out in CG Code throughout the financial year ended 31 December 2013, except for the following deviations:

### i. Code Provision A.2.1

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive of a listed company should be separate and should not be performed by the same individual. Since Dr. Lee Jun Sing, the former Chairman of the Board, retired during the 2012 annual general meeting of the Company held on 24 May 2012, the office of the Chairman of the Board has been vacant. The Company is now in the process of identifying the suitable candidate to fill the vacancy of the Chairman. Mr. Tin Ka Pak, Timmy, Chief Executive Officer of the Company, has taken up the roles and functions of the Chairman until new Chairman is on Board.

### ii. Code Provision A.4.1

Under the code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term and subject to re-election. All the Non-executive Directors of the Company are not appointed for specific term. However, under the Article 92 of the Articles of Association of the Company (the "Articles of Association"), all directors, including non-executive directors, of the Company are subject to retirement by rotation and re-election in the annual general meeting of the Company and each Director is effectively appointed under an average term of three years. 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.

### iii. Code Provision A.6.7

Under the code provision A.6.7 of the CG Code, non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Lam Kwok Hing, Wilfred, an independent non-executive director of the Company, was absent from the 2013 annual general meeting of the Company held on 30 May 2013 due to other business engagement. Mr. Wilfred Lam retired in the same meeting.

## THE BOARD OF DIRECTORS

The Board is entrusted with the overall responsibility for promoting the success of the Company by the director 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 Chief Executive Officer and the management. Each Director has a duty to act in good faith in the interests of the Company.

Lists of (1) duties and powers delegated to the Company's Chief Executive Officer and matters reserved for decision of the Board and (2) division of responsibilities between the Company's Chairman and Chief Executive Officer are given at the Company's website under the section "Corporate Governance".

### i. Board Composition

The Board currently comprises a total of seven Directors, with four Executive Directors, namely, Mr. Tin Ka Pak, Timmy (Chief Executive Officer), Mr. Chau King Fai, Philip, Mr. Cheng Tze Kit, Larry (Chief Investment Officer) and Ms. So Wai Yee, Betty (Chief Financial Officer); and three Independent Non-executive Directors, namely, Mr. Ip Chun Chung, Robert, Mr. Wong Chung Kin, Quentin and Mr. Wong Kam Choi, Kerry.

Under the Article 92 of the Articles of Association, any director so appointed 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. As such, Mr. Wong Kam Choi, Kerry (appointed as Independent Non-executive Director on 30 May 2013) shall retire at the forthcoming annual general meeting and being eligible to offer himself for re-election.

Under the Article 101 of the Articles of Association, one third of the Directors must retire, thus becoming eligible for re-election at each annual general meeting of the Company. As such, Mr. Tin Ka Pak, Timmy and Mr. Cheng Tze Kit, Larry will retire at the forthcoming annual general meeting and being eligible to offer themselves for re-election.

Biographical details of the retiring Directors have been set out in a circular, which will be sent to shareholder together with this annual report, to assist shareholders to make an informed decision on their re-elections.

### ii. Independence of Independent Non-executive Directors

The Independent Non-executive Directors, all of whom are independent of the management of the Group's businesses, are highly experienced professionals with substantial experience in areas such as legal, accounting and financial management. Their mix of skills and business experience is a major contribution to the future development of the Group. They ensure that matters are fully debated and that no individual or group of individuals dominates the Board's decision making processes. In addition, they facilitate the Board to maintain a high standard of financial and other mandatory reporting and provide adequate checks and balances to safeguard the interests of shareholders and the Company as a whole.

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules for the year ended 31 December 2013. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines in 2013.

### iii. Securities Dealings by Directors and Relevant Employees

The Company has adopted a code of conduct regarding Directors' securities dealings on terms as set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry of the Directors of the Company, all Directors have confirmed that they have complied with the required standard of dealings and code of conduct regarding securities transactions by directors as set out in the Model Code in 2013.

The Board has also established a "Code of Securities Dealings by Relevant Employees" for relevant employees of the Company to regulate their dealings in the securities of the Company so as to comply with the directors' obligations under code provision A.6.4 of the CG Code.

### iv. Directors' Financial Update/Continuous Training and Development Programme

Directors are provided with monthly updates on the Company's financial performance, positions and prospects to enable the Board as a whole and each Director to discharge their duties. Meanwhile, all Directors are continually updated with legal and regulatory developments to acquaint themselves with the general duties of directors and the required standard of care, skill and diligence in the performance of his/her functions and exercise of his/her powers as directors.

During the year, the Company has arranged in-house training for the Directors. Mr. Tin Ka Pak, Timmy, Mr. Chau King Fai, Philip, Mr. Cheng Tze Kit, Larry and Ms. So Wai Yee, Betty have participated in the in-house training. Mr. Ip Chun Chung, Robert and Mr. Wong Chung Kin, Quentin have confirmed to the Company that they have participated in the seminars organized by the qualified professional bodies.

### v. Directors' Insurance

The Company has arranged appropriate directors and officers liability insurance ("D&O Insurance") coverage on directors' and senior management's liabilities in respect of legal actions against them arising out of corporate activities of the Company. The D&O insurance will be reviewed and renewed annually.

## BOARD MEETINGS

The Board conducts at least four regular Board meetings a year and additional meetings are held as and when required to discuss significant events or important issues. At least 14 days notice is given for regular Board meetings to all Directors enabling them to attend and reasonable notice will be given in case of special board meetings. Agenda accompanying board papers are sent to all Directors at least 3 days before each regular board meeting. The Group ensures that appropriate and sufficient information is provided to Board members in a timely manner to keep them abreast of the Group's latest developments thereby assisting them in discharge of their duties.

The Chief Financial Officer and the Company Secretary of the Company attended the board meetings to advise on statutory compliance, accounting and financial matters. All businesses transacted at the meetings were documented and maintained in accordance with applicable laws and regulations.

In 2013, the Board had held a total of twelve meetings. The details of the attendance record of each member of the Board for 2013 are provided thereinafter.

## PROCEDURE TO ENABLE DIRECTORS TO SEEK INDEPENDENT PROFESSIONAL ADVICE

To assist the Directors to discharge their duties to the Company, the Board has established written procedures to enable the Directors, upon reasonable request, to seek independent professional advice, at the Company's expense, in appropriate circumstances. No request was made by any Director for such independent professional advice in 2013.

## DELEGATION BY THE BOARD

### i. Management Functions

The Board delegates day-to-day operations of the Group to the management. Both the Board and the management have clearly defined authorities and responsibilities under various internal control and check-and-balance mechanisms. The Board has established in writing which issues require decision of the full Board and which can be delegated by the Board to board committees or management.

### ii. Board Committees

To assist the Board in execution of its duties and to facilitate effective management, certain functions of the Board have been delegated by the Board to various board committees, namely, executive committee, audit committee, remuneration committee, nomination committee, finance committee and regulatory compliance committee. The committees review and make recommendations to the Board on specific areas.

Each committee has its defined scope of duties and terms of reference and the committee members are empowered to make decisions on matters within the terms of reference of each committee. The terms of reference of the board committees are given at the Company's website under the section "Corporate Governance".

## EXECUTIVE COMMITTEE

The Executive Committee is made up of the Company's Executive Directors, namely, Mr. Tin Ka Pak, Timmy (Chairman), Mr. Chau King Fai, Philip, Mr. Cheng Tze Kit, Larry, Ms. So Wai Yee, Betty and the Company's senior management (non-voting capacity), namely, Mr. Ng Man Hoi, Paul, Ms. Fung Wai Har, Amanda and Mr. Wong Man Hin, Charles.

It oversees the implementation of the Company's strategic objectives and risk management policies and the business and operations of all of the business units of the Group. Meanwhile, it also responsible to develop, review and monitor the Group's corporate governance policies and practices. It holds meetings from time to time to discuss operational matters of the Company's business and new projects. Other details of the roles and functions of the Executive Committee are given at Company's website under the section "Corporate Governance".

## AUDIT COMMITTEE

The Company's Audit Committee was established on 14 March 2001. The Audit Committee is made up of the Company's Independent Non-executive Directors, namely, Mr. Wong Chung Kin, Quentin (Chairman), Mr. Ip Chun Chung, Robert and Mr. Wong Kam Choi, Kerry. Mr. Wong Chung Kin, Quentin is a fellow member of Hong Kong Institute of Certified Public Accountants. He has the appropriate professional qualifications, accounting or related financial management expertise, as requested by the Rule 3.10(2) of the Listing Rules.

The primary duties of the Audit Committee are (a) to review the Group's financial statements and published reports; (b) to provide advice 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 roles and functions of the Audit Committee are given at the Company's website under the section "Corporate Governance".

## REMUNERATION COMMITTEE

The Remuneration Committee is made up of the Company's Independent Non-executive Directors, namely Mr. Wong Kam Choi, Kerry (Chairman), Mr. Ip Chun Chung, Robert and Mr. Wong Chung Kin, Quentin.

The Remuneration Committee makes 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, determines the remuneration packages for executive directors and senior management and makes 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".

### i. Remuneration Policy

The formulation of the Group's remuneration strategy and 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. As a long-term incentive plan and with the aim of motivating Directors and employees in the continued pursuit of the Company's goal and objectives and to recognize their contributions to the Group, the Company has adopted the share option schemes under which the Company may grant share options to the Directors/selected employees/eligible persons to subscribe for the shares of the Company and two share incentive award schemes, namely, The VC Share Purchase Scheme Trust and The VC Share Award Scheme Trust, under which the Company may grant awarded shares to the Directors/selected employees (Directors of the Company and its subsidiaries are not allowed to participate in The VC Share Award Scheme Trust).

### ii. Emoluments of Directors

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 ended 31 December 2013, the Remuneration Committee has (a) considered and reviewed the salary of Directors and senior management of the Group; and (b) approved the bonus payments for Directors and senior management of the Group.

## NOMINATION COMMITTEE

The Nomination Committee is made up of the Company's Independent Non-executive Directors, namely, Mr. Ip Chun Chung, Robert (Chairman), Mr. Wong Chung Kin, Quentin and Mr. Wong Kam Choi, Kerry and the Executive Director, Mr. Chau King Fai, Philip.

The Nomination Committee reviews the structure, size and composition (including the skills, knowledge and experience) of the Board; identifies individuals suitably qualified to become Board members and make recommendations to the Board on the selection of individuals nominated for directorship; and makes recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors.

The Nomination Committee has adopted a board diversity policy in September 2013. The main purpose of the policy is to achieve diversity on the Board. Based on the policy, the selection of candidates for board membership will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of services. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Other details of the roles and functions of the Nomination Committee are given at the Company's website under the section "Corporate Governance".

## FINANCE COMMITTEE

The Finance Committee is made up of the Company's Executive Directors, namely, Ms. So Wai Yee, Betty (Chairman) and Mr. Chau King Fai, Philip and the Company's senior management (non-voting capacity), namely, Mr. Ng Man Hoi, Paul and Ms. Fung Wai Har, Amanda.

It conducts review on matters such as the Group's financial, accounting, treasury and risk management policies, major financing transactions, corporate plans and budgets; and reviews major acquisitions and investments and their funding requirements. It holds meetings from time to time to discuss financial matters of the Company's new and existing business. Other details of the role and function of the Finance Committee are given at the Company's website under the section "Corporate Governance".

## REGULATORY COMPLIANCE COMMITTEE

The Regulatory Compliance Committee is made up of the Company's Executive Directors, namely Mr. Chau King Fai, Philip (Chairman) and Ms. So Wai Yee, Betty and the Company's senior management, namely, Mr. Ng Man Hoi and Ms. Fung Wai Har, Amanda.

It reviews and advises upon matters in respect of the present or future regulation of the Company's financial services businesses and compliance with applicable laws and regulations, including the Listing Rules. It holds meetings from time to time to discuss the ongoing compliance matters of the Group. Other details of the role and function of the Regulatory Compliance Committee are given at the Company's website under the section "Corporate Governance".

## ATTENDANCE RECORD AT BOARD MEETINGS, BOARD COMMITTEE MEETINGS AND ANNUAL GENERAL MEETING

| | Attendance record of Directors and Committee Members in 2013 | | | | |
|---|---|---|---|---|---|
| **Name of Directors** | **Board Meeting** | **Audit Committee Meeting** | **Remuneration Committee Meeting** | **Nomination Committee Meeting** | **2013 AGM** |
| ***Executive Directors*** | | | | | |
| Tin Ka Pak, Timmy | 12/12 | N/A | N/A | N/A | 1/1 |
| Chau King Fai, Philip | 11/12 | N/A | N/A | 1/1 | 1/1 |
| Cheng Tze Kit, Larry | 11/12 | N/A | N/A | N/A | 1/1 |
| So Wai Yee, Betty | 11/12 | N/A | N/A | N/A | 1/1 |
| ***Independent Non-executive Directors*** | | | | | |
| Ip Chun Chung, Robert | 12/12 | 2/2 | 1/1 | 1/1 | 1/1 |
| Wong Chung Kin, Quentin | 12/12 | 2/2 | 1/1 | 1/1 | 1/1 |
| Wong Kam Choi, Kerry[1] | 8/8 | 1/1 | 1/1 | 1/1 | N/A |
| ***Directors who retired in 2013*** | | | | | |
| Lam Kwok Hing, Wilfred[2] *(Independent Non-executive Director)* | 3/3 | 1/1 | N/A | N/A | 0/1 |

*Notes:*

1. Mr. Wong Kam Choi, Kerry was appointed as an Independent Non-executive Director of the Company on 30 May 2013.

2. Mr. Lam Kwok Hing, Wilfred retired as an Independent Non-executive Director of the Company on 30 May 2013.

## DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR ACCOUNTS

The Directors are responsible for the preparation of the consolidated financial statements. The Company's consolidated financial statements are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies have been adopted and applied consistently, and that judgments and estimates made are prudent and reasonable.

The Director's responsibilities for preparing the financial statements and the reporting responsibilities of the external auditor are set out on page 43 of this annual report.

## INTERNAL CONTROL

### i. Responsibility

The Board has the responsibility to ensure a sound system of internal control and risk management is established and maintained, which is designed to safeguard the shareholders' investments and the Group's assets; and to maintain proper accounting records for the provision of reliable financial information. It aims to provide reasonable but not absolute assurance against material misstatement, fraud or loss.

### ii. Management Supervision

The Board has assigned the Executive Committee to oversee the implementation of the Group's internal control and risk management and to monitor the business and operations.

The Executive Committee and management have defined the organizational structure of the Group with clear reporting lines and authorities. Competent personnel are recruited to facilitate the establishment and maintenance of the internal control system.

The management endorses policies, procedures, codes and guidelines to mitigate significant inherent risks embedded in the operational activities. The "Code of Business Conduct and Ethics" is formulated and communicated to all staffs with the aim of cultivating high integrity and ethical values within the Group.

The Executive Committee conducts regular meetings to review business performance, key operations statistics and internal control issues.

### iii. Internal Audit Function

The Group has an internal audit function which reports directly to the Audit Committee. The annual internal audit plan is approved in the Audit Committee meeting which convened for approving, *inter alia*, annual results of the Group. The Internal Audit Manager independently reviews and assesses the design and the effectiveness of the Group's system of internal control by adopting a risk-based audit approach, focusing on major processes and activities which are quantitatively or qualitatively significant to the Group. The Internal Audit Manager reports all significant internal control and risk management matters to the Audit Committee; and monitors the management resolution status.

### iv. Audit Committee Supervision

The Board has assigned the Audit Committee to review and supervise the financial reporting process and internal control procedures of the Group.

The Audit Committee conducts regular meetings with the Company's senior management, Internal Audit Manager and external auditor to review the financial statements and auditor's reports on financial and internal control matters. The Audit Committee reports to the Board on significant internal control matters, suspected frauds or irregularities, alleged infringement of laws and regulations, which come to their attention.

The Audit Committee, through the Internal Audit Manager, has conducted comprehensive risk assessments and internal control reviews on the design and the effectiveness of the Group's system of internal control for the year ended 31 December 2013, which covers the key controls for mitigating the major risks associated with the significant processes.

The Audit Committee has considered that the system of internal control is appropriately designed and effective. The Audit Committee has also assessed the adequacy of resources, qualifications, experience, training programmes and budget of staff of the Group's Finance Department and considered that it is adequate.

## AUDITORS' REMUNERATION

Deloitte Touche Tohmatsu has been appointed as the Company's external auditor since 2005. For the year ended 31 December 2013, approximately HK$1,051,000 was charged for audit services, which included approximately HK$1,047,000 for the audit of the Group by Deloitte Touche Tohmatsu, and approximately HK$4,000 for the audit of the Company's PRC subsidiary by a PRC auditor (included as auditors' remuneration in note 12 to the consolidated financial statements). The former included the fee of HK$980,000 for the audit of the consolidated financial statements of the Group for the year ended 31 December 2013, HK$20,000 for the review of the preliminary announcement of results of the Group for the year ended 31 December 2013 and approximately HK$2,000 for the audit of a subsidiary's provident fund scheme for 2013 (which were all included as auditors' remuneration in note 12 to the consolidated financial statements) and also the disbursements of HK$45,000 incurred for the audit of the consolidated financial statements of the Group for the year ended 31 December 2012.

In addition, approximately HK$121,000 was charged for non-audit services performed by Deloitte Touche Tohmatsu, which included the provision of taxation services amounting to approximately HK$112,000 for the year ended 31 December 2013 and the taxation services fee and disbursements of approximately HK$9,000 for the year ended 31 December 2012. Besides, approximately HK$480,000 was charged by ZHONGLEI (HK) CPA Company Limited which was engaged to provide services in preparation of a circular in respect of a potential transaction.

## COMPANY SECRETARY

The Company Secretary is a full time employee of the Company and has day-to-day knowledge of the Company's affairs. The Company Secretary reports to the Board and is responsible for advising the Board on governance matter. The Company Secretary has confirmed that she has taken no less than 15 hours of relevant professional training in 2013.

## COMMUNICATION WITH SHAREHOLDERS

The Board recognizes the value of providing current and quality information to its shareholders, both individual and institutional. As such, the Company has adopted a shareholder's communication policy to ensure an effective ongoing dialogue with the shareholders. Details of the Shareholder's Communication Policy are given at the Company's website under the section "Corporate Governance".

Further, the Company regards the annual general meeting ("AGM") an important event as it provides an opportunity for the Board to communicate with the shareholders. Notice of AGM and related papers are sent to the shareholders at least 20 clear business days before the meeting. The Company supports the CG Code's principle to encourage shareholders' participation. Questioning by the shareholders at the AGM is encouraged and welcomed.

The Company Secretary responds to letters and telephone enquiries from shareholders/investors. Shareholders and investors are welcome to raise enquiries through our email contact info@vcgroup.com.hk or by mail to our Company Secretary at 28th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong. The website of the Company at http://www.vcgroup.com.hk also provides a medium to make information of the Company and the Group available to the shareholders under the section "Corporate Governance".

## SHAREHOLDERS' RIGHTS

Pursuant to Article 65 of the Articles of Association, 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 at 28th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong. To facilitate enforcement of shareholders' rights, substantially separate issues at general meetings are dealt with under separate resolutions.

## CONSTITUTIONAL DOCUMENTS

There are no significant changes in the Company's constitutional documents during the year ended 31 December 2013.

The Board (the "Board") of Directors (the "Directors") of Value Convergence Holdings Limited (the "Company") is pleased to present their annual report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2013, together with the audited comparative figures for the year ended 31 December 2012.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 28 to the consolidated financial statements.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2013 are set out in the consolidated statement of profit or loss and other comprehensive income on page 45 of this annual report.

No interim dividend was paid to the shareholders during the year (2012: Nil). The Directors do not recommend the payment of a final dividend for the year ended 31 December 2013 (2012: Nil).

## PROPERTY AND EQUIPMENT

Details of the movements in property and equipment of the Group during the year are set out in note 17 to the consolidated financial statements.

## SHARE CAPITAL, SHARE OPTIONS AND SHARE AWARDS

Details of the movements in share capital, share options and share awards of the Company during the year are set out in notes 27 and 30 respectively to the consolidated financial statements.

## DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2013, the Company's reserves available for distribution to shareholders amounted to approximately HK$52,674,000 (2012: HK$59,584,000).

## DONATIONS

During the year, the Group made charitable donations amounting to approximately HK$40,000 (2012: HK$735,000).

## FIVE YEARS' FINANCIAL SUMMARY

A summary of the consolidated results and of the consolidated assets and liabilities of the Group of the past five financial years as extracted from the audited consolidated financial statements is set out on page 114 of this annual report. This summary does not form part of the audited consolidated financial statements.

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

The Company has not redeemed any of its shares during the year ended 31 December 2013. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year ended 31 December 2013.

## DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

**Directors up to the date of this report**

**Executive Directors**

Mr. TIN Ka Pak, Timmy, *Chief Executive Officer*
Mr. CHAU King Fai, Philip
Mr. CHENG Tze Kit, Larry, *Chief Investment Officer*
Ms. SO Wai Yee, Betty, *Chief Financial Officer*

**Independent Non-executive Directors**

Mr. IP Chun Chung, Robert
Mr. WONG Chung Kin, Quentin
Mr. WONG Kam Choi, Kerry (Appointed on 30 May 2013)

**Directors who retired/resigned during the year 2013**

Mr. HA Shu Tong, *executive director* (Resigned on 6 May 2013)
Mr. ZHOU Wentao, *executive director* (Resigned on 29 May 2013)
Mr. LAM Kwok Hing, Wilfred, *independent non-executive director* (Retired on 30 May 2013)

In accordance with Article 92 of the Company's Articles of Association, any director of the company so appointed 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. In accordance with this provision, Mr. Wong Kam Choi, Kerry shall retire at the forthcoming annual general meeting, and being eligible, offer himself for re-election.

In accordance with Article 101 of the Company's Articles of Association, one-third of the directors of the company 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 of the company to retire every year shall be those who have been longest in office since their last election. In accordance with this provision, Mr. Tin Ka Pak, Timmy and Mr. Cheng Tze Kit, Larry shall retire at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

The Company has received annual confirmation from each of the Independent Non-executive Directors concerning their independence to the Company pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company considers all of the Independent Non-executive Directors are independent.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group as at the date of this report are set out on pages 14 to 17 of this annual report.

## DIRECTORS' SERVICE CONTRACTS

Each of Mr. Tin Ka Pak, Timmy, Mr. Cheng Tze Kit, Larry and Ms. So Wai Yee, Betty has a service contract with VC Services Limited, a wholly owned subsidiary of the Company, which may be terminated by either party by written notice of not less than six months.

Mr. Chau King Fai, Philip has a service contract with VC Capital Limited, a wholly owned subsidiary of the Company, which may be terminated by either party by written notice of not less than six months.

Save as disclosed above, none of the Directors of the Company has entered into any service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than as disclosed in note 33 to the consolidated 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 had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## EMOLUMENT POLICY

The emolument policy for the Group's employees is set up by the Remuneration Committee of the Company. The Group's employees are selected on the basis of their merit, qualifications and competence.

The emoluments of the Directors are decided by the Remuneration Committee and/or the Board, having regard to the performance of individuals, the Group's operating results and comparable market statistics.

The Company has adopted the share option schemes and two share award schemes as an incentive to the Directors, the employees and other eligible persons of the Group. Details of the schemes and the movements of the share options and awarded shares granted to the Directors, the employees and other eligible persons of the Group during the year are set out in the sections of "DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES", "SHARE OPTION SCHEMES" and "SHARE AWARD SCHEMES" in this report.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as for the share option schemes and share award schemes, and the non-listed warrants disclosed in notes 30 and 26 respectively to the consolidated financial statements, at no time during the year was the Company or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

## DIRECTORS’ INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2013, 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 (a) 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 the Director is taken or deemed to have under such provisions of the SFO), or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

### Long Positions in the Shares and Underlying Shares of the Company

(a) *Ordinary shares of HK$0.10 each of the Company*

| Name of Director | Capacity | Nature of interest | Number of issued ordinary shares held | Approximate % of issued share capital |
|---|---|---|---|---|
| Mr. Chau King Fai, Philip | Beneficial owner | Personal | 2,369,869 | 0.58% |
| Mr. So Wai Yee, Betty | Beneficial owner | Personal | 1,150,000 | 0.28% |
| Mr. Wong Chung Kin, Quentin | Beneficial owner | Personal | 500,000 | 0.12% |

(b) *Share options granted to the Directors pursuant to the share option scheme adopted by the Company on 8 June 2009 (the “2009 Share Option Scheme”)*

| | Number of share options | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Name of Director | Outstanding at 1 January 2013 | Granted during the year | Exercised during the year | Lapsed during the year | Outstanding at 31 December 2013 | Approximate % of issued share capital | Date of grant | Exercisable period | Exercise price |
| | | | | | | | | | *HK$* |
| Mr. Tin Ka Pak, Timmy | 1,000,000 | – | – | – | 1,000,000 | 0.24% | 24 September 2012 | 24 September 2012 – 23 September 2015 | 1.17 |
| Mr. Chau King Fai, Philip | 1,000,000 | – | – | – | 1,000,000 | 0.24% | 10 October 2011 | 10 October 2011 – 9 October 2014 | 0.794 |
| | 750,000 | – | – | – | 750,000 | 0.19% | 24 September 2012 | 24 September 2012 – 23 September 2015 | 1.17 |
| Sub-total | 1,750,000 | – | – | – | 1,750,000 | 0.43% | | | |

| Name of Director | Outstanding at 1 January 2013 | Granted during the year | Exercised during the year | Lapsed during the year | Outstanding at 31 December 2013 | Approximate % of issued share capital | Date of grant | Exercisable period | Exercise price |
|---|---|---|---|---|---|---|---|---|---|
| | Number of share options | | | | | | | | |
| | | | | | | | | | HK$ |
| Mr. Cheng Tze Kit, Larry | 1,700,000 | – | – | (1,700,000) | – | – | 18 January 2010 | 18 January 2010 – 17 January 2013 | 1.84 |
| | 1,000,000 | – | – | – | 1,000,000 | 0.24% | 10 October 2011 | 10 October 2011 – 9 October 2014 | 0.794 |
| | 1,000,000 | – | – | – | 1,000,000 | 0.24% | 24 September 2012 | 24 September 2012 – 23 September 2015 | 1.17 |
| Sub-total | 3,700,000 | – | – | (1,700,000) | 2,000,000 | 0.48% | | | |
| Ms. So Wai Yee, Betty | 1,700,000 | – | – | (1,700,000) | – | – | 18 January 2010 | 18 January 2010 – 17 January 2013 | 1.84 |
| | 1,000,000 | – | (1,000,000) | – | – | – | 10 October 2011 | 10 October 2011 – 9 October 2014 | 0.794 |
| | 750,000 | – | (250,000) | – | 500,000 | 0.12% | 24 September 2012 | 24 September 2012 – 23 September 2015 | 1.17 |
| Sub-total | 3,450,000 | – | (1,250,000) | (1,700,000) | 500,000 | 0.12% | | | |
| Mr. Ip Chun Chung, Robert | 500,000 | – | – | – | 500,000 | 0.12% | 6 June 2012 | 6 June 2012 – 5 June 2015 | 1.04 |
| **Total** | **10,400,000** | **–** | **(1,250,000)** | **(3,400,000)** | **5,750,000** | **1.39%** | | | |

*Notes:*

1. As at 31 December 2013, the total number of issued ordinary shares of the Company was 411,806,829.

2. During the year, no share options mentioned above were cancelled.

3. Details of the 2009 Share Option Scheme are set out under the section of "SHARE OPTION SCHEMES" in this report.

4. The share options mentioned above represent personal interests held by the relevant Directors of the Company as beneficial owners.

Save as disclosed above, as at 31 December 2013, none of the Directors or Chief Executive of the Company and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO) which had been entered in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2013, none of the Directors or their respective associates have any competing interests in any business, which compete or may compete, either directly or indirectly with the businesses of the Company pursuant to the Listing Rules.

## SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2013, other than the interests of the Directors or Chief Executive of the Company as disclosed above, the following persons/corporations had interests in five per cent or more of the issued share capital of the Company as at recorded in the register required to be kept under Section 336 of the SFO. Details of the interests in the shares and underlying shares of the Company as notified to the Company are set out below:

**Long positions in the shares and underlying shares of the Company**

(a) *Ordinary shares of HK$0.10 each of the Company*

| **Name** | **Capacity** | **Number of issued ordinary shares held** | **Approximate % of issued share capital** | *Notes* |
|---|---|---|---|---|
| Mr. Hu Guoen | Beneficial owner | 24,480,000 | 5.94% | – |
| Eternity Sky Limited | Held by controlled corporations | 33,904,000 | 8.23% | 2 |
| China Investment Fund Company Limited | Held by controlled corporations | 33,904,000 | 8.23% | 2 |

*(b) Underlying shares and Convertible Note to be issued by the Company*

| Name | Capacity | Number of underlying shares held | Approximate % of issued share capital | *Notes* |
|---|---|---|---|---|
| Wide Esteem Limited | Beneficial owner | 160,000,000 | 38.85% | 3 |
| Mr. Zhang Zhenxin | Held by controlled corporation | 160,000,000 | 38.85% | 3 |
| Central Sino Holdings Limited | Beneficial owner | 110,000,000 | 26.71% | 4 |
| Mr. Phang Yew Kiat | Held by controlled corporation | 110,000,000 | 26.71% | 4 |

*Notes:*

1. As at 31 December 2013, the total number of issued ordinary shares of the Company was 411,806,829.

2. Eternity Sky Limited was deemed to be interested in 33,904,000 ordinary shares of the Company as its wholly owned subsidiaries, namely Perpetual Wealth Holdings Limited, Wildfire Sensation Limited, Super Summit Investments Limited and Time Magic Limited held an aggregate of 33,904,000 ordinary shares, which representing approximately 8.23% of the total issued share capital of the Company. China Investment Fund Company Limited, which held the entire issued share capital of Eternity Sky Limited, was also deemed to be interested in 33,904,000 ordinary shares of the Company.

3. On 22 November 2013, the Company entered into the sale and purchase agreement with Wide Esteem Limited ("Wide Esteem") to acquire entire equity interest in Orient Xin Dai Management Co., Ltd, the wholly owned subsidiary of Wide Esteem, at a consideration of HK$260 million. Among HK$260 million, HK$160 million will be settled by issuance of consideration shares at an issue price of HK$1.00 each. As such, Wide Esteem Limited is deemed to be interested in 160,000,000 underlying shares of the Company. Mr. Zhang Zhenxin, the sole shareholder of Wide Esteem, was also deemed to be interested in 160,000,000 underlying shares of the Company. The acquisition is subject to shareholders' approval in a general meeting of the Company.

4. On 22 November 2013, the Company entered into the sale and purchase agreement with Central Sino Holdings Limited ("Central Sino") to acquire entire equity interest in High Trade International Limited, the wholly owned subsidiary of Central Sino, at a consideration of HK$210 million. Among HK$210 million, HK$110 million will be settled by issuance of convertible note in the principal amount of HK$110 million. The convertible note could be converted into shares at a conversion price of HK$1.00 each. As such, Central Sino is deemed to be interested in 110,000,000 underlying shares of the Company. Mr. Phang Yew Kiat, the sole shareholder of Central Sino, was also deemed to be interested in 110,000,000 underlying shares of the Company. The acquisition is subject to shareholders' approval in a general meeting of the Company.

Save as disclosed above, as at 31 December 2013, the Company had not been notified of any other interests or short positions in the shares and underlying shares of the Company which had been recorded in the register to be kept under Section 336 of the SFO.

## SHARE OPTION SCHEMES

At an extraordinary general meeting of the Company held on 29 November 2001, the shareholders of the Company approved the adoption of a share option scheme (the "GEM Share Option Scheme") which superseded the previous share option scheme of the Company adopted on 14 March 2001.

The GEM Share Option Scheme was conditionally terminated by the Board on 7 August 2008. Upon the listing of shares of the Company was transferred from the Growth Enterprise Market of the Stock Exchange to the Main Board of the Stock Exchange on 15 August 2008, the termination of the GEM Share Option Scheme became effective. Thereafter, no further share options may be offered or granted under the GEM Share Option Scheme. Pursuant to the provisions of the GEM Share Option Scheme, share options previously granted but unexercised under the GEM Share Option Scheme will remain valid and exercisable in accordance with their terms of issue.

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 8 June 2009, the Company adopted a new share option scheme (the "2009 Share Option Scheme") (the GEM Share Option Scheme and the 2009 Share Option Scheme collectively are referred to as the "Share Option Schemes"). Summary of the principal terms of the Share Option Schemes are listed below.

**Summary of the Share Option Schemes**

**(a) Purpose of the Share Option Schemes**

The purpose of the Share Option Schemes is to recognize the contribution 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 optimize 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.

**(b) Participants of the Share Option Schemes**

Pursuant to the Share Option Schemes, the Board may, at its discretion, to make an offer for the grant of share options to the employees or directors of the Group or such other persons who are eligible for participation in the Share Option Schemes to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated in the Share Option Schemes. No further share options may be granted under the GEM Share Option Scheme upon its termination on 15 August 2008.

**(c) Total number of shares available for issue under the Share Option Schemes**

The maximum number of shares of the Company which may be issued upon exercise of outstanding share options granted and yet to be exercised under the Share Option Schemes must not exceed 30% of the total number of shares of the Company in issue from time to time.

The total number of shares of the Company which may be issued upon exercise of all share options to be granted under the 2009 Share Option Scheme shall not in aggregate exceed 10% of the total number of shares of the Company in issue as at the date of approval of the 2009 Share Option Scheme (i.e. 37,116,977 shares of the Company, which represented approximately 10% of the issued share capital of the Company as at 8 June 2009). The Company may seek approval of the Company's shareholders in a general meeting for refreshing the 10% limit under the 2009 Share Option Scheme save that the total number of shares of the Company which may be issued upon the exercise of all share options to be granted under the 2009 Share Option Scheme under the limit as "refreshed" may not exceed 10% of the total number of shares of the Company in issue as at the date of approval of the limit.

**(d) Maximum entitlement of each participant**

The total number of the shares of the Company issued and to be issued upon exercise of the share options granted and to be granted to any participant (including both exercised, cancelled and outstanding share options) in any twelve months up to the date of the grant to such participant shall not exceed 1% of the total number of shares of the Company in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting of the Company.

**(e) Time of exercise of share option**

Pursuant to the Share Option Schemes, any share option may be exercised in accordance with its terms at any time during a period to be determined and notified by the Board to each grantee, save that no share option may be exercised more than 10 years from the date on which the share option is deemed to have been granted and accepted in accordance with the terms of the Share Option Schemes. The Board may provide restrictions on the exercise of a share option during the option period.

**(f) Payment on acceptance of share option**

Pursuant to the Share Option Schemes, HK$1.00 is payable by the grantee to the Company on acceptance of the share option within 28 days from the date of grant of the share option.

**(g) Basic of determining the subscription price of share option**

The exercise price per share option under the Share Option Schemes shall be determined by the Board in its absolute discretion, but in any event shall be at least 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 when share option is offered; (ii) a price being the average of the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date on which share option is offered; and (iii) the nominal value of a share of the Company on the date of the offer of share option.

**(h) Remaining life of the Share Option Schemes**

The GEM Share Option Scheme has no remaining life as no further share options may be granted but the provisions of the GEM Share Option Scheme shall in all other respects remain in full force and effect and share options which are granted during the life of the GEM Share Option Scheme may continue to be exercisable in accordance with their respective terms of issue.

The 2009 Share Option Scheme will continue to be in full force and effect for a period of 10 years commencing on 8 June 2009 (save that the Company, by ordinary resolutions in general meeting or the Board, may at any time terminate the operation of the 2009 Share Option Scheme). After termination, no further share options will be granted but the provisions of the 2009 Share Option Scheme shall in all other respects remain in full force and effect and the share options which are granted during the life of the 2009 Share Option Scheme may continue to be exercisable in accordance with their respective terms of issue.

**Outstanding Share Options**

As at 31 December 2013, options to subscriber for an aggregate of 11,590,000 ordinary shares of the Company granted pursuant to the Share Option Schemes were outstanding. Details of which were as follows:

**(a) GEM Share Option Scheme**

The movements of the share options during the year and outstanding as at 31 December 2013 under the GEM Share Option Scheme are as follows:

| | Number of share options | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Category of participant** | **Outstanding at 1 January 2013** | **Granted during the year** | **Exercised during the year** | **Lapsed during the year** | **Outstanding at 31 December 2013** | **Date of grant** | **Share options duration** | **Exercise price** |
| | | | | | | | | *HK$* |
| Other eligible persons | 100,000 | – | – | – | 100,000 | 25 March 2004 | 25 March 2004 – 24 March 2014 | 0.64 |

*Note:*

Commencing from the date of grant up to the date of falling six months thereafter, up to 50% of the shares comprised in the share 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 of grant, all shares comprised in the share options which were not previously exercised can be exercised.

**(b) 2009 Share Option Scheme**

The movements of the share options during the year and outstanding as at 31 December 2013 under the 2009 Share Option Scheme are as follows:

| Category of participant | Number of share options: Outstanding at 1 January 2013 | Granted during the year | Exercised during the year | Lapsed during the year | Outstanding at 31 December 2013 | Date of grant | Share options duration | Exercise price |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | *HK$* |
| Directors | 3,400,000 | – | – | (3,400,000) | – | 18 January 2010 | 18 January 2010 – 17 January 2013 | 1.84 |
| Directors | 4,000,000 | – | (1,000,000) | (1,000,000) | 2,000,000 | 10 October 2011 | 10 October 2011 – 9 October 2014 | 0.794 |
| Directors | 4,500,000 | – | (1,000,000) | (3,000,000) | 500,000 | 6 June 2012 | 6 June 2012 – 5 June 2015 | 1.04 |
| Directors | 3,500,000 | – | (250,000) | – | 3,250,000 | 24 September 2012 | 24 September 2012 – 23 September 2015 | 1.17 |
| Sub-total | 15,400,000 | – | (2,250,000) | (7,400,000) | 5,750,000 | | | |
| Employees | 6,872,000 | – | (3,132,000) | – | 3,740,000 | 10 October 2011 | 10 October 2011 – 9 October 2014 | 0.794 |
| Employees | 1,500,000 | – | (500,000) | – | 1,000,000 | 24 September 2012 | 24 September 2012 – 23 September 2015 | 1.17 |
| Sub-total | 8,372,000 | – | (3,632,000) | – | 4,740,000 | | | |
| Other eligible persons | 1,000,000 | – | – | – | 1,000,000 | 10 October 2011 | 10 October 2011 – 9 October 2014 | 0.794 |
| **Total** | **24,772,000** | **–** | **(5,882,000)** | **(7,400,000)** | **11,490,000** | | | |

*Note:*

Commencing from the date of grant up to the date falling on 3 years from the date of grant of the share options, all shares comprised in the share options can be exercised at any time.

Details of the grant of share options to the Directors of the Company are disclosed in the sub-headed "Long Positions in the Shares and Underlying Shares of the Company" under the section of "DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES" above.

During the year, no share options were cancelled under the Share Option Schemes.

## SHARE AWARD SCHEMES

On 31 March 2008, the Company adopted two share incentive award schemes, namely The VC Share Purchase Scheme Trust (the "Share Purchase Scheme") and The VC Share Award Scheme Trust (the "Share Subscription Scheme") (the Share Purchase Scheme and the Share Subscription Scheme collectively are referred to as the "Share Award Schemes"). Summary of the principal terms of the Share Award Schemes are listed below:

**Summary of the Share Award Schemes**

**(a) Purpose of the Share Award Schemes**

The purpose of Share Award Schemes is to attract skilled and experienced personnel, to incentives them to remain with the Group and to motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to acquire equity interests in the Company.

**(b) Participants of the Share Award Schemes**

The Board may, subject to the rules relating to the Share Award Schemes, from time to time at is absolute discretion select any employee of the Company or its subsidiaries to be a participant in the Share Award Schemes. However, director of the Company or any subsidiaries and any other connected person of the Company are not allowed to participate in the Share Subscription Scheme.

**(c) Duration of the Share Award Schemes**

The Share Award Schemes have a term of 20 years from the date of adoption, i.e. 31 March 2008. The Board may by resolution terminate the operation of the Share Award Schemes at any time provided that such termination shall not affect any subsisting rights of any selected employee. If, at the date of such termination, the trustee holds any shares which has not vested, then the trustee shall within 21 business days of receiving notice of such termination sell such shares and remit the proceeds of sale (after deductions) to the Company.

**(d) Scheme Limit**

The scheme limit of the Share Purchase Scheme and Share Subscription Scheme is 2% and 1% of the total number of issued share of the Company respectively from time to time (excluding shares which have already been transferred to employees on vesting).

**(e) Grant of the Award Shares**

For the Share Purchase Scheme, the Board or the trustee of the scheme (as the case may be) shall either (1) set aside a sum of money or (2) determine a number of shares which it wishes to be the subject of a bonus or award under the Share Purchase Scheme. Where a sum of money has been set aside (or a number of shares has been determined), it shall pay (or cause to be paid) that amount or an amount sufficient to purchase that number of shares to the trustee (or as it shall direct) from the Group's resources as soon as practicable following such funds being set aside. Within 15 business days of receiving the amount sufficient to purchase that number of shares, the trustee shall apply the same towards the purchase of shares on the Stock Exchange.

For the Share Subscription Scheme, the Board or the trustee of the scheme (as the case may be) shall at its discretion either (i) determine a notional cash amount or (ii) determine a number of shares (the "Number of Awarded Shares") which it wishes to be the subject of an award under the Share Subscription Scheme. Where a notional cash amount has been determined by the Board, the Board shall determine the maximum number of shares (the "Relevant Number of Shares"), rounded down to the nearest whole number which could be purchased with such notional cash amount on the Stock Exchange at the market price prevailing on the date of the award. The Company shall pay (or cause to be paid) an amount or an amount equal to the par value of either (i) the Relevant Number of Shares (where the Board has determined a notional cash amount) or (ii) the Number of Awarded Shares (where the Board has determined such number) to the trustee (or as it shall direct) from the Group's resources as soon as practicable in accordance with the rules relating to the Share Subscription Scheme.

**(f) Vesting of the Award Shares**

Vesting of the shares will be conditional on the selected employee remaining as an employee of the Company or the subsidiary until the vesting date. The Board also has the discretion to stipulate such other conditions in respect of a particular employee which will apply to the vesting of the shares. An award will lapse where the Company or the business division by which the selected employee is employed ceases to be part of the Group or in the event the selected employee does not deliver the notice of exercise within the prescribed time limit to the trustee for the purpose of exercising his rights to receive the vested shares.

Where shares which are referable to a selected employee do not vest or are not acquired by selected employees in accordance with the procedures abovementioned, the trustee shall hold such shares or any income deriving therefrom exclusively for the benefit of all selected employees of the Group as the trustee determines in its absolute discretion, after having taken into consideration recommendations of the Board.

**Outstanding Awarded Shares**

During the year ended 31 December 2013, there were no shares awarded by the Company to any employees of the Company and/or its subsidiaries and outstanding under the Share Award Schemes.

## MAJOR CUSTOMERS AND SUPPLIERS

The aggregate revenue attributable to the Group's five largest customers taken together were less than 30% of the Group's total revenue for the year ended 31 December 2013.

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 31 December 2013 are disclosed in note 33 to the consolidated financial statements.

None of the related party transactions fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules.

## AUDIT COMMITTEE

The Audit Committee has reviewed the Group's audited consolidated financial statements and results for the year ended 31 December 2013 and is satisfied that these have been prepared in accordance with the applicable accounting standards and fairly present the Group's financial positions and results for the year ended 31 December 2013.

Information on the work of the Audit Committee and its composition are set out in the "Corporate Governance Report" on pages 18 to 28 of this annual report.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained a sufficient public float under the Listing Rules throughout the year ended 31 December 2013.

## AUDITOR

The financial statements of the Company for the year ended 31 December 2013 have been audited by Messrs. Deloitte Touche Tohmatsu. A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board of
**Value Convergence Holdings Limited**
**Tin Ka Pak, Timmy**
*Chief Executive Officer & Executive Director*

Hong Kong
25 March 2014

Deloitte.
德勤

**TO THE MEMBERS 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 45 to 113, which comprise the consolidated and Company's statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## 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 about 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 consolidated 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 of the consolidated financial statements that give a true and fair view 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.

# Independent Auditor's Report

## 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 31 December 2013 and of the Group's loss 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
25 March 2014

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013

| | Notes | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|---|
| Revenue | 7 | **74,382** | 65,172 |
| Other income | 7 | **2,750** | 2,104 |
| Staff costs | 8 | **(65,469)** | (67,098) |
| Commission expenses | | **(4,605)** | (4,287) |
| Depreciation of property and equipment | 17 | **(1,326)** | (1,576) |
| Finance costs | 10 | **(921)** | (896) |
| Other operating expenses | | **(28,736)** | (27,689) |
| Other gains and losses | 11 | **(18,065)** | (2,084) |
| Loss before taxation | | **(41,990)** | (36,354) |
| Income tax credit (expense) | 13 | **1,249** | (1,216) |
| Loss for the year | 12 | **(40,741)** | (37,570) |
| Other comprehensive income | | | |
| Item that may be reclassified subsequently to profit or loss | | | |
| Exchange differences arising on translation of foreign operations | | **(24)** | (2) |
| Total comprehensive income for the year | | **(40,765)** | (37,572) |
| Loss for the year attributable to: | | | |
| Owners of the Company | | **(40,741)** | (37,243) |
| Non-controlling interests | | **–** | (327) |
| | | **(40,741)** | (37,570) |
| Total comprehensive income for the year attributable to: | | | |
| Owners of the Company | | **(40,765)** | (37,245) |
| Non-controlling interests | | **–** | (327) |
| | | **(40,765)** | (37,572) |
| Loss per share (HK cents) | | | |
| Basic | 15 | **(9.98)** | (9.21) |
| Diluted | 15 | **(9.98)** | (9.21) |

# Consolidated Statement of Financial Position

As at 31 December 2013

| | Notes | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Trading rights | 16 | **–** | – |
| Property and equipment | 17 | **4,028** | 1,778 |
| Statutory deposits | | **4,651** | 3,023 |
| Other intangible assets | 18 | **1,246** | 1,547 |
| Available-for-sale investment | 19 | **–** | 109 |
| Convertible bond receivable | 20 | **16,717** | – |
| Derivative financial asset | 21 | **2,570** | – |
| Rental and utility deposits | | **2,564** | 1,403 |
| | | **31,776** | 7,860 |
| **Current assets** | | | |
| Accounts receivable | 22 | **361,582** | 314,080 |
| Prepayments, deposits and other receivables | 23 | **4,167** | 4,094 |
| Tax recoverable | | **–** | 402 |
| Pledged bank deposits | 23 | **40,000** | 40,000 |
| Bank balances and cash | 23 | **152,898** | 263,387 |
| | | **558,647** | 621,963 |
| **Current liabilities** | | | |
| Accounts payable | 24 | **56,908** | 37,673 |
| Accrued liabilities and other payables | | **10,538** | 12,006 |
| Taxation payable | | **–** | 1,224 |
| Short-term bank borrowings | 25 | **–** | 40,000 |
| Financial liability at fair value through profit or loss | 26 | **19,623** | – |
| | | **87,069** | 90,903 |
| **Net current assets** | | **471,578** | 531,060 |
| **Total assets less current liabilities** | | **503,354** | 538,920 |

| | Notes | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | 27 | **41,181** | 40,592 |
| Reserves | | **462,173** | 498,328 |
| **Total equity** | | **503,354** | 538,920 |

The consolidated financial statements on pages 45 to 113 were approved and authorised for issue by the Board of Directors on 25 March 2014 and are signed on its behalf by:

**Tin Ka Pak, Timmy**
*DIRECTOR*

**So Wai Yee, Betty**
*DIRECTOR*

# Statement of Financial Position

As at 31 December 2013

| | Notes | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | 28 | **46,539** | 37,939 |
| Amounts due from subsidiaries | 28 | **383,558** | 430,828 |
| Convertible bond receivable | 20 | **16,717** | – |
| Derivative financial asset | 21 | **2,570** | – |
| | | **449,384** | 468,767 |
| **Current assets** | | | |
| Prepayments, deposits and other receivables | 23 | **959** | 169 |
| Amounts due from subsidiaries | 28 | **102,910** | 51,944 |
| Bank balances | 23 | **12,666** | 31,778 |
| | | **116,535** | 83,891 |
| **Current liabilities** | | | |
| Accrued liabilities and other payables | | **1,171** | 2,005 |
| Amounts due to subsidiaries | 28 | **11,866** | 11,979 |
| Financial liability at fair value through profit or loss | 26 | **19,623** | – |
| | | **32,660** | 13,984 |
| **Net current assets** | | **83,875** | 69,907 |
| **Total assets less current liabilities** | | **533,259** | 538,674 |
| **Capital and reserves** | | | |
| Share capital | 27 | **41,181** | 40,592 |
| Reserves | 29 | **492,078** | 498,082 |
| **Total equity** | | **533,259** | 538,674 |

**Tin Ka Pak, Timmy**
*DIRECTOR*

**So Wai Yee, Betty**
*DIRECTOR*

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

| | Attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** | **Share premium** | **Capital reserve** | **Exchange reserve** | **Accumulated losses** | **Share option reserve** | **Other reserve** | **Warrant reserve** | **Sub-total** | **Attributable to non-controlling interests** | **Total** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | | | *(Note 1)* | | | | *(Note 2)* | *(Note 3)* | | | |
| At 1 January 2012 | 39,974 | 427,064 | 123,758 | (929) | (43,206) | 18,403 | (19) | 3,684 | 568,729 | 1,179 | 569,908 |
| Loss for the year | – | – | – | – | (37,243) | – | – | – | (37,243) | (327) | (37,570) |
| Other comprehensive income for the year | – | – | – | (2) | – | – | – | – | (2) | – | (2) |
| Total comprehensive income for the year | – | – | – | (2) | (37,243) | – | – | – | (37,245) | (327) | (37,572) |
| Difference arising on change in interest in subsidiaries | – | – | – | – | – | – | (748) | – | (748) | (852) | (1,600) |
| Exercise of share options | 618 | 4,418 | – | – | – | – | – | – | 5,036 | – | 5,036 |
| Transfer of share option reserve upon exercise of share options | – | 1,349 | – | – | – | (1,349) | – | – | – | – | – |
| Reversal of share option reserve upon forfeiture/lapse of share options | – | – | – | – | 12,112 | (12,112) | – | – | – | – | – |
| Recognition of equity-settled share-based payment | – | – | – | – | – | 3,152 | – | – | 3,152 | – | 3,152 |
| Shares issue expenses | – | (4) | – | – | – | – | – | – | (4) | – | (4) |
| Reversal of warrants reserve upon lapse of warrants | – | – | – | – | 3,684 | – | – | (3,684) | – | – | – |
| At 31 December 2012 | 40,592 | 432,827 | 123,758 | (931) | (64,653) | 8,094 | (767) | – | 538,920 | – | 538,920 |
| Loss for the year | – | – | – | – | (40,741) | – | – | – | (40,741) | – | (40,741) |
| Other comprehensive income for the year | – | – | – | (24) | – | – | – | – | (24) | – | (24) |
| Total comprehensive income for the year | – | – | – | (24) | (40,741) | – | – | – | (40,765) | – | (40,765) |
| Exercise of share options | 589 | 4,610 | – | – | – | – | – | – | 5,199 | – | 5,199 |
| Transfer of share option reserve upon exercise of share options | – | 1,418 | – | – | – | (1,418) | – | – | – | – | – |
| Reversal of share option reserve upon forfeiture/lapse of share options | – | – | – | – | 3,704 | (3,704) | – | – | – | – | – |
| At 31 December 2013 | 41,181 | 438,855 | 123,758 | (955) | (101,690) | 2,972 | (767) | – | 503,354 | – | 503,354 |

*Notes:*

(1) Pursuant to a scheme of capital reorganisation, which became effective on 28 May 2003, the High Court of Hong Kong (the "High Court") had approved the reduction of the Company's capital and the cancellation of the Company's share premium account on 27 May 2003. By virtue of the High Court's sanction, the Company's share premium account of HK$45,878,129 was cancelled and the issued and fully paid share capital of the Company was reduced by HK$214,339,500 through a reduction in the nominal value of the share capital of the Company. The credits arising from the cancellation of the share premium account and the reduction of the share capital account, after eliminated against the accumulated loss of HK$136,459,429, in the aggregate amount of HK$123,758,200 were transferred to a capital reserve account of the Company. Such capital reserve account will not be treated as realised profits, and shall be treated as an undistributable reserve of the Company for the purposes of section 79C of the Hong Kong Companies Ordinance until and unless the creditors of the Company as at the date of the sanction are fully settled. In view of the fact that the Company had already fully settled the relevant debts due to the creditors, the Company is of the view that the reserve is distributable to the Company's shareholders.

(2) On 6 June 2012, VC Financial Group Limited, the Company's direct wholly owned subsidiary, had completed the acquisition of the remaining equity interests of 9.9% and 8.84% in VC Capital Limited and VC Asset Management Limited at a cash consideration of HK$1,000,000 and HK$600,000 respectively. The negative differences of approximately HK$744,000 and HK$4,000 between the purchase considerations and the amounts acquired from non-controlling interests of VC Capital Limited and VC Asset Management Limited had been recognised in Other Reserve.

(3) The placing and issue of 79,900,000 warrants at an issue price of HK$0.05 per warrant was completed on 14 July 2011 and had been expired on 13 July 2012. Amount received on the issue of warrants and issue expenses of approximately HK$3,995,000 and HK$311,000 respectively had been recognised in Warrant Reserve when the warrants were issued and had been transferred to accumulated losses when it was expired.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2013

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Loss before taxation | **(41,990)** | (36,354) |
| Adjustments for | | |
| (Reversal) recognition of impairment loss on doubtful receivables, net | **(2,016)** | 1,144 |
| Interest income | **(2,649)** | (1,882) |
| Finance costs | **921** | 896 |
| Depreciation of property and equipment | **1,326** | 1,576 |
| Loss on disposal of other intangible assets | **301** | – |
| Loss on disposal/write-off of property and equipment | **16** | 818 |
| Recognition of equity-settled share-based payment | **–** | 3,152 |
| Impairment loss on available-for-sale investment | **109** | 150 |
| Fair value change on derivative financial asset | **1,663** | – |
| Fair value change on financial liability at fair value through profit or loss | **18,023** | – |
| | **(24,296)** | (30,500) |
| **Movements in working capital** | | |
| Increase in accounts receivable | **(45,486)** | (56,941) |
| Decrease in prepayments, deposits and other receivables | **548** | 202 |
| (Increase) decrease in rental and utility deposits | **(1,161)** | 253 |
| Increase in accounts payable | **19,235** | 18,308 |
| (Decrease) increase in accrued liabilities and other payables | **(1,456)** | 5,476 |
| **Cash used in operations** | **(52,616)** | (63,202) |
| Interest paid | **(933)** | (892) |
| Income tax paid | **–** | (117) |
| Income tax refunded | **402** | 1,774 |
| **Net cash used in operating activities** | **(53,147)** | (62,437) |
| **Cash flows from investing activities** | | |
| Interest received | **1,078** | 2,019 |
| Purchase of property and equipment | **(3,594)** | (659) |
| Purchase of convertible bond | **(20,000)** | – |
| Proceeds from disposal of property and equipment | **2** | 47 |
| Payment of statutory deposits | **(4,633)** | (96) |
| Refund of statutory deposits | **3,005** | 61 |
| **Net cash (used in) generated from investing activities** | **(24,142)** | 1,372 |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2013

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| **Cash flows from financing activities** | | |
| Repayment of short-term bank borrowings | **(40,000)** | – |
| Proceeds from exercise of share options | **5,199** | 5,036 |
| Payment for acquisition of additional equity interest in subsidiaries | **–** | (1,600) |
| Proceeds from issue of warrants | **1,600** | – |
| Shares issue expenses | **–** | (4) |
| **Net cash (used in) generated from financing activities** | **(33,201)** | 3,432 |
| **Net decrease in cash and cash equivalents** | **(110,490)** | (57,633) |
| Cash and cash equivalents at the beginning of year | **263,387** | 321,018 |
| Effect of exchange rate changes on the balance of cash held in foreign currencies | **1** | 2 |
| **Cash and cash equivalents at the end of year, represented by bank balances and cash** | **152,898** | 263,387 |

## 1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information of the annual report.

The Company and its subsidiaries (the "Group") are principally engaged in the provision of financial services.

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

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied a number of new and revised standards, amendments and interpretation ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are mandatorily effective for the 2013 financial year.

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or the disclosures set out in these consolidated financial statements.

**Amendments to HKFRS 7 Disclosures – Offsetting financial assets and financial liabilities**

The Group has applied the amendments to HKFRS 7 "Disclosures – Offsetting financial assets and financial liabilities" for the first time in the current year. The amendments to HKFRS 7 require entities to disclose information about:

- recognised financial instruments that are set off in accordance with HKAS 32 "Financial instruments: Presentation"; and

- recognised financial instruments that are subject to an enforceable master netting agreement or similar agreement, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

The amendments to HKFRS 7 have been applied retrospectively. The application of the amendments has had no material impact on the amounts reported in the Group's consolidated financial statements but has resulted in more disclosures relating to the Group's offsetting arrangements. Detailed disclosures are set out in Note 22.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

**HKFRS 13 Fair value measurement**

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad: the fair value measurement requirements of HKFRS 13 apply to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset or paid to transfer a liability, in the case of determining the fair value of a liability in an orderly transaction in the principal market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

HKFRS 13 requires prospective application. In accordance with the transitional provisions of HKFRS 13, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period (please see Note 6 for the 2013 disclosures). Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

**Amendments to HKAS 1 Presentation of items of other comprehensive income**

The Group has applied the amendments to HKAS 1 "Presentation of items of other comprehensive income". Upon the adoption of the amendments to HKAS 1, the Group's 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income'. Furthermore, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

| | |
|---|---|
| Amendments to HKFRSs | Annual improvements to HKFRSs 2010-2012 and 2011-2013 cycles[2] |
| HKFRS 9 | Financial instruments[3] |
| Amendments to HKFRS 9 and HKFRS 7 | Mandatory effective date of HKFRS 9 and transition disclosures[3] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 | Investment entities[1] |
| Amendments to HKAS 19 | Defined benefit plans: Employee contributions[2] |
| Amendments to HKAS 32 | Offsetting financial assets and financial liabilities[1] |
| Amendments to HKAS 36 | Recoverable amount disclosures for non-financial assets[1] |
| Amendments to HKAS 39 | Novation of derivatives and continuation of hedge accounting[1] |
| HKFRS 14 | Regulatory deferral accounts[4] |
| HK(IFRIC) – Int 21 | Levies[1] |

1 Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.

2 Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.

3 Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.

4 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

**HKFRS 9 Financial instruments**

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognitions, and further amended in 2013 to include the new requirements for the hedge accounting.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

**HKFRS 9 Financial instruments – continued**

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

  The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Directors of the Company are still in the process of assessing the impact of the adoption of the HKFRS 9 on the Group's consolidated financial statements.

The Directors of the Company anticipate that the adoption of the other new and revised HKFRSs will have no material impact on the Group's consolidated financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

**Basis of consolidation – continued**

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

*Changes in the Group's ownership interests in existing subsidiaries*

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

**Business combinations**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair values, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income taxes" and HKAS 19 "Employee benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based payment" at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that standard.

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Business combinations – continued

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair values or, when applicable, on the basis specified in another HKFRS.

### Investments in subsidiaries

In the Company's statement of financial position, the investments in subsidiaries (including deemed capital contribution) 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.

### Revenue recognition

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

Revenue arising from financial services is recognised on the following bases:

- Commission income from brokering business is recorded as income on a trade date basis.

- Underwriting commission, sub-underwriting commission, 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 is recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

**Trading rights/other intangible assets**

Trading rights represent rights to trade on the Stock Exchange and Hong Kong Futures Exchange Limited ("HKFE"). They are stated at cost less accumulated amortisation and any accumulated impairment losses, and amortised using the straight-line method over their estimated useful lives.

Other intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Gains or losses arising from derecognition of the trading rights and other intangible assets are measured as the difference between the sales proceeds and the carrying amount of the asset and are recognised in the profit or loss when the asset is derecognised.

**Property and equipment**

Property and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Deprecation is recognised so as to write off the cost of items of property and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with effect of any changes in estimate accounted for on a prospective basis.

An item of property 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 disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

**Financial instruments**

Financial assets and financial liabilities are recognised in the statement of financial position 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.

A financial asset and a financial liability is offset and the net amount presented in the consolidated statement of financial position when, and only when the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Financial instruments – continued

*Financial assets*

The Group's and the Company's financial assets are classified into loans and receivables, available-for-sale financial assets and financial assets at fair value through profit or loss ("FVTPL"). The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for loans and receivables.

Financial assets at FVTPL
Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling in the near future, or it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking, or it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL. The embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including convertible bond receivable, accounts receivable, deposits and other receivables, amounts due from subsidiaries, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment of financial assets below).

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

**Financial instruments – continued**

*Financial assets – continued*

Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

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, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy in respect of impairment of financial assets below).

Impairment of financial assets
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or

- breach of contract, such as default or delinquency in interest or principal payments; or

- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as accounts receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, such as available-for-sale investment, the amount of the impairment loss is measured as the difference between the asset's carrying amount 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 loss will not be reversed in subsequent periods.

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

**Financial instruments – continued**

*Financial assets – continued*

Impairment of financial assets – continued

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable and amounts due from subsidiaries, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When an accounts receivable is considered uncollectible, after exhausting all collection efforts such as realisation of collateral, or institution of other legal means as appropriate, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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.

*Financial liabilities and equity instruments*

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

**Financial instruments – continued**

*Financial liabilities and equity instruments – continued*

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liabilities are either held for trading or those designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

Other financial liabilities

Other financial liabilities (including accounts payable, other payables, amounts due to subsidiaries and short-term bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

**Financial instruments – continued**

*Financial liabilities and equity instruments – continued*

Warrants

Warrants issued by the Company that will be settled by a fixed amount of cash for a fixed number of the Company's own equity instruments are equity instruments. The proceed received from the issue of warrants, net of direct issue costs, is recognised in equity (warrant reserve). Warrant reserve will be transferred to share capital and share premium accounts upon the exercise of the warrants. When the warrants are still not exercised at the expiry date, the amount previously recognised in warrant reserve will be transferred to retained profits.

Warrants issued by the Company that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments are financial liability at fair value through profit or loss. At the date of issue and in subsequent period, the warrants are measured at fair value with change in fair value recognised in profit or loss. Transaction costs that relate to the issue of the warrants are charged to profit or loss immediately.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the group entities are recognised at the proceeds received, net of direct issue costs.

*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 the Company and not designated as at FVTPL 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 and the Company measure the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as 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 the revenue recognition policy.

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

**Financial instruments – continued**

*Derecognition*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when its transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises a financial liability when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**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 consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's and the Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary 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. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

**Taxation – continued**

Deferred tax liabilities are recognised for taxable temporary differences associated with 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period 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 assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year which the asset is realised or the liability is settled, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current tax and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current tax and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

**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*

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

**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 the respective 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 the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. 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 retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

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 Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of the reporting period. Income and expense item 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 in other comprehensive income and accumulated in equity under the heading of exchange reserve.

**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). The Group measures the recharge based on the fair value of the equity instruments of the Company at the grant date and allocates that recharge to each subsidiary based on the proportion of services received.

At the end of the reporting period, the Group revises its estimates of the number of share options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

For share options that are vested at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss. 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.

When the share options are forfeited before the vesting date, the amount previously recognised in share option reserve will be reversed immediately in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Share-based payment transactions – continued

*Equity-settled share-based payment transactions – continued*

Share options granted on or before 7 November 2002, or granted after 7 November 2002 and vested before 1 January 2005

The financial impact of share options granted is not recorded in the consolidated financial statements until such time as the share options are exercised, and no charge is recognised in profit or loss in respect of the value of share options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Share options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding share options.

Shares awarded to directors and employees

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

When The VC Share Purchase Scheme Trust ("Trust") purchases the Company's shares from the open market, the consideration paid, including any directly attributable incremental costs, is presented as shares held for share purchase scheme and deducted from total equity. No gain or loss is recognised on the transactions of the Company's own shares. When the Trust transfers the Company's shares to grantees upon vesting, the related costs of the granted shares vested are reversed from shares held for share purchase scheme. Accordingly, the related expense of the granted shares vested is reversed from awarded shares compensation reserve. The difference arising from such transfer is debited/credited to retained profits.

When the share awards are forfeited before the vesting date, the amount previously recognised in awarded shares compensation reserve will be reversed immediately in profit or loss.

### Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

### Impairment losses on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group and the Company reviews the carrying amounts of their tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

**Impairment losses on tangible and intangible assets other than goodwill – continued**

Intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or a cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where 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 or a cash-generating unit in prior years. A reversal of an impairment loss is recognised as income immediately.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

**Income taxes**

As at 31 December 2013, no deferred tax asset (2012: Nil) in relation to the estimated unused tax losses of approximately HK$223,273,000 (2012: HK$199,675,000) and estimated taxable temporary difference of approximately HK$1,105,000 (2012: deductible of HK$1,059,000) were recognised in the consolidated statement of financial position. 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 recognition of deferred tax asset may arise, which would be recognised in the consolidated statement of profit or loss and other comprehensive income for the period in which such an event takes place.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

**Estimated impairment of accounts receivable**

When 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, an impairment loss may arise. As at 31 December 2013, the carrying amount of accounts receivable is approximately HK$361,582,000 (2012: HK$314,080,000) and a reversal of impairment loss of approximately HK$2,016,000 has been recognised during the year (2012: impairment loss of HK$1,144,000).

## 5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of equity attributable to owners of the Company (comprising issued share capital and reserves).

The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group manages its overall capital structure through the drawdown and repayment of short-term bank borrowings, payment of dividends and issuance of new shares.

Several subsidiaries of the Group (the "Regulated Subsidiaries") are registered with the Hong Kong Securities and Futures Commission (the "SFC") for the business they operate in. The Regulated Subsidiaries are subject to liquid capital requirements under the Hong Kong Securities and Futures (Financial Resources) Rules (the "SF(FR)R") adopted by the SFC. Under the SF(FR)R, the Regulated Subsidiaries must maintain their liquid capital (assets and liabilities adjusted as determined by the SF(FR)R) in excess of HK$3 million or 5% of their total adjusted liabilities, whichever is higher. The required information is filed with the SFC on a monthly basis. The Regulated Subsidiaries have no non-compliance of the liquid capital requirements imposed by the SF(FR)R during the year.

## 6. FINANCIAL INSTRUMENTS

**Categories of financial instruments**

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| **Financial assets** | | | | |
| Loans and receivables (including cash and cash equivalents) | **575,370** | 620,316 | **516,649** | 514,552 |
| Available-for-sale investment | **–** | 109 | **–** | – |
| Derivative financial asset | **2,570** | – | **2,570** | – |
| **Financial liabilities** | | | | |
| Amortised cost | **64,094** | 87,889 | **13,037** | 13,984 |
| Financial liability at FVTPL | **19,623** | – | **19,623** | – |

**Financial risk management objectives and policies**

The Group's major financial instruments include convertible bond receivable, derivative financial asset, available-for-sale investment, accounts receivable, deposits and other receivables, pledged bank deposits, bank balances and cash, accounts payable, other payables, short-term bank borrowings and financial liability at FVTPL. Details of these financial instruments are disclosed in their respective notes. The Company's major financial instruments include convertible bond receivable, derivative financial asset, deposits and other receivables, amounts due from/to subsidiaries, bank balances, other payables and financial liability at FVTPL. The risks associated with these financial instruments include market risk, credit risk and liquidity risk. 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*

Currency risk

It is the Group's policy for each group entity to operate in local currencies as far as possible to minimise currency risks. Almost all of the Group's principal businesses are conducted in Hong Kong dollars which is also the functional currency of the Company, with small amounts of bank deposits denominated in USD and RMB. Since the impact of foreign exchange exposure is minimal, no hedging against foreign currency exposure has been carried out by the Group for the year.

## 6. FINANCIAL INSTRUMENTS – continued

**Financial risk management objectives and policies – continued**

*Market risk – continued*

Interest rate risk

The Group and the Company are exposed to fair value interest rate risk in relation to fixed-rate convertible bond receivable (see Note 20 for details). The Group and the Company currently do not enter into any hedging instrument for fair value interest rate risk.

The Group is exposed to cash flow interest rate risk in relation to accounts receivable from cash clients, margin clients and brokers, pledged bank deposits and short-term bank borrowings (see Notes 22, 23 and 25). Bank balances are excluded from the interest rate sensitivity analysis as they are not sensitive to the change in market interest rates.

The Group's cash flow interest rate risks is mainly relating to the fluctuation of HIBOR or best lending rate arising from the Group's interest bearing financial instruments.

*Interest rate sensitivity*

The sensitivity analysis below has been determined based on the exposure to cash flow interest rates for the financial instruments at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year and all other variables were held constant throughout the respective year. A 10 basis points (2012: 10 basis points) increase or decrease is used and represents management's assessment of the reasonably possible change in interest rates.

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **Change in basis points** | | Change in basis points | |
| | **+10** | **–10** | +10 | –10 |
| | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* |
| **THE GROUP** | | | | |
| Decrease (increase) in loss for the year | **330** | **(330)** | 248 | (248) |

No sensitivity analysis has been presented for the Company as the financial instruments of the Company are not subject to significant cash flow interest rate risk.

Other price risk

The Group and the Company are exposed to equity price risk through the warrants issued by the Company, which is classified as the financial liability at FVTPL (see Note 26 for details). The fair value of the warrants is affected by the market price of the Company's shares. If the Company's share price, which is used as an input to the valuation model for assessing the fair value of the warrants, is 5% higher/lower, while all other variables were held constant, the Group's and the Company's loss for the year ended 31 December 2013 would increase/decrease by approximately HK$2,781,000/HK$2,629,000.

## 6. FINANCIAL INSTRUMENTS – continued

**Financial risk management objectives and policies – continued**

*Credit risk*

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated 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 relation to the business of VC Brokerage Limited, the wholly owned subsidiary of the Company. In addition, the Group reviews the recoverable amount of each individual receivable at the end of the reporting period 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.

For the lending business to minimise the Group's exposure to credit risk, the Group closely evaluates the borrowers' credit rating, financial background and repayment abilities. The assessment is based on a close monitoring and evaluation of the collectability of individual account and on management's judgment, including the current creditworthiness of the borrowers, collateral value and the past collection history of each individual borrower.

For convertible bond, the Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to any issuer. Such risk is monitored on a revolving basis and subject to periodic review.

The Company's maximum exposure to credit risk which will cause a financial loss to the Company due to failure to discharge an obligation by the counterparties and the financial guarantee provided by the Company is the carrying amount of respective recognised financial assets as stated in the statement of financial position and the amount of contingent liabilities in relation to financial guarantee provided by the Company as disclosed in Note 31 respectively. The Company has concentration of credit risk on the amounts due from subsidiaries. The credit risk on these balances is considered not material as the major balance are with subsidiaries with strong liquidity position. The credit risk relating to financial guarantee provided is considered minimal as the relevant subsidiary continues to operate with good financial results and liquidity position. The Company has no other significant concentration of credit risk.

The Group's concentration of credit risk by geographical locations is mainly in Hong Kong as at 31 December 2013 and 31 December 2012. The Group has no significant concentration of credit risk by any single debtor, with exposure spread over a number of counterparties and clients.

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

## 6. FINANCIAL INSTRUMENTS – continued

**Financial risk management objectives and policies – continued**

*Liquidity risk*

Internally generated cash flow and short-term bank borrowings are the sources of funds to finance the operations of the Group. The Group's banking facilities are subject to floating interest rate and are renewable annually. The Group's liquidity risk management includes making available standby banking facilities and diversifying the funding sources. The Group and the Company regularly review the major funding positions to ensure adequate financial resources are available to meet their respective financial obligations.

At 31 December 2013, the Group has available unutilised banking facilities of HK$130,000,000 (2012: HK$90,000,000) and there is no available banking facility for the Company.

Liquidity table

The following tables detail the Group's and the Company's remaining contractual maturity for their non-derivative financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities with the earliest date on which the Group and the Company are required to settle. The tables include both principal and interest cash flows. To the extent that the interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

**THE GROUP**

| | Weighted average interest rate % | On demand or less than 1 month HK$'000 | 1 – 3 months HK$'000 | 3 months to 1 year HK$'000 | Total undiscounted cash flow HK$'000 | Total carrying amount HK$'000 |
|---|---|---|---|---|---|---|
| **At 31 December 2013** | | | | | | |
| Non-derivative financial liabilities | | | | | | |
| Accounts payable | **–** | **56,908** | **–** | **–** | **56,908** | **56,908** |
| Other payables | **–** | **6,071** | **1,000** | **115** | **7,186** | **7,186** |
| | | **62,979** | **1,000** | **115** | **64,094** | **64,094** |

| | Weighted average interest rate % | On demand or less than 1 month HK$'000 | 1 – 3 months HK$'000 | 3 months to 1 year HK$'000 | Total undiscounted cash flow HK$'000 | Total carrying amount HK$'000 |
|---|---|---|---|---|---|---|
| At 31 December 2012 | | | | | | |
| Non-derivative financial liabilities | | | | | | |
| Accounts payable | – | 37,673 | – | – | 37,673 | 37,673 |
| Other payables | – | 9,519 | 600 | 97 | 10,216 | 10,216 |
| Short-term bank borrowings | 2.16 | 40,005 | – | – | 40,005 | 40,000 |
| | | 87,197 | 600 | 97 | 87,894 | 87,889 |

## 6. FINANCIAL INSTRUMENTS – continued

**Financial risk management objectives and policies – continued**

*Liquidity risk – continued*

Liquidity table – continued

**THE COMPANY**

| | Weighted average interest rate % | On demand or less than 1 month HK$'000 | 1 – 3 months HK$'000 | 3 months to 1 year HK$'000 | Total undiscounted cash flow HK$'000 | Total carrying amount HK$'000 |
|---|---|---|---|---|---|---|
| **At 31 December 2013** | | | | | | |
| Non-derivative financial liabilities | | | | | | |
| Other payables | **–** | **1,032** | **121** | **18** | **1,171** | **1,171** |
| Amounts due to subsidiaries | **–** | **11,866** | **–** | **–** | **11,866** | **11,866** |
| | | **12,898** | **121** | **18** | **13,037** | **13,037** |

| | Weighted average interest rate % | On demand or less than 1 month HK$'000 | 1 – 3 months HK$'000 | 3 months to 1 year HK$'000 | Total undiscounted cash flow HK$'000 | Total carrying amount HK$'000 |
|---|---|---|---|---|---|---|
| At 31 December 2012 | | | | | | |
| Non-derivative financial liabilities | | | | | | |
| Other payables | – | 1,881 | 107 | 17 | 2,005 | 2,005 |
| Amounts due to subsidiaries | – | 11,979 | – | – | 11,979 | 11,979 |
| | | 13,860 | 107 | 17 | 13,984 | 13,984 |

The amount above did not include the financial guarantee contract amounting to HK$130 million which is the maximum amount the Company could be required to settle in relation to the financial guarantee provided by the Company as disclosed in Note 31 if the full guaranteed amount is claimed by the counterparty to the guarantee. Based on the expectations at the end of the reporting period, the Company considers that it is more likely than not that no amount will be payable under the financial guarantee contract. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

## 6. FINANCIAL INSTRUMENTS – continued

**Fair value measurements of financial instruments**

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

*Fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis*

The Group's and the Company's derivative financial asset and financial liability at FVTPL are measured at fair value at the end of each reporting period. The fair values of derivative financial asset and financial liability at FVTPL are determined in accordance with Binomial pricing model using prices or rates from observable current market transactions as inputs. Details of these financial asset and financial liability are disclosed in Notes 21 and 26 respectively.

*Fair value hierarchy*

**THE GROUP AND THE COMPANY**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **At 31 December 2013** | | | | |
| Derivative financial asset *(Note)* | – | – | 2,570 | 2,570 |
| Financial liability at FVTPL | – | 19,623 | – | 19,623 |

*Note:* The significant unobservable input is expected volatility. The relationship of this unobservable input to fair value is the higher the expected volatility, the higher the fair value of the derivative financial asset, and vice versa. If the expected volatility to the valuation model is 5% higher/lower, while all other variables were held constant, the fair value of the derivative financial asset would increase/decrease by approximately HK$471,000/HK$311,000.

As at 31 December 2012, there were no derivative financial asset and financial liability at FVTPL.

There were no transfers between Level 2 and Level 3 during the year ended 31 December 2013.

## 6. FINANCIAL INSTRUMENTS – continued

**Fair value measurements of financial instruments – continued**

*Reconciliation of Level 3 fair value measurements*

**THE GROUP AND THE COMPANY**

| | **Derivative financial asset** *HK$'000* |
|---|---|
| At 1 January 2013 | – |
| Purchase during the year | 4,233 |
| Loss on fair value change | (1,663) |
| At 31 December 2013 | 2,570 |

The fair value loss on derivative financial asset is recognised in profit or loss for the year ended 31 December 2013.

## 7. REVENUE AND SEGMENT INFORMATION

Revenue principally arises from the financial services business comprising securities, futures and options brokering and dealing, provision of margin financing and money lending services, provision of placing and underwriting services, provision of initial public offerings, mergers and acquisitions, and other corporate finance related advisory services.

| | **2013** ***HK$'000*** | 2012 *HK$'000* |
|---|---|---|
| **Revenue** | | |
| Brokerage commission and other related fee from dealing in securities and futures and options contracts | **40,463** | 35,580 |
| Underwriting, sub-underwriting, placing and sub-placing commission | **4,997** | 4,767 |
| Arrangement, management, advisory and other fee income | **4,261** | 5,294 |
| Interest income from clients | **24,661** | 19,531 |
| | **74,382** | 65,172 |
| **Other income** | | |
| Interest income from authorised institutions | **901** | 1,882 |
| Interest income from convertible bond receivable | **1,748** | – |
| Sundry income | **101** | 222 |
| | **2,750** | 2,104 |
| **Total income** | **77,132** | 67,276 |

## 7. REVENUE AND SEGMENT INFORMATION – continued

The Group's operating businesses are organised and managed separately, according to the nature of products and services provided, with each segment representing a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other operating segments. The Group operates financial services business and classifies its business into three operating segments, namely brokerage and financing businesses, corporate finance and asset management and reports to the Group's Executive Committee (being the Group's Chief Operating Decision Maker) accordingly. Details of these three operating and reportable segments are summarised as follows:

(i) the brokerage and financing segment engages in securities, futures and options brokering and dealing, provision of margin financing and money lending, and placing and underwriting services;

(ii) the corporate finance segment engages in the provision of corporate financial advisory services; and

(iii) the asset management segment engages in the provision of asset management services.

The following tables represent revenue and results information of these operating segments for the years ended 31 December 2013 and 2012.

**Year ended 31 December 2013**

| | Brokerage and financing | Corporate finance | Asset management | Segment total | Eliminations | Total |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Segment revenue | 70,121 | 4,261 | – | 74,382 | – | 74,382 |
| Inter-segment sales | 15 | 100 | – | 115 | (115) | – |
| | 70,136 | 4,361 | – | 74,497 | (115) | 74,382 |
| Segment loss | (2,999) | (7,402) | (1,407) | (11,808) | – | (11,808) |
| Elimination of intra-group costs | | | | | | 17,043 |
| Central administrative costs | | | | | | (27,430) |
| Impairment loss on available-for-sale investment | | | | | | (109) |
| Fair value change on derivative financial asset | | | | | | (1,663) |
| Fair value change on financial liability at FVTPL | | | | | | (18,023) |
| Loss before taxation for the year | | | | | | (41,990) |

## 7. REVENUE AND SEGMENT INFORMATION – continued

**Year ended 31 December 2013 – continued**

Other segment information

| | Brokerage and financing HK$'000 | Corporate finance HK$'000 | Asset management HK$'000 | Segment total HK$'000 | Adjustments HK$'000 (Note) | Total HK$'000 |
|---|---|---|---|---|---|---|
| Amounts included in the measure of segment profit or loss: | | | | | | |
| Interest income | (797) | (43) | (34) | (874) | (1,775) | (2,649) |
| Staff costs | 38,001 | 7,233 | 1,053 | 46,287 | 19,182 | 65,469 |
| Commission expenses | 4,665 | – | – | 4,665 | (60) | 4,605 |
| Depreciation of property and equipment | 776 | 8 | 3 | 787 | 539 | 1,326 |
| Reversal of impairment loss on doubtful receivables, net | (2,016) | – | – | (2,016) | – | (2,016) |
| Loss on disposal of other intangible assets | 301 | – | – | 301 | – | 301 |
| Finance costs | 2,674 | 90 | – | 2,764 | (1,843) | 921 |
| Amounts regularly provided to the Group's Executive Committee but not included in the measure of segment profit or loss: | | | | | | |
| Income tax credit | – | – | – | – | (1,249) | (1,249) |

## 7. REVENUE AND SEGMENT INFORMATION – continued

Year ended 31 December 2012

| | Brokerage and financing HK$'000 | Corporate finance HK$'000 | Asset management HK$'000 | Segment total HK$'000 | Eliminations HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Segment revenue | 59,918 | 5,254 | – | 65,172 | – | 65,172 |
| Inter-segment sales | – | 20 | – | 20 | (20) | – |
| | 59,918 | 5,274 | – | 65,192 | (20) | 65,172 |
| Segment loss | (7,520) | (11,358) | (563) | (19,441) | – | (19,441) |
| Elimination of intra-group costs | | | | | | 12,315 |
| Central administrative costs | | | | | | (29,078) |
| Impairment loss on available-for-sale investment | | | | | | (150) |
| Loss before taxation for the year | | | | | | (36,354) |

## 7. REVENUE AND SEGMENT INFORMATION – continued

Year ended 31 December 2012 – continued

Other segment information

| | Brokerage and financing HK$'000 | Corporate finance HK$'000 | Asset management HK$'000 | Segment total HK$'000 | Adjustments HK$'000 (Note) | Total HK$'000 |
|---|---|---|---|---|---|---|
| Amounts included in the measure of segment profit or loss: | | | | | | |
| Interest income | (1,644) | (37) | (54) | (1,735) | (147) | (1,882) |
| Staff costs | 36,010 | 9,540 | 139 | 45,689 | 21,409 | 67,098 |
| Commission expenses | 4,287 | – | – | 4,287 | – | 4,287 |
| Depreciation of property and equipment | 848 | 186 | 5 | 1,039 | 537 | 1,576 |
| Impairment loss on doubtful receivables, net | 1,108 | 36 | – | 1,144 | – | 1,144 |
| Finance costs | 896 | 90 | – | 986 | (90) | 896 |
| Amounts regularly provided to the Group's Executive Committee but not included in the measure of segment profit or loss: | | | | | | |
| Income tax (credit) expense | (12) | 4 | – | (8) | 1,224 | 1,216 |

*Note:* Adjustments represent the central administrative costs, and those which are attributable to the three operating segments are allocated in form of management fee. Intra-group finance costs and management fee are included in the three operating segments and eliminated at consolidation. In addition, during the year ended 31 December 2012, the Group made a tax expense of approximately HK$1,224,000 in respect of an intra-group transaction. Such tax provision was reversed during the year ended 31 December 2013.

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment profit or loss represents the profit earned by/loss from each segment, before the elimination of intra-group costs, central administrative costs, impairment loss on available-for-sale investment, fair value change on derivative financial asset and fair value change on financial liability at FVTPL. This is the measure reported to the Group's Executive Committee for the purposes of resource allocation and performance assessment.

## 7. REVENUE AND SEGMENT INFORMATION – continued

In 2013 and 2012, no single customer amounts to 10% or more of the Group's revenue. The Group's operations are mainly located in Hong Kong (place of domicile). The Group's revenue from external customers are mainly derived from Hong Kong for both 2013 and 2012. All of its non-current assets are attributed to the operations in Hong Kong.

Segment assets and liabilities are not presented as they are not regularly provided to the Group's Executive Committee.

## 8. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Staff commission | **21,896** | 19,741 |
| Salaries and wages | **37,040** | 39,109 |
| Staff welfare | **1,448** | 1,904 |
| Recruitment costs | **32** | 3 |
| Termination benefits | **532** | 400 |
| Provision (reversal) of long service payment/annual leave benefits | **80** | (135) |
| Retirement benefits scheme contributions | **1,149** | 1,134 |
| Recognition of equity-settled share-based payment | **–** | 3,152 |
| Discretionary and performance related incentive payments | **3,292** | 1,790 |
| | **65,469** | 67,098 |

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Schemes 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 after December 2000 are all under the MPF Scheme. No further 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 contribution amount is capped at HK$1,250 per employee per month.

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

## 9. DIRECTORS', SENIOR MANAGEMENT'S 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:

| | Fees<br>*HK$'000* | Salaries and other benefits<br>*HK$'000* | Retirement benefits scheme contribution<br>*HK$'000* | Discretionary and performance related incentive payments<br>*HK$'000*<br>*(Note 1)* | Total emoluments<br>*HK$'000* |
|---|---|---|---|---|---|
| **2013** | | | | | |
| Tin Ka Pak, Timmy | – | 989 | 15 | 82 | 1,086 |
| Chau King Fai, Philip | – | 2,192 | 15 | 175 | 2,382 |
| Cheng Tze Kit, Larry | – | 2,096 | 15 | 175 | 2,286 |
| So Wai Yee, Betty | – | 1,389 | 15 | 120 | 1,524 |
| Ha Shu Tong *(Note 2)* | – | 2,334 | 6 | – | 2,340 |
| Zhou Wentao *(Note 3)* | – | 930 | – | – | 930 |
| Ip Chun Chung, Robert | 216 | – | – | – | 216 |
| Wong Chung Kin, Quentin | 216 | – | – | – | 216 |
| Wong Kam Choi, Kerry *(Note 4)* | 127 | – | – | – | 127 |
| Lam Kwok Hing, Wilfred *(Note 5)* | 90 | – | – | – | 90 |
| | 649 | 9,930 | 66 | 552 | 11,197 |

## 9. DIRECTORS', SENIOR MANAGEMENT'S AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS – continued

### (a) Directors' emoluments – continued

| | Fees | Salaries and other benefits | Retirement benefits scheme contribution | Recognition of equity–settled share-based payment | Total emoluments |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| 2012 | | | | | |
| Tin Ka Pak, Timmy | – | 986 | 14 | 330 | 1,330 |
| Chau King Fai, Philip | – | 2,179 | 14 | 247 | 2,440 |
| Cheng Tze Kit, Larry | – | 2,143 | 14 | 330 | 2,487 |
| So Wai Yee, Betty | – | 1,441 | 14 | 247 | 1,702 |
| Ha Shu Tong | – | 1,701 | 14 | 1,202 | 2,917 |
| Zhou Wentao | – | 986 | – | – | 986 |
| Ip Chun Chung, Robert | 178 | – | – | 150 | 328 |
| Wong Chung Kin, Quentin | 178 | – | – | 150 | 328 |
| Lam Kwok Hing, Wilfred | 216 | – | – | – | 216 |
| Lam Yuk Ying, Elsa *(Note 6)* | – | 992 | 14 | 165 | 1,171 |
| Wang Ying *(Note 7)* | 118 | – | – | – | 118 |
| Lee Jun Sing *(Note 8)* | 46 | – | – | – | 46 |
| Lam Ka Wai, Graham *(Note 9)* | 85 | – | – | – | 85 |
| Tse On Kin *(Note 10)* | 6 | – | – | – | 6 |
| | 827 | 10,428 | 84 | 2,821 | 14,160 |

*Notes:*

(1) The discretionary and performance related incentive payments are determined by reference to the individual performance of the Directors of the Company and approved by the Remuneration Committee of the Company.

(2) Mr. Ha Shu Tong resigned as the Executive Director of the Company with effect from 6 May 2013.

(3) Mr. Zhou Wentao resigned as the Executive Director of the Company with effect from 29 May 2013.

(4) Mr. Wong Kam Choi, Kerry was appointed as the Independent Non-executive Director of the Company with effect from 30 May 2013.

(5) Mr. Lam Kwok Hing, Wilfred retired as the Independent Non-executive Director of the Company on 30 May 2013.

## 9. DIRECTORS', SENIOR MANAGEMENT'S AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS – continued

### (a) Directors' emoluments – continued

*Notes: – continued*

(6) Ms. Lam Yuk Ying, Elsa resigned as the Executive Director of the Company with effect from 28 December 2012.

(7) Ms. Wang Ying resigned as the Non-executive Director of the Company with effect from 28 December 2012.

(8) Dr. Lee Jun Sing retired as the Non-executive Director and ceased to be the Chairman of the Company on 24 May 2012.

(9) Mr. Lam Ka Wai, Graham retired as the Independent Non-executive Director of the Company on 24 May 2012.

(10) Mr. Tse On Kin resigned as the Independent Non-executive Director of the Company with effect from 11 January 2012.

Mr. Tin Ka Pak, Timmy is also the Chief Executive Officer of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive Officer.

For the year ended 31 December 2013, there was no share options granted to the Directors of the Company to subscribe for ordinary shares of the Company in respect of their services provided to the Group (2012: 9,000,000 share options granted). Further details of which are set out in Note 30.

For the years ended 31 December 2013 and 2012, no ordinary shares were awarded to the Directors of the Company under the Share Purchase Scheme in respect of their services provided to the Group. Further details of which are set out in Note 30.

### (b) Senior management's emoluments

The emoluments of the individuals of senior management fell within the following bands:

| | Number of individuals | |
|---|---|---|
| | **2013** | 2012 |
| Emolument bands | | |
| HK$1,000,001 – HK$1,500,000 | **1** | 1 |
| HK$2,000,001 – HK$2,500,000 | **2** | 2 |

The senior management represents key management personnel of the Group, other than Directors of the Company whose emoluments are included in Note 9(a) above. The emoluments of the key management personnel are included in note 33.

## 9. DIRECTORS', SENIOR MANAGEMENT'S AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS – continued

### (c) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, three (2012: three) were Directors of the Company whose emoluments are included in Note 9(a) above. The emoluments of the remaining two individuals (2012: two) were as follows:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries and other benefits | **3,956** | 3,947 |
| Retirement benefits scheme contributions | **30** | 28 |
| Recognition of equity-settled share-based payment | **–** | 247 |
| Discretionary and performance related incentive payments | **330** | – |
| | **4,316** | 4,222 |

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

| | **Number of individuals** | |
|---|---|---|
| | **2013** | 2012 |
| Emolument band | | |
| HK$2,000,001 – HK$2,500,000 | **2** | 2 |

During the years ended 31 December 2013 and 2012, no Directors of the Company waived or agreed to waive any emoluments. No emolument has been paid to the Directors of the Company and the five highest paid individuals of the Group as an inducement to join or upon joining the Group, or as compensation for loss of office.

## 10. FINANCE COSTS

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interests on: | | |
| Bank loans and overdrafts wholly repayable within five years | **921** | 896 |

## 11. OTHER GAINS AND LOSSES

| | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| (Reversal) recognition of impairment loss on doubtful receivables, net | **(2,016)** | 1,144 |
| Impairment loss on available-for-sale investment | **109** | 150 |
| Fair value change on derivative financial asset *(Note 21)* | **1,663** | – |
| Fair value change on financial liability at FVTPL *(Note 26)* | **18,023** | – |
| Loss on disposal/write-off of property and equipment | **16** | 818 |
| Loss on disposal of other intangible assets | **301** | – |
| Net exchange gain | **(31)** | (28) |
| | **18,065** | 2,084 |

## 12. LOSS FOR THE YEAR

| | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| Loss for the year has been arrived at after charging: | | |
| Included in other operating expenses: | | |
| Auditors' remuneration | **1,006** | 956 |
| Operating leases in respect of land and buildings | **8,961** | 8,463 |

## 13. INCOME TAX CREDIT/EXPENSE

The amount of tax credited/charged to the consolidated statement of profit or loss and other comprehensive income represents:

| | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| Current tax | | |
| PRC Enterprise Income Tax | **–** | 1,224 |
| (Over)under provision in respect of prior year | | |
| Hong Kong Profits Tax | **–** | (12) |
| PRC Enterprise Income Tax | **(1,249)** | 4 |
| | **(1,249)** | 1,216 |

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profit for both years. The People's Republic of China (the "PRC") subsidiary is subject to the PRC Enterprise Income Tax at 25% for 2012.

## 13. INCOME TAX CREDIT/EXPENSE – continued

The tax credit/charge for the year can be reconciled to the loss before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

| | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| Loss before taxation | **(41,990)** | (36,354) |
| Calculated at Hong Kong Profits Tax rate of 16.5% | **(6,928)** | (5,998) |
| Effect of different tax rate of a subsidiary operating in other jurisdiction | **–** | 395 |
| Tax effect of income not taxable for tax purpose | **(272)** | (263) |
| Tax effect of expenses not deductible for tax purpose | **3,661** | 928 |
| Overprovision in respect of prior year *(Note)* | **(1,249)** | (8) |
| Tax effect of deductible temporary difference previously not recognised | **(360)** | 95 |
| Utilisation of previously unrecognised tax losses | **(302)** | – |
| Tax effect of tax losses not recognised | **4,196** | 4,549 |
| Others *(Note)* | **5** | 1,518 |
| Tax (credit) charge for the year | **(1,249)** | 1,216 |

*Note:* During the year ended 31 December 2012, tax expense of approximately HK$1,224,000 was provided by the PRC subsidiary in respect of an intercompany balance waived by another group entity. Such tax provision was reversed during the year ended 31 December 2013 as it was concluded that the waived intercompany balance was not taxable under the PRC Enterprise Income Tax.

At 31 December 2013, the Group has taxable temporary differences and estimated unused tax losses of approximately HK$1,105,000 and HK$223,273,000 respectively (2012: deductible of HK$1,059,000 and HK$199,675,000 respectively).

No deferred tax asset has been recognised as at 31 December 2013 and 31 December 2012 in respect of these taxable/deductible temporary differences and estimated unused tax losses as it is not probable that taxable profits will be available against which the deductible temporary differences can be utilised, and it is also uncertain whether sufficient future taxable profits will be available in the future to offset the amount. These taxable/deductible temporary differences and estimated unused tax losses have no expiry date but are subject to further approval of the Hong Kong Inland Revenue Department.

## 14. DIVIDENDS

No dividends have been paid or declared or proposed by the Company during the year ended 31 December 2013 (2012: Nil).

## 15. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Loss** | | |
| Loss for the purposes of basic and diluted loss per share (Loss for the year attributable to the owners of the Company) | **(40,741)** | (37,243) |
| | **'000** | '000 |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of basic and diluted loss per share | **408,327** | 404,331 |

The diluted loss per share for 2013 and 2012 are computed excluding the effects of share options and warrants as the exercise of the Company's share options and warrants are anti-dilutive.

## 16. TRADING RIGHTS

| | *HK$'000* |
|---|---|
| **Cost** | |
| At 1 January 2012, 31 December 2012 and 31 December 2013 | 5,066 |
| **Amortisation** | |
| At 1 January 2012, 31 December 2012 and 31 December 2013 | 5,066 |
| **Carrying value** | |
| At 31 December 2012 and 31 December 2013 | – |

Trading rights are amortised over 10 years from 6 March 2000 (the effective date of the merger of the Stock Exchange, HKFE and Hong Kong Securities Clearing Company Limited).

## 17. PROPERTY AND EQUIPMENT

| | THE GROUP | | | | |
|---|---|---|---|---|---|
| | Leasehold improvements | Furniture, fixtures and equipment | Computer equipment and software | Motor vehicle | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Cost** | | | | | |
| At 1 January 2012 | 5,414 | 6,316 | 8,326 | – | 20,056 |
| Additions | 11 | 49 | 137 | 462 | 659 |
| Written off/disposal | (944) | (390) | (556) | – | (1,890) |
| Exchange difference | (4) | (1) | (1) | – | (6) |
| At 31 December 2012 | 4,477 | 5,974 | 7,906 | 462 | 18,819 |
| Additions | 1,613 | 607 | 1,374 | – | 3,594 |
| Written off/disposal | (2,219) | (239) | (94) | – | (2,552) |
| At 31 December 2013 | 3,871 | 6,342 | 9,186 | 462 | 19,861 |
| **Depreciation** | | | | | |
| At 1 January 2012 | 4,555 | 5,453 | 6,485 | – | 16,493 |
| Charge for the year | 186 | 380 | 979 | 31 | 1,576 |
| Written off/disposal | (270) | (236) | (519) | – | (1,025) |
| Exchange difference | (2) | (1) | – | – | (3) |
| At 31 December 2012 | 4,469 | 5,596 | 6,945 | 31 | 17,041 |
| Charge for the year | 249 | 263 | 722 | 92 | 1,326 |
| Written off/disposal | (2,219) | (222) | (93) | – | (2,534) |
| At 31 December 2013 | 2,499 | 5,637 | 7,574 | 123 | 15,833 |
| **Carrying values** | | | | | |
| At 31 December 2013 | 1,372 | 705 | 1,612 | 339 | 4,028 |
| At 31 December 2012 | 8 | 378 | 961 | 431 | 1,778 |

The above items of property and equipment are depreciated on a straight-line basis at the following rates per annum:

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

## 18. OTHER INTANGIBLE ASSETS

| | HK$'000 |
|---|---|
| **Cost** | |
| At 1 January 2012 and 31 December 2012 | 2,839 |
| Disposal | (1,301) |
| At 31 December 2013 | 1,538 |
| **Accumulated impairment** | |
| At 1 January 2012 and 31 December 2012 | 1,292 |
| Disposal | (1,000) |
| At 31 December 2013 | 292 |
| **Carrying value** | |
| At 31 December 2013 | 1,246 |
| At 31 December 2012 | 1,547 |

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 based on fair value less costs to sell. The fair value is determined using an observable market price or recent market transaction price and no indication of impairment was noted during the years.

## 19. AVAILABLE-FOR-SALE INVESTMENT

| | HK$'000 |
|---|---|
| **Cost** | |
| At 1 January 2012, 31 December 2012 and 31 December 2013 | 500 |
| **Accumulated impairment** | |
| At 1 January 2012 | 241 |
| Impairment loss recognised for the year | 150 |
| At 31 December 2012 | 391 |
| Impairment loss recognised for the year | 109 |
| At 31 December 2013 | 500 |
| **Carrying value** | |
| At 31 December 2013 | – |
| At 31 December 2012 | 109 |
| **Analysed for reporting purpose as non-current assets** | |
| At 31 December 2013 | – |
| At 31 December 2012 | 109 |

The above unlisted investment represents investment in unlisted equity securities issued by a private entity incorporated in Hong Kong and its principal activity is investment holding in the PRC. They are measured at cost less impairment at the end of the reporting period as the range of reasonable fair value estimates is so significant that the Directors of the Company are of the opinion that their fair values cannot be measured reliably.

## 20. CONVERTIBLE BOND RECEIVABLE

### THE GROUP AND THE COMPANY

On 3 July 2013, the Company had subscribed a non-listed Hong Kong dollar denominated convertible bond of a principal amount of HK$20,000,000 issued by a company listed on the Stock Exchange. The convertible bond carries an interest at 8% per annum and will mature in July 2015. The convertible bond is convertible into ordinary shares of the issuer at a conversion price of HK$0.79 per share at any time from the day immediately following three months after the issue date up to the maturity date.

The convertible bond is split between the loan portion and equity conversion option. Subsequent to the initial recognition, the loan portion of the convertible bond was carried at amortised cost. The effective interest rate was 22.23% per annum.

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loan portion | | |
| Carrying amount at end of the year | **16,717** | – |

## 21. DERIVATIVE FINANCIAL ASSET

### THE GROUP AND THE COMPANY

The convertible bond as disclosed in the Note 20 includes embedded equity conversion option. The embedded derivative is separated from the convertible bond and accounted for as derivative financial asset in the consolidated statement of financial position. The derivative financial asset is measured at fair value with changes in fair value recognised in profit or loss.

The fair value of the embedded derivative is determined using the Binomial pricing model in accordance with a valuation report prepared by an independent professional valuer. The inputs into the model were as follows:

| | **3 July 2013** | **31 December 2013** |
|---|---|---|
| Spot price of the underlying share | HK$0.64 | HK$0.61 |
| Conversion price | HK$0.79 | HK$0.79 |
| Risk free rate | 0.347% | 0.263% |
| Expected volatility | 53.88% | 48.68% |

Risk free rate was determined with reference to the yield of 2 years and 1.51 years Hong Kong Exchange Fund Notes as at the valuation dates of 3 July 2013 and 31 December 2013 respectively. Expected volatility was determined with reference to the historical volatility of the share price of the comparable companies over the previous 2 years and 1.51 years respectively.

## 21. DERIVATIVE FINANCIAL ASSET – continued

The movement of the fair value of the embedded derivative for the year is as below:

| | *HK$'000* |
|---|---|
| Balance at date of subscription | 4,233 |
| Fair value change recognised in profit or loss | (1,663) |
| Balance at 31 December 2013 | 2,570 |

## 22. ACCOUNTS RECEIVABLE

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Accounts receivable arising from the ordinary course of business of dealing in securities transactions: | | |
| Clearing house and brokers *(Note a)* | **5,392** | 20,551 |
| Cash clients *(Note b)* | **61,547** | 25,358 |
| Margin clients *(Note c)* | **233,550** | 268,126 |
| Accounts receivable arising from the ordinary course of business of provision of corporate financial advisory services *(Note d)* | **524** | 45 |
| Accounts receivable arising from the ordinary course of business of money lending services *(Note e)* | **60,569** | – |
| | **361,582** | 314,080 |

The Group has established policies and procedures to assess the potential clients' credit quality and define credit limits for each client. All client acceptances and credit limits are approved by designated approvers according to the clients' credit worthiness. The Group offsets certain accounts receivable and accounts payable when the Group currently has a legally enforceable right to set off the balances; and intends either to settle on a net basis, or to realise the balances simultaneously.

## 22. ACCOUNTS RECEIVABLE – continued

The gross amounts of accounts receivable set off in the consolidated statement of financial position are set out below:

| | Gross amounts of accounts receivable HK$'000 | Gross amounts of accounts payable set off in the consolidated statement of financial position HK$'000 | Net amounts of accounts receivable in the consolidated statement of financial position HK$'000 | Related amounts not set off in the consolidated statement of financial position: Financial instruments HK$'000 | Related amounts not set off in the consolidated statement of financial position: Cash collateral received HK$'000 | Net amount HK$'000 |
|---|---|---|---|---|---|---|
| **At 31 December 2013** | | | | | | |
| **Accounts receivable arising from the ordinary course of business of dealing in securities transactions** | **422,450** | **(121,961)** | **300,489** | **(287,524)** | **(7,237)** | **5,728** |

| | Gross amounts of accounts receivable HK$'000 | Gross amounts of accounts payable set off in the consolidated statement of financial position HK$'000 | Net amounts of accounts receivable in the consolidated statement of financial position HK$'000 | Related amounts not set off in the consolidated statement of financial position: Financial instruments HK$'000 | Related amounts not set off in the consolidated statement of financial position: Cash collateral received HK$'000 | Net amount HK$'000 |
|---|---|---|---|---|---|---|
| At 31 December 2012 | | | | | | |
| Accounts receivable arising from the ordinary course of business of dealing in securities transactions | 436,474 | (122,439) | 314,035 | (282,986) | (6,631) | 24,418 |

The credit quality of accounts receivable are summarised as follows:

| | **2013** **HK$'000** | 2012 HK$'000 |
|---|---|---|
| Neither past due nor impaired | **349,250** | 308,137 |
| Past due but not impaired *(Note f)* | **12,245** | 3,103 |
| Impaired | **145** | 7,483 |
| | **361,640** | 318,723 |
| Less: Allowance for impairment *(Note g)* | **(58)** | (4,643) |
| | **361,582** | 314,080 |

## 22. ACCOUNTS RECEIVABLE – continued

The management is satisfied with the credit quality of the accounts receivable that are neither past due nor impaired, and the fair values of the securities collateral held by the Group for these balances are generally over the relevant carrying amounts.

The settlement terms of accounts receivable arising from the ordinary course of business of dealing in securities transactions are two trading days after the trade date. In general, accounts receivable due from margin clients are included in "Neither past due nor impaired" category as these accounts have no specific due date.

In respect of the accounts receivable arising from the ordinary course of business of dealing in securities transactions, except for those amounts due from margin clients, the aging analysis based on the trade date is as follows:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **54,611** | 42,838 |
| 31 – 90 days | **10,492** | 520 |
| Over 90 days | **1,836** | 2,551 |
| | **66,939** | 45,909 |

As at 31 December 2013, accounts receivable of approximately HK$255,000 (2012: HK$117,000) was due from directors of the Group and close family member of these directors, in respect of transactions in securities undertaken for their accounts.

*Notes:*

(a) Accounts receivable due from brokers bear interest at commercial rates.

(b) As at 31 December 2013, accounts receivable due from cash clients are secured by the clients' pledged listed securities which carry a fair value of approximately HK$487,703,000 (2012: HK$385,769,000) in relation to the receivables of approximately HK$61,461,000 (2012: HK$25,363,000) that are not impaired; and a fair value of approximately HK$78,000 (2012: HK$31,000) in relation to the receivables of approximately HK$116,000 (2012: HK$107,000) that are impaired.

No such collateral held can be repledged by the Group and the corresponding collateral held can be sold at the Group's discretion to settle any past due outstanding amounts of the cash clients. Cash clients' receivables which are past due bear interest at commercial rates.

## 22. ACCOUNTS RECEIVABLE – continued

*Notes: – continued*

(c) As at 31 December 2013, accounts receivable due from margin clients are secured by the clients' pledged listed securities which carry a fair value of approximately HK$1,118,082,000 (2012: HK$852,785,000) in relation to the receivables of approximately HK$233,549,000 (2012: HK$265,281,000) that are not impaired; and a fair value of approximately HK$1,000 (2012: Nil) in relation to the receivables of approximately HK$29,000 (2012: HK$7,340,000) that are impaired.

Securities are assigned with specific margin ratios for calculating their margin values. Additional funds or collateral are required if the amount of accounts receivable outstanding exceeds the eligible margin value of the securities deposited. The collateral held can be repledged up to 140% of the margin receivable amounts and the corresponding collateral held can be sold at the Group's discretion to settle any outstanding amounts owed by the margin clients. Margin clients' receivables are repayable on demand and bear interest at commercial rates.

(d) The settlement terms of accounts receivable arising from the ordinary course of business of provision of corporate financial advisory services are due immediately from date of billing but the Group will grant a normal credit period of 30 days on average to its clients. The aging analysis of these receivables based on the invoice date is as follows:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **524** | 45 |

As at 31 December 2012, the receivables include an amount of approximately HK$36,000 that is impaired and has been fully provided for impairment loss.

(e) As at 31 December 2013, accounts receivable arising from the ordinary course of business of money lending services are secured and bear fixed-rate interest at a range of 1%-1.5% per month. The accounts receivable have remaining contractual maturity date falling within one year. The receivables are secured by the client's pledged non-listed debt securities or the corporate guarantee provided by the clients' holding company as at 31 December 2013. The management is satisfied with the credit quality of the accounts receivable and the securities collateral held by the Group for these balances.

## 22. ACCOUNTS RECEIVABLE – continued

*Notes: – continued*

(f) Included in the "Past due but not impaired" category are accounts receivable due from clients which are past due at the end of the reporting period for which the Group has not provided for any impairment loss. The aging analysis based on the trade/invoice dates is as follows:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 31 – 90 days | **10,495** | 520 |
| Over 90 days | **1,750** | 2,583 |
| | **12,245** | 3,103 |

As at 31 December 2013, these receivables include cash clients' receivables of approximately HK$12,242,000 (2012: HK$3,103,000). No impairment loss has been provided as the fair values of the securities collateral held by the Group for these balances are generally in excess to the relevant carrying amounts.

As at 31 December 2013, the remaining balance of accounts receivable of approximately HK$3,000 (2012: Nil) are receivables arising from the money lending services. The Group has not provided for any impairment loss as the management is satisfied with the credit quality of the client.

(g) The Group has the policy for allowance for impairment, which is principally based on the evaluation of collectability and aging analysis of accounts, and also on the management's judgement from different aspects including the creditworthiness, collateral and the past collection history of each client.

Movements in the allowance for impairment in the reporting period are as follows:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Balance at beginning of the year | **4,643** | 5,464 |
| (Reversal) recognition of impairment loss, net | **(2,016)** | 1,144 |
| Amounts written off as uncollectible | **(2,569)** | (1,965) |
| Balance at end of the year | **58** | 4,643 |

In determining the recoverability of these accounts receivable, the Group considers any change in the credit quality of the accounts receivable from the date on which the credit was initially granted up to the end of the reporting date and also the fair values of the collateral held. Besides, the concentration of credit risk is limited due to the customer base being large and unrelated.

## 23. OTHER FINANCIAL ASSETS AND LIABILITIES

**Deposits and other receivables (The Group and the Company)**

The amounts resulted from the normal course of operations. They are non-interest bearing and in the opinion of the Directors of the Company, the amounts are expected to be settled within the next 12 months from the end of the reporting period.

**Pledged bank deposits (The Group)**

As at 31 December 2013, the Group has placed a bank deposit of HK$40,000,000 (2012: HK$40,000,000) at variable market interest rate of 0.5% (2012: 0.8%) per annum to a bank to secure banking facilities of HK$80,000,000 (2012: HK$80,000,000) in short-term money market loan and current account overdraft. There was no banking facilities utilised at the end of the reporting period (2012: HK$40,000,000).

**Bank balances and cash (The Group and the Company)**

The amounts comprise cash and short-term bank deposits held by the Group at market interest rates ranging from 0.001% to 1.24% (2012: 0.001% to 2.25%) per annum with an original maturity of three months or less.

In the course of the conduct of the regulated activities of its ordinary business, VC Brokerage Limited, VC Futures Limited and VC Capital Limited act as trustees that result in the holding of clients' monies on behalf of clients and other institutions. These assets are not assets of the Group and, therefore, are not included in its consolidated statement of financial position. As at 31 December 2013, the Group maintained segregated accounts at one clearing house of approximately HK$1,299,000 (2012: HK$1,022,000) and at other authorised institutions of approximately HK$213,833,000 (2012: HK$265,106,000) in conjunction with its securities, futures and options brokering and dealing business, and corporate financial advisory business as a result of the normal business transactions, which are not otherwise dealt with in the consolidated financial statements.

## 24. ACCOUNTS PAYABLE

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Accounts payable arising from the ordinary course of business of dealing in securities transactions *(Notes a and b)*: | | |
| Clearing house | **33,675** | 3,123 |
| Cash clients | **21,223** | 28,861 |
| Margin clients | **2,010** | 5,669 |
| Accounts payable arising from the ordinary course of business of provision of corporate financial advisory services | **–** | 20 |
| | **56,908** | 37,673 |

## 24. ACCOUNTS PAYABLE – continued

*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 the trade date. In the opinion of the Directors of the Company, no aging analysis is disclosed as it is not meaningful in view of the fact that all these accounts payable are promptly settled two trading days after the trade date.

(b) As at 31 December 2013, accounts payable of approximately HK$2,045,000 (2012: HK$112,000) was due to directors of the Group, and close family members of these directors, in respect of transactions in securities undertaken for their accounts.

The gross amounts of accounts payable set off in the consolidated statement of financial position are set out below:

| | Gross amounts of accounts payable | Gross amounts of accounts receivable set off in the consolidated statement of financial position | Net amounts of accounts payable in the consolidated statement of financial position | Related amounts not set off in the consolidated statement of financial position | Net amount |
|---|---|---|---|---|---|
| | | | | Cash collateral pledged | |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **At 31 December 2013** | | | | | |
| Accounts payable arising from the ordinary course of business of dealing in securities transactions | **178,869** | **(121,961)** | **56,908** | **(2,046)** | **54,862** |

| | Gross amounts of accounts payable | Gross amounts of accounts receivable set off in the consolidated statement of financial position | Net amounts of accounts payable in the consolidated statement of financial position | Related amounts not set off in the consolidated statement of financial position | Net amount |
|---|---|---|---|---|---|
| | | | | Cash collateral pledged | |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 31 December 2012 | | | | | |
| Accounts payable arising from the ordinary course of business of dealing in securities transactions | 160,092 | (122,439) | 37,653 | (400) | 37,253 |

## 25. SHORT-TERM BANK BORROWINGS

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Secured | **–** | 40,000 |

As at 31 December 2013, there was no short-term bank borrowings (2012: HK$40,000,000). The short-term bank borrowings were secured by the pledged bank deposits (see Note 23) and bore an interest rate at HIBOR plus 2% per annum.

## 26. FINANCIAL LIABILITY AT FAIR VALUE THROUGH PROFIT OR LOSS

**The Group and the Company**

On 15 May 2013, the Company entered into a placing agreement with a placing agent whereby the Company had conditionally agreed to place, through the placing agent on a best effort basis, a maximum number of 80,000,000 non-listed warrants at an issue price of HK$0.02 per warrant. Each warrant carries the right to subscribe for one ordinary share of the Company at the subscription price of HK$1.20, which can be exercised at any time during a period of 24 months commencing from the date of issue of the warrants. The placing and issue of 80,000,000 non-listed warrants were completed on 2 August 2013.

The warrants are classified as financial liability at fair value through profit or loss and are measured at fair value with changes in fair value recognised in profit or loss.

The fair value of the warrants was calculated using the Binomial pricing model in accordance with a valuation report prepared by an independent professional valuer. The parameters were as follows:

| | **2 August 2013** | **31 December 2013** |
|---|---|---|
| Spot price of the Company | HK$1.11 | HK$1.15 |
| Risk free rate | 0.306% | 0.273% |
| Expected volatility | 58.146% | 46.018% |
| Dividend yield | 0% | 0% |
| Warrant life | 2 years | 1.58 years |

Risk free rate was determined with reference to the yield of 2 years and 1.58 years Hong Kong Exchange Fund Notes as at the valuation dates of 2 August 2013 and 31 December 2013 respectively. Expected volatility was determined by using the historical volatility of the Company's share price over the previous 2 years and 1.58 years respectively.

## 26. FINANCIAL LIABILITY AT FAIR VALUE THROUGH PROFIT OR LOSS – continued

**The Group and the Company – continued**

The movement of the fair value of the warrants for the year is as below:

| | *HK$'000* |
|---|---|
| Balance at date of issue | 1,600 |
| Fair value change recognised to profit or loss | 18,023 |
| Balance at 31 December 2013 | 19,623 |

## 27. SHARE CAPITAL

| | **Authorised** | |
|---|---|---|
| | **Ordinary shares of HK$0.1 each** | |
| | **Number of shares** | **Amount** |
| | | *HK$'000* |
| At 1 January 2012, 31 December 2012 and 31 December 2013 | 10,000,000,000 | 1,000,000 |

| | **Issued and fully paid** | |
|---|---|---|
| | **Ordinary shares of HK$0.1 each** | |
| | **Number of shares** | **Amount** |
| | | *HK$'000* |
| At 1 January 2012 | 399,736,829 | 39,974 |
| Exercise of share options | 6,188,000 | 618 |
| At 31 December 2012 | 405,924,829 | 40,592 |
| Exercise of share options | 5,882,000 | 589 |
| At 31 December 2013 | 411,806,829 | 41,181 |

## 28. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/TO SUBSIDIARIES

| | **THE COMPANY** | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* |
| Investments at cost: | | |
| Unlisted shares | **10** | 10 |
| Capital contribution *(Note)* | **46,529** | 37,929 |
| | **46,539** | 37,939 |

*Note:* The capital contribution represents the imputed interest from interest free loans to a subsidiary which is not expected to be recovered within 12 months from the end of the reporting period.

## 28. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/TO SUBSIDIARIES – continued

**Amounts due from subsidiaries (non-current assets):**

As at 31 December 2013, the amounts include loan to a subsidiary by the Company of HK$3,000,000 (2012: HK$3,000,000) which is unsecured, interest-bearing at Hong Kong dollars prime rate minus 2% per annum and the Company does not expect to recover the amount within 12 months from the end of the reporting period. The remaining balance includes the amount due from a subsidiary of approximately HK$380,558,000 (2012: HK$427,828,000) which is unsecured, interest free and classified as non-current asset as the Company does not expect to recover this amount within 12 months from the end of the reporting period.

**Amounts due from subsidiaries (current assets):**

As at 31 December 2013, amounts due from subsidiaries are unsecured, interest free and repayable on demand. In the opinion of the Directors of the Company, the amounts are expected to be settled within the next 12 months from the end of the reporting period.

During the year ended 31 December 2013, the Company did not recognise any impairment loss on amounts due from subsidiaries (2012: HK$10,000,000). The impairment was made based on an assessment of the estimated future cash flows of the subsidiary discounted at original effective interest rate.

Movements in the impairment allowance for amounts due from subsidiaries are as follows:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Balance at beginning of the year | **17,388** | 7,388 |
| Impairment loss recognised | **–** | 10,000 |
| Balance at end of the year | **17,388** | 17,388 |

**Amounts due to subsidiaries (current liabilities):**

As at 31 December 2013, amounts due to subsidiaries are unsecured, interest free and repayable on demand.

## 28. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/TO SUBSIDIARIES – continued

The following is a list of the principal subsidiaries of the Group as at 31 December 2013 and 2012:

| Name | Place of incorporation | Principal activities and place of operation | Particulars of issued share capital | Effective interest held | |
|---|---|---|---|---|---|
| | | | | **2013** | 2012 |
| VC Financial Group Limited [1] | British Virgin Islands | Investment holding in Hong Kong | 1 ordinary share of US$1 each | **100%** | 100% |
| VC Brokerage Limited [2] | Hong Kong | Provision of brokerage and securities margin financing services in Hong Kong | 330,000,000 ordinary shares of HK$1 each | **100%** | 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%** | 100% |
| VC Capital Limited [2] | Hong Kong | Provision of corporate finance and advisory services in Hong Kong | 45,000,000 ordinary shares of HK$1 each | **100%** | 100% |
| VC Asset Management Limited [2] | Hong Kong | Provision of asset management services to clients in Hong Kong | 28,000,000 ordinary shares of HK$1 each | **100%** | 100% |
| VC Finance Limited [2] | Hong Kong | Money lending in Hong Kong | 1,000,000 ordinary shares of HK$1 each | **100%** | 100% |
| VC Capital (Shenzhen) Limited [2, 3] | PRC | Provision of consultancy services in the PRC | Registered capital of HK$1,000,000 | **100%** | 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%** | 100% |
| VC Research Limited [2] | Hong Kong | Provision of research services in Hong Kong | 500,000 ordinary shares of HK$1 each | **100%** | 100% |

1 Shares held directly by the Company.

2 Shares held indirectly by the Company.

3 VC Capital (Shenzhen) Limited is a wholly foreign owned enterprise and under liquidation process.

The above table lists out the subsidiaries of the Group which, in the opinion of the Directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors of the Company, result in particulars of excessive length.

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

## 29. RESERVES

### THE COMPANY

| | Share premium HK$'000 | Capital reserve HK$'000 (Note 1) | Accumulated losses HK$'000 | Share option reserve HK$'000 | Warrant reserve HK$'000 (Note 2) | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 January 2012 | 424,641 | 123,758 | (77,191) | 18,403 | 3,684 | 493,295 |
| Loss for the year representing total comprehensive income for the year | – | – | (2,779) | – | – | (2,779) |
| Exercise of share options | 4,418 | – | – | – | – | 4,418 |
| Transfer of share option reserve upon exercise of share options | 1,349 | – | – | (1,349) | – | – |
| Reversal of share option reserve upon forfeiture/ lapse of share options | – | – | 12,112 | (12,112) | – | – |
| Recognition of equity-settled share-based payment | – | – | – | 3,152 | – | 3,152 |
| Shares issue expenses | (4) | – | – | – | – | (4) |
| Reversal of warrant reserve upon lapse of warrants | – | – | 3,684 | – | (3,684) | – |
| At 31 December 2012 | 430,404 | 123,758 | (64,174) | 8,094 | – | 498,082 |
| Loss for the year representing total comprehensive income for the year | – | – | (10,614) | – | – | (10,614) |
| Exercise of share options | 4,610 | – | – | – | – | 4,610 |
| Transfer of share option reserve upon exercise of share options | 1,418 | – | – | (1,418) | – | – |
| Reversal of share option reserve upon forfeiture/ lapse of share options | – | – | 3,704 | (3,704) | – | – |
| At 31 December 2013 | 436,432 | 123,758 | (71,084) | 2,972 | – | 492,078 |

## 29. RESERVES – continued

*Notes:*

(1) Pursuant to a scheme of capital reorganisation, which became effective on 28 May 2003, the High Court had approved the reduction of the Company's capital and the cancellation of the Company's share premium account on 27 May 2003. By virtue of the High Court's sanction, the Company's share premium account of HK$45,878,129 was cancelled and the issued and fully paid share capital of the Company was reduced by HK$214,339,500 through a reduction in the nominal value of the share capital of the Company. The credits arising from the cancellation of the share premium account and the reduction of the share capital account, after eliminated against the accumulated loss of HK$136,459,429, in the aggregate amount of HK$123,758,200 were transferred to a capital reserve account of the Company. Such capital reserve account will not be treated as realised profits, and shall be treated as an undistributable reserve of the Company for the purposes of section 79C of the Hong Kong Companies Ordinance until and unless the creditors of the Company as at the date of the sanction are fully settled. In view of the fact that the Company had already fully settled the relevant debts due to the creditors, the Company is of the view that the reserve is distributable to the Company's shareholders.

(2) The placing and issue of 79,900,000 warrants at an issue price of HK$0.05 per warrant was completed on 14 July 2011 and had been expired on 13 July 2012. Amount received on the issue of warrants and issue expenses of approximately HK$3,995,000 and HK$311,000 respectively had been recognised in Warrant Reserve when the warrants were issued and had been transferred to accumulated losses when it was expired.

## 30. SHARE OPTIONS AND SHARE AWARDS

### Share option schemes

The Company offered the share option schemes under which share options are granted to the directors, employees and other eligible persons of the Group to subscribe for shares of the Company in recognising their contributions and in retaining employees who will continue to make valuable contribution to the Group.

At an extraordinary general meeting of the Company held on 29 November 2001, the shareholders of the Company approved the adoption of a share option scheme (the "GEM Share Option Scheme") which superseded the previous share option scheme of the Company adopted on 14 March 2001. The GEM Share Option Scheme was conditionally terminated by the Board on 7 August 2008. Upon the listing of shares of the Company was transferred from the GEM of the Stock Exchange to the Main Board of the Stock Exchange on 15 August 2008, the termination of the GEM Share Option Scheme became effective. Thereafter, no further share options may be offered or granted under the GEM Share Option Scheme. Pursuant to the provisions of the GEM Share Option Scheme, share options previously granted but unexercised under the GEM Share Option Scheme will remain valid and exercisable in accordance with their terms of issues.

## 30. SHARE OPTIONS AND SHARE AWARDS – continued

**Share option schemes – continued**

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 8 June 2009, the Company adopted a new share option scheme (the "2009 Share Option Scheme") (the GEM Share Option Scheme and the 2009 Share Option Scheme collectively are referred to as the "Schemes").

As at 31 December 2013, share options to subscribe for an aggregate of 11,590,000 underlying shares were outstanding, which in total represents approximately 2.81% (2012: 6.13%) of the shares of the Company in issue. The closing price of the Company's shares immediately before 25 March 2004, 18 January 2010, 10 October 2011, 6 June 2012 and 24 September 2012 were HK$0.64, HK$1.73, HK$0.76, HK$0.99 and HK$1.10 per share respectively. The share options granted under the GEM Share Option Scheme have a duration of 10 years from the date of grant, i.e. between 25 March 2004 to 24 March 2014. The share options granted under the 2009 Share Option Scheme have a duration of 3 years from the date of grant, i.e. between 18 January 2010 to 17 January 2013, between 10 October 2011 to 9 October 2014, between 6 June 2012 to 5 June 2015 and between 24 September 2012 to 23 September 2015. The vesting period of the share options granted on 25 March 2004 are from the date of grant up to the date immediately after the expiry of six months from the date of grant. The share options granted on 18 January 2010, 10 October 2011, 6 June 2012 and 24 September 2012 are vested immediately. Any share options granted shall normally lapse upon the expiration of 3 months after the relevant grantee ceases to be an employee of the Group. The Board has the discretion to amend the terms of the Schemes.

## 30. SHARE OPTIONS AND SHARE AWARDS – continued

### Share option schemes – continued

Movements in the number of share options outstanding under the Schemes during the year are as follows:

**Year ended 31 December 2013**

| | | | Number of share options | | | | |
|---|---|---|---|---|---|---|---|
| Categories of grantees | Grant date | Exercise price per share | Balance as at 1 January 2013 | Granted during the year | Exercised during the year | Lapsed/ forfeited during the year | Balance as at 31 December 2013 |
| Other eligible persons | 25 March 2004 | HK$0.64 | 100,000 | – | – | – | 100,000 |
| Directors of the Company | 18 January 2010 | HK$1.84 | 3,400,000 | – | – | (3,400,000) | – |
| Directors of the Company | 10 October 2011 | HK$0.794 | 4,000,000 | – | (1,000,000) | (1,000,000) | 2,000,000 |
| Employees | 10 October 2011 | HK$0.794 | 6,872,000 | – | (3,132,000) | – | 3,740,000 |
| Other eligible persons | 10 October 2011 | HK$0.794 | 1,000,000 | – | – | – | 1,000,000 |
| | | | 11,872,000 | – | (4,132,000) | (1,000,000) | 6,740,000 |
| Directors of the Company | 6 June 2012 | HK$1.04 | 4,500,000 | – | (1,000,000) | (3,000,000) | 500,000 |
| Directors of the Company | 24 September 2012 | HK$1.17 | 3,500,000 | – | (250,000) | – | 3,250,000 |
| Employees | 24 September 2012 | HK$1.17 | 1,500,000 | – | (500,000) | – | 1,000,000 |
| | | | 5,000,000 | – | (750,000) | – | 4,250,000 |
| Total | | | 24,872,000 | – | (5,882,000) | (7,400,000) | 11,590,000 |
| Exercisable as at 31 December 2013 | | | | | | | 11,590,000 |
| Weighted average exercise price | | | HK$1.06 | – | HK$0.88 | HK$1.37 | HK$0.94 |

In respect of the share options exercised during the year ended 31 December 2013, the weighted average share price of the Company when the share options were exercised was HK$1.22.

## 30. SHARE OPTIONS AND SHARE AWARDS – continued

### Share option schemes – continued

Year ended 31 December 2012

| | | | Number of share options | | | | | |
|---|---|---|---|---|---|---|---|---|
| Categories of grantees | Grant date | Exercise price per share | Balance as at 1 January 2012 | Reclassified during the year | Granted during the year | Exercised during the year | Lapsed/ forfeited during the year | Balance as at 31 December 2012 |
| Directors of the Company | 9 July 2002 | HK$1.00 | 491,057 | (491,057) | – | – | – | – |
| Employees | 9 July 2002 | HK$1.00 | 4,942 | – | – | – | (4,942) | – |
| Other eligible persons | 9 July 2002 | HK$1.00 | 344,140 | 491,057 | – | – | (835,197) | – |
| | | | 840,139 | – | – | – | (840,139) | – |
| Other eligible persons | 25 March 2004 | HK$0.64 | 100,000 | – | – | – | – | 100,000 |
| Directors of the Company | 26 November 2009 | HK$2.07 | 3,100,000 | (500,000) | – | – | (2,600,000) | – |
| Employees | 26 November 2009 | HK$2.07 | 5,512,000 | – | – | – | (5,512,000) | – |
| Other eligible persons | 26 November 2009 | HK$2.07 | 4,700,000 | 500,000 | – | – | (5,200,000) | – |
| | | | 13,312,000 | – | – | – | (13,312,000) | – |
| Directors of the Company | 18 January 2010 | HK$1.84 | 3,400,000 | – | – | – | – | 3,400,000 |
| Directors of the Company | 10 October 2011 | HK$0.794 | 8,500,000 | (2,000,000) | – | (2,000,000) | (500,000) | 4,000,000 |
| Employees | 10 October 2011 | HK$0.794 | 9,100,000 | 1,000,000 | – | (3,188,000) | (40,000) | 6,872,000 |
| Other eligible persons | 10 October 2011 | HK$0.794 | 500,000 | 1,000,000 | – | (500,000) | – | 1,000,000 |
| | | | 18,100,000 | – | – | (5,688,000) | (540,000) | 11,872,000 |
| Directors of the Company | 6 June 2012 | HK$1.04 | – | – | 5,000,000 | (500,000) | – | 4,500,000 |
| Directors of the Company | 24 September 2012 | HK$1.17 | – | (500,000) | 4,000,000 | – | – | 3,500,000 |
| Employees | 24 September 2012 | HK$1.17 | – | 500,000 | 1,000,000 | – | – | 1,500,000 |
| | | | – | – | 5,000,000 | – | – | 5,000,000 |
| Total | | | 35,752,139 | – | 10,000,000 | (6,188,000) | (14,692,139) | 24,872,000 |
| Exercisable as at 31 December 2012 | | | | | | | | 24,872,000 |
| Weighted average exercise price | | | HK$1.37 | – | HK$1.11 | HK$0.81 | HK$1.96 | HK$1.06 |

The Group did not recognise any expenses for the year ended 31 December 2013 (2012: HK$3,152,000) in relation to share options granted under the Schemes.

## 30. SHARE OPTIONS AND SHARE AWARDS – continued

**Awarded share schemes**

On 31 March 2008, the Board approved the establishment of two share incentive award schemes, namely the Share Subscription Scheme and the Share Purchase Scheme. The Share Subscription Scheme will subscribe for new shares whereas the Share purchase Scheme utilises shares purchased in the market. The Directors of the Company and any subsidiaries of the Company will be entitled to participate in the Share Purchase Scheme but not the Share Subscription Scheme.

The purpose of each of the Share Subscription Scheme and the Share Purchase Scheme is to encourage and facilitate the acquisition and holding of shares in the Company, by and for the benefit of employees of the Company and any subsidiaries of the Company (excluding Directors of the Company and any subsidiaries and other connected persons of the Company in respect of the Share Subscription Scheme). The Board may determine from time to time to award shares in order to recognise the contribution of certain employees, to seek to retain them for the continued operation and development of the Group, and to attract suitable personnel for the further development of the Group.

*Share Subscription Scheme*

The Share Subscription Scheme is a form of a share incentive award scheme known as The VC Share Award Scheme Trust. The Directors of the Company and any subsidiaries and other connected persons of the Company will not be entitled to participate in the Share Subscription Scheme. The number of shares to be issued under the Share Subscription Scheme is limited to one per cent of the ordinary issued share capital of the Company from time to time (excluding shares which have already been transferred to employees on vesting).

Vesting of the shares will be conditional on the selected employee remaining as an employee of the Company or a subsidiary until the vesting date. The Board also has the discretion to stipulate such other conditions in respect of a particular employee which will apply to the vesting of the shares. No share was granted through the Share Subscription Scheme since its establishment.

*Share Purchase Scheme*

The Share Purchase Scheme is a form of a share incentive award scheme known as the VC Share Purchase Scheme Trust. The Directors and employees of the Company and any subsidiaries of the Company will be entitled to participate in the Share Purchase Scheme. The number of shares to be issued under the Share Purchase Scheme is limited to two per cent of the ordinary issued share capital of the Company from time to time (excluding shares which have already been transferred to employees on vesting).

Vesting of the shares will be conditional on the selected employee remaining as the Director or an employee of the Company or a subsidiary until the vesting date. The Board also has the discretion to stipulate such other conditions in respect of a particular Director or an employee which will apply to the vesting of the shares.

For the years ended 31 December 2013 and 2012, there was no movement or outstanding awarded shares under the Share Purchase Scheme.

## 31. FINANCIAL GUARANTEE

As disclosed in Note 6, as at 31 December 2013, the Company had given financial guarantee to a bank in respect of banking facilities provided to a subsidiary, VC Brokerage Limited, amounting to HK$130 million (2012: HK$130 million). As at 31 December 2013, VC Brokerage Limited did not utilise any banking facilities (2012: HK$40 million). The fair value of the financial guarantee contracts is immaterial.

## 32. COMMITMENTS

### (a) Capital commitments

As at 31 December 2013 and 31 December 2012, the Group and the Company did not have any material commitments contracted but not provided for in respect of purchase of property and equipment.

### (b) Commitments under operating leases

As at 31 December 2013 and 31 December 2012, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **7,547** | 3,537 |
| In the second to fifth years inclusive | **9,391** | – |
| | **16,938** | 3,537 |

Operating lease payments represent rentals payable by the Group for certain of its office and apartment premises. Rentals are fixed for lease terms of 0.5 to 3 years (2012: 0.5 to 3 years).

As at 31 December 2013 and 31 December 2012, the Company did not have any operating lease commitments.

## 33. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

| | 2013<br>*HK$'000* | 2012<br>*HK$'000* |
|---|---|---|
| Brokerage commission income/interest income earned from certain directors of the Group or close family members of the directors | **348** | 135 |

The balances with related parties are set out on the statement of financial position of the Company and in Notes 22, 24 and 28.

**Compensation of key management personnel**

The remuneration of Directors of the Company and other members of key management personnel during the year is as follows:

| | 2013<br>*HK$'000* | 2012<br>*HK$'000* |
|---|---|---|
| Short term benefits | **16,673** | 16,328 |
| Share-based payments | **–** | 3,152 |
| Post employment benefits | **111** | 124 |
| (Reversal) provision of other long-term benefits | **(7)** | 6 |
| | **16,777** | 19,610 |

The remuneration is determined by the remuneration committee of the Company having regard to the performance of individuals and market trends.

# Five Years' Financial Summary

A summary of the consolidated results and of the consolidated assets and liabilities of the Group of the past five financial years is set out below.

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2013** | 2012 | 2011 | 2010 | 2009 |
| **Consolidated results** | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue | **74,382** | 65,172 | 92,865 | 115,629 | 135,734 |
| Other income | **2,750** | 2,104 | 608 | 463 | 912 |
| Staff costs | **(65,469)** | (67,098) | (80,466) | (83,156) | (102,226) |
| Commission expenses | **(4,605)** | (4,287) | (3,668) | (6,257) | (6,915) |
| Depreciation of property and equipment | **(1,326)** | (1,576) | (1,960) | (2,063) | (2,053) |
| Amortisation of trading rights | **–** | – | – | (252) | (507) |
| Finance costs | **(921)** | (896) | (856) | (1,107) | (1,457) |
| Other operating expenses | **(28,736)** | (27,689) | (27,788) | (28,693) | (29,075) |
| Other gains and losses | **(18,065)** | (2,084) | (5,429) | (79,834) | (12,597) |
| Loss before taxation | **(41,990)** | (36,354) | (26,694) | (85,270) | (18,184) |
| Income tax credit (expense) | **1,249** | (1,216) | (550) | (3,666) | (4,330) |
| Loss for the year | **(40,741)** | (37,570) | (27,244) | (88,936) | (22,514) |
| Item that may be reclassified subsequently to profit or loss | | | | | |
| Exchange differences arising on translation of foreign operations | **(24)** | (2) | 13 | (88) | – |
| Total comprehensive income for the year | **(40,765)** | (37,572) | (27,231) | (89,024) | (22,514) |
| Loss for the year attributable to: | | | | | |
| Owners of the Company | **(40,741)** | (37,243) | (26,660) | (87,985) | (22,514) |
| Non-controlling interests | **–** | (327) | (584) | (951) | – |
| | **(40,741)** | (37,570) | (27,244) | (88,936) | (22,514) |
| Total comprehensive income for the year attributable to: | | | | | |
| Owners of the Company | **(40,765)** | (37,245) | (26,647) | (88,073) | (22,514) |
| Non-controlling interests | **–** | (327) | (584) | (951) | – |
| | **(40,765)** | (37,572) | (27,231) | (89,024) | (22,514) |
| Loss per share (HK cents) | | | | | |
| Basic | **(9.98)** | (9.21) | (6.67) | (22,47) | (6.09) |
| Diluted | **(9.98)** | (9.21) | (6.67) | (22.47) | (6.09) |

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2013** | 2012 | 2011 | 2010 | 2009 |
| **Consolidated assets and liabilities** | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Total assets | **590,423** | 629,823 | 635,913 | 710,234 | 690,136 |
| Total liabilities | **(87,069)** | (90,903) | (66,005) | (120,592) | (81,700) |
| | **503,354** | 538,920 | 569,908 | 589,642 | 608,436 |
| Equity attributable to owners of the Company | **503,354** | 538,920 | 568,729 | 588,100 | 608,436 |
| Non-controlling interests | **–** | – | 1,179 | 1,542 | – |
| | **503,354** | 538,920 | 569,908 | 589,642 | 608,436 |