# 2014 Annual Report


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)*

**Non-executive Director**

Mr. CHUNG Chi Shing, Eric

**Independent Non-executive Directors**

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

**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$^{\Delta}$

**Audit Committee**

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

**Remuneration Committee**

Mr. WONG Kam Choi, Kerry, MH *(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, MH

**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

This Annual Report is printed on
environmentally friendly paper.

# CONTENTS

# CEO'S STATEMENT

Year 2014 was another year of volatilities and opportunities. The operating environment for Hong Kong's financial industry was hindered by an uneven global economy recovery and changing environment in the Mainland China's financial market, while the global financial market struggled to rally. Nevertheless, I am pleased to report another year of progress for the Group in which the Group had improved consolidated revenue through further expansion of our core businesses. Our sustained business growth is grounded in such core factors as excellent customer services by our business units, continued like-for-like revenue growth trends, and our improving operational efficiency. The progress made by the Group during the year against a backdrop of global economic volatilities and fluctuating momentum was encouraged, and I am immensely proud of the expertise and commitment to achieve these goals shown by my colleagues across the Group.

In setting new benchmarks for the Group's performance, we are committed to achieving long-term and balanced growth on the basis of solid financial capability and a pragmatic operating strategy. With the shrewd insights, efforts and dedication to innovation of our executive team, the Group has refined its resources allocation to those businesses that can create or extend our sources of revenue, and which put us in a position as competitive as our industry peers in terms of growth of business. Further, the Group's professional attitude in delivering financial services and products continues to garner clients' trust, industry recognition and new business opportunities for the company. These have been gradually reflected in our financial results in recent years, in spite of the considerable weakness of both the global and local economy.

Although the nature of our financial business makes it particularly sensitive to fluctuating economic conditions and investors' sentiments, we maintain a firmly anchored strategy and our focus is to develop and fortify our core businesses including securities, futures and options brokering, financing services and corporate finance services; capitalizing on the significant growth opportunities and thereon delivering shareholder value from our strength. Our continued success in enhancing the Group's capabilities is reflected in the growth in revenue from our core businesses, notably in our brokerage and financing businesses, which is attributed to the increase of our net interest rate spread last year and the expansion of our money lending business which began in mid 2013. In 2014, the Group recorded an increase in consolidated revenue by about 5% and a substantial decrease in consolidated loss attributable to shareholders by about 80% as compared with 2013.

Apart from the above, the Group constantly seeks to explore business opportunities in the PRC market. As for the local financial market, the Group will devote increased resources to capture the opportunities with comparably positive growth and return in the coming year. I believe that these initiatives will materialise as revenue growth and improvement in the Group's financial performance, and consolidate the basis for our business development in the future.

Looking forward, we foresee that 2015 is still a challenging year for the financial sector. Divergent risks as well as opportunities reign over global economic conditions, while the financial market seeks to rally for broadening growth. On the Mainland China front, signs of a slowing economy prevail. Our countering strategies will include enlarging our revenue base through fostering our core businesses, and tapping into new emerging markets with expanded business initiatives.

In closing, on behalf of my fellow Directors, I wish to express our wholehearted appreciation and gratitude for the management team and all staff of the Group for their professional excellence, dedication and contributions which keep the Group competitive in the industry. I would also like to extend our sincere thanks 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
26 March 2015

# MANAGEMENT DISCUSSION AND ANALYSIS

Value Convergence Holdings Limited (the "Company") and its subsidiaries (collectively "VC Group" or the "Group") 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 and dealing, financing services, corporate finance services in relation to sponsoring and underwriting initial public offerings, mergers and acquisitions, as well as asset management.

## BUSINESS REVIEW

As an international financial center, Hong Kong was inevitably affected by an array of challenges under a difficult macro environment in 2014. An uneven global economic recovery continued, reflecting the fragile growth momentum and downside risks that major economies grabbled with. This was evident in the setbacks to the global capital market and the pervasively cautious stance among investors. These factors added to the pressure on the operating environment for Hong Kong's financial industry in 2014, which also hampered by the stringent regulatory requirements and changing conditions in the Mainland China's financial market.

Despite the volatility, the local financial market delivered relatively stable performance in 2014 as compared to the years following the financial tsunami which erupted in late 2008. Drawing on the growth momentum from the fourth quarter of 2013, especially in the initial public offerings market, the local capital market hit an upswing in the first quarter of 2014, during which the steady inflow of hot money into the Hong Kong market as well as listings and public offerings provided strong market stimulus. However, the market experienced a moderate decline as global economic conditions wobbled in the second quarter of 2014. The local capital market had a gradual rebound in the second half of 2014, which was reflected in the improvement in the local stock market's average daily trading turnover, market capitalization and other various key market indices.

The average daily trading turnover was approximately HK$68.3 billion for the first quarter of 2014 and even recorded approximately HK$71.4 billion in March 2014. However, it dropped to approximately HK$57.5 billion in the second quarter of 2014. Fortunately, the local stock market experienced another rebound from July 2014 until the end of 2014. The average daily trading turnover for the fourth quarter was even up to approximately HK$97 billion. Overall, the local stock market's average daily trading turnover for 2014 was approximately HK$69.5 billion, which was about 11% higher than that of 2013. This was also reflected in the Hang Seng Index (the "HSI"), which reached a record of 25,317 on 3 September 2014. As at 31 December 2014, the HSI closed at 23,605, which was slightly higher as compared with 23,306 as at 31 December 2013. The total market capitalization also increased steadily to reach approximately HK$25,072 billion as at 31 December 2014 as compared with approximately HK$24,043 billion as at 31 December 2013.

The growth of the local capital market was also reflected in the total fund raised in Hong Kong of approximately HK$935.8 billion in 2014, which represented a significant increase of about 147% as compared with approximately HK$378.9 billion for the same period in 2013. This further affirmed that the local capital market was very active and competitive in 2014.

As a financial services provider, the business performance of VC Group in 2014 was impacted by both the global and local economic and market conditions. As always, the Group thrived on its strong financial standing and its various investment services and products offered to our clients, all of which consolidated the Group as a competitive player in the industry. We are committed to achieving long-term and balanced growth on the basis of solid financial capability and a pragmatic operating strategy, which create and enhance our shareholders' value. In particular, the Group's professional attitude in delivering financial services and products continues to garner clients' trust, industry recognition and new business opportunities for the Company. The Group endeavors to set new benchmarks in its business performance as well as financial and operating capabilities, as we fortify our business to capture future opportunities.

While the nature of VC Group's financial business makes it particularly sensitive to fluctuating economic conditions and investors' sentiments, the Group maintains a firmly anchored operating strategy, as our focus is to develop and fortify our core businesses including (i) securities, futures and options brokering and dealing (including local and overseas securities dealing, futures and options trading, derivatives and other structured products trading, margin financing, placement and underwriting, etc.); (ii) financing services; and (iii) corporate finance services in relation to sponsoring and underwriting initial public offerings, and mergers and acquisitions; capitalizing on significant growth opportunities and thereon delivering shareholder value from our strength.

# Management Discussion and Analysis

For details of the financial results analysis of the Group for the year ended 31 December 2014, please refer to the section "FINANCIAL REVIEW" below.

## OUTLOOK

Looking forward, the Group foresees that 2015 is still a challenging year for the financial sector. Divergent risks as well as opportunities reign over global economic conditions, while the financial market seeks to rally for broadening growth. Signs of a slowing economy are set to prevail over the Mainland China's financial market, which calls for flexibility in strategies among foreign investors and corporations.

Our countering strategies will include enlarging our revenue base through fostering our core businesses, and tapping into new emerging markets with expanded business initiatives. While applying our excellent operational capabilities to serve our clients, the Group will devote increased resources to business diversification and acquisition when opportunities arise, with the view to strengthening our all-round business position in Hong Kong and beyond. While the Group continues to explore business opportunities in the PRC market, we also keep a firm grasp on the business opportunities with comparably positive growth and return in the local financial market in the coming year and more resources will then be devoted.

In November 2014, the launch of Shanghai-Hong Kong Stock Connect enabled Mainland Chinese investors to invest in selected companies listed in Hong Kong while at the same time allowing Hong Kong and international investors to buy Chinese A shares listed in Shanghai. This encourages overseas companies seeking a primary or secondary listing in Hong Kong, which may find this an attractive opportunity to increase cash flows from Mainland Chinese investors seeking diversification of their investment portfolios. Meanwhile, overseas companies may also use the presence on the Hong Kong stock exchange to boost their profiles in China. Hopefully this development may help boost the growth of our businesses, especially the brokerage and financing businesses, in the long term.

## LONG-TERM BUSINESS STRATEGY

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

Throughout 2014, the Group did not make any significant changes to its business strategy. Despite market volatility, the Group safeguarded its competitive edge due to a number of factors: clients established over the years, diverse premium services that cater to clients' needs, competitive fees, and a proactive and professional team that is dedicated to innovation and exploration of new markets to drive greater business returns for investors and shareholders. With the successful placing of 82,600,000 shares of the Company completed in January 2015, the Company will use the net proceeds of approximately HK$79.7 million from the placement to reinforce its core businesses, expand the financing services and seek for any investment opportunities.

## FINANCIAL REVIEW

For the year ended 31 December 2014, the Group's consolidated revenue was approximately HK$78.2 million which increased by about 5% as compared with the same period in 2013. The Group recorded a consolidated loss attributable to shareholders amounted to approximately HK$8.3 million for the year ended 31 December 2014 against a consolidated loss of approximately HK$40.7 million for the same period in 2013, representing a decrease of about 80%. The substantial decrease in the Group's consolidated loss attributable to shareholders in 2014 was mainly attributable to the (i) recognition of the net gain of approximately HK$7.2 million on fair value changes in relation to 80 million non-listed warrants issued by the Company and the investment of HK$20 million in a non-listed convertible bond held by the Company as compared with the net loss of approximately HK$19.7 million on the fair value changes on the same financial instruments in 2013; (ii) improvement in the operating performance from the Group's brokerage and financing businesses achieving an operating profit after tax of approximately HK$0.8 million as compared with an operating loss of approximately HK$3 million in 2013; and (iii) reduction in the Group's corporate expenses of approximately HK$3.8 million.

Excluding the major non-recurring and/or non-operating nature items, including the fair value changes from the warrants and the convertible bond as abovementioned, the loss of approximately HK$1 million on deregistration of a subsidiary and the impairment loss of approximately HK$2.8 million on the investment cost and the loan to a private entity in which the Group held as an available-for-sale investment in 2014, the Group generated a consolidated operating loss after tax of approximately HK$11.7 million for the year ended 31 December 2014 as compared with a loss of approximately HK$21 million for the same period in 2013, representing a decrease of about 44%.

The Group had turned from a consolidated profit attributable to shareholders of approximately HK$3.3 million for the six months ended 30 June 2014 to the consolidated loss of approximately HK$8.3 million for the year ended 31 December 2014. Excluding the financial effects from the abovementioned major non-recurring and/or non-operating nature items, the Group generated a consolidated operating loss after tax of approximately HK$7.3 million for the second half of 2014 as compared with a loss of approximately HK$4.4 million for the first half of 2014. This was mainly attributable to the slowing down in the growth of the Group's brokerage and financing businesses in the second half of 2014.

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 | |
|---|---|---|
| | **2014** | 2013 |
| | ***HK$'000*** | *HK$'000* |
| Segmental results: | | |
| Brokerage and Financing | **983** | (2,999) |
| Corporate Finance | **(6,848)** | (7,402) |
| Asset Management | **(298)** | (1,407) |
| Group segment loss | **(6,163)** | (11,808) |
| Unallocated costs, net | **(6,123)** | (10,387) |
| Fair value change on derivative financial asset | **(2,570)** | (1,663) |
| Fair value change on financial liability at fair value through profit or loss | **9,771** | (18,023) |
| Loss on deregistration of a subsidiary | **(956)** | – |
| Net unrealised gain on investments held for trading | **789** | – |
| Impairment loss on investment cost/loan to available-for-sale investments | **(2,828)** | (109) |
| Loss before taxation | **(8,080)** | (41,990) |
| Income tax (expense) credit | **(223)** | 1,249 |
| Loss for the year attributable to shareholders of the Company | **(8,303)** | (40,741) |

### Brokerage and Financing

In 2014, the Company, through its indirect wholly owned subsidiaries, namely, VC Brokerage Limited and VC Futures Limited, provides securities, futures and options brokering and dealing, margin financing, and placing and underwriting services. It also through another indirect wholly owned subsidiary, VC Finance Limited, provides money lending services. For the year ended 31 December 2014, the brokerage and financing businesses recorded total revenue of approximately HK$75.5 million as compared with approximately HK$70.1 million for the same period last year, representing an increase of about 8%. Its major revenue streams, including the brokerage commission income and interest income from financing, increased steadily for the year ended 31 December 2014 as compared with the same period last year.

For the year ended 31 December 2014, the Group's brokerage commission and other related fee from dealing in securities, futures and options contracts increased to approximately HK$42.5 million from approximately HK$40.5 million for the same period last year, representing an increase of about 5%, which reflected that the Group's brokerage business keeps growing, although to a lesser extent, with the local stock market as mentioned in the section "BUSINESS REVIEW" above.

For the year ended 31 December 2014, the Group's total interest income from financing, which included the interest income derived from brokerage business and the interest income derived from money lending business, increased significantly by about 23% to approximately HK$30.3 million from approximately HK$24.7 million for the same period last year. Among these, the Group's interest income from our brokerage clients maintained a constant growth, in which an amount of approximately HK$22.1 million was recorded for the year ended 31 December 2014, representing about 9% higher than that of the same period last year. Though the average loan portfolio to our brokerage clients for the year ended 31 December 2014 was about 5% less than that of the same period last year, the growth was mainly contributed by the increase of our net interest rate spread.

Indeed, the increase in the Group's total interest income from financing in the current year was mainly attributable to the interest income generated from the provision of money lending services to our clients, which recorded approximately HK$8.2 million for the year ended 31 December 2014 as compared with approximately HK$4.5 million for the same period last year, representing an increase of about 85%. In mid 2013, the Group started to devote more resources into 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.

Meanwhile, the Group continued to put great effort into implementing our credit control policies and procedures including the review of our clients' credit worthiness and credit limits from time to time so as to minimize our credit risk exposure. For the year ended 31 December 2014, there was a reversal of impairment loss of approximately HK$55,000 (2013: reversal of HK$2 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. The significant reversal of impairment loss in 2013 was resulted from the recovery of some irrecoverable debts recognised in previous years.

Further, the Group also offers placing and underwriting services to our clients, and acts as placing agents and underwriters for many Hong Kong listed companies' fund raising activities. For the year ended 31 December 2014, the Group's placing and underwriting commission decreased to approximately HK$2.2 million (2013: HK$5 million). In the coming year, the Group will put more efforts to capture the opportunities towards initial public offerings and other fund raising exercises in Hong Kong.

Overall, the operating performance of the brokerage and financing businesses in 2014 improved significantly and achieved a turnaround as a result of the revenue growth and improved operating efficiency. For the year ended 31 December 2014, the operating profit before and after tax generated from the brokerage and financing businesses was approximately HK$1 million and HK$0.8 million respectively (2013: operating loss before and after tax of HK$3 million).

### Corporate Finance

In 2014, VC Capital Limited, an indirect wholly owned subsidiary of the Company, was 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 and the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

For the year ended 31 December 2014, the Group's corporate financial advisory and related services recorded a revenue of approximately HK$3.1 million (2013: HK$4.4 million) and generated an operating loss before and after tax of approximately HK$6.8 million (2013: HK$7.4 million). There are some transactions in progress which are expected to be completed in the first half of 2015 and the relevant revenue will be recognised thereon. As mentioned in the section "BUSINESS REVIEW" above, the local capital market was very active and competitive in 2014. The total fund raised from the initial public offerings in Hong Kong was approximately HK$227.7 billion in 2014, representing a sharp increase of about 35% as compared with that of the same period in 2013. The Group will strive for the best to capture the growing business opportunities from the more favourable and stable local market conditions in the future.

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

The Group is still pursuing new business opportunities and resources 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 clients. In the past few years, the global economic recovery continued 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 constantly, which make the development of our asset management business even more difficult and competitive.

For the year ended 31 December 2014, the Company's asset management business, through its indirect wholly owned subsidiary, VC Asset Management Limited recorded an operating loss before and after tax of approximately HK$0.3 million (2013: HK$1.4 million) mainly comprising the general operating expenses incurred for such business.

### Fair value change on derivative financial asset

On 3 July 2013, the Company subscribed a non-listed Hong Kong dollar denominated convertible bond (the "Convertible Bond") in a principal amount of HK$20 million 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. 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 (which was adjusted to HK$0.65 each from 23 January 2015) 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 2014, the Convertible Bond had not been converted, in which the carrying amount of the convertible bond receivable was approximately HK$18.8 million and that of the derivative financial asset had become zero in accordance with a valuation report prepared by an independent professional valuer as at 31 December 2014 as compared with approximately HK$16.7 million and HK$2.6 million respectively as at 31 December 2013. As such, the Group recognised a loss of approximately HK$2.6 million on fair value change of the derivative financial asset in profit or loss for the year ended 31 December 2014. Details had been given in Notes 20 and 21 to the consolidated financial statements.

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

On 2 August 2013, the Company placed and issued 80 million non-listed warrants (the "Warrant(s)") at an issue price of HK$0.02 each. Each Warrant carries the right to subscribe for one ordinary share of the Company at a 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. As at 31 December 2014, the 80 million Warrants are outstanding. 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.

These Warrants were classified as financial liability at fair value through profit or loss and were measured at fair value with changes in fair value recognised in profit or loss. As at 31 December 2014, the carrying amount of these Warrants was approximately HK$9.8 million in accordance with a valuation report prepared by an independent professional valuer as at 31 December 2014 as compared with approximately HK$19.6 million as at 31 December 2013. As such, the Group recognised a gain of approximately HK$9.8 million on fair value change of the Warrants in profit or loss for the year ended 31 December 2014. Details had been given in Note 27 to the consolidated financial statements.

### Loss on deregistration of a subsidiary

Upon deregistration of VC Capital (Shenzhen) Limited completed in December 2014, the Company's indirect wholly owned subsidiary, which was engaged in the provision of consultancy services in the PRC, the exchange reserve arising from the translation of its assets and liabilities into the presentation currency of the Group was reclassified to profit or loss making a loss of approximately HK$1 million for the year ended 31 December 2014. Details had been given in Note 11 to the consolidated financial statements.

### Impairment loss on investment cost/loan to available-for-sale investments

For the year ended 31 December 2014, the Group recognised an impairment loss of approximately HK$2.8 million on investment cost and loan (included in other receivables) to a private entity in which the Group held as available-for-sale investments in 2014 as such entity had negative operating cash flow and sustained loss during the year. In 2013, the Group recognised an impairment loss of approximately HK$0.1 million on investment cost in another private entity in which the Group invested in 2011. Details had been given in Notes 11 and 19 to the consolidated financial statements.

### Unallocated costs, net

For the year ended 31 December 2014, the net unallocated costs of the Group amounted to approximately HK$6.1 million as compared with approximately HK$10.4 million for the same period in 2013, which mainly included the unallocated corporate staff costs and related expenses, rental and utility expenses and professional costs, etc. The significant decrease in the unallocated costs in 2014 was mainly attributable to the decrease in corporate staff costs incurred.

### Finance costs

For the year ended 31 December 2014, the finance costs of the Group amounted to approximately HK$0.7 million (2013: 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 expense/credit

For the year ended 31 December 2014, the income tax expense of the Group amounted to approximately HK$0.2 million which represented the provision of Hong Kong Profits Tax charge in relation to the profitability generated from the brokerage and financing businesses. For the year ended 31 December 2013, the tax provision of approximately HK$1.2 million for the PRC Enterprise Income Tax was reversed, which was provided by VC Capital (Shenzhen) Limited in 2012 in relation to the waiver of an intercompany balance by another group entity, and was confirmed to be not taxable.

### Liquidity and financial resources/capital structure

For the year ended 31 December 2014, the Group financed 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. As at 31 December 2014, all borrowings and almost all the bank balances and cash were denominated in Hong Kong dollars. The Group intends to maintain minimum exposure to foreign exchange risks. Further, all the bank balances and cash were put in time deposits, saving deposits and current accounts as at 31 December 2014.

The Group held banking facilities of HK$130 million granted from a bank to VC Brokerage Limited as at 31 December 2014 (2013: HK$130 million), in which HK$80 million (2013: 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 (2013: HK$40 million), and the other HK$50 million (2013: 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 2014, the Group utilised the general short-term money market loan of HK$40 million (2013: Nil) which bore an interest rate at HIBOR plus 2% per annum by pledge of bank deposits of HK$40 million (2013: HK$40 million).

As at 31 December 2014, the Group's net current assets, bank balances and cash and shareholders' equity (other than clients' segregated accounts) amounted to approximately HK$490.8 million (2013: HK$471.6 million), HK$228.3 million (2013: HK$152.9 million) and HK$501.2 million (2013: HK$503.4 million) respectively. Current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of approximately 4.8 as at 31 December 2014 (2013: 6.4).

As at 31 December 2014, the total number of issued ordinary shares of the Company was 418,166,829 (2013: 411,806,829 shares). The increase of 6,360,000 shares in 2014 was attributable to the exercise of share options by the Directors of the Company and the employees of the Group.

As aforementioned, the Company placed and issued 80 million Warrants in August 2013 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 million subscription shares, representing approximately 15.98% of the aggregated number of the issued ordinary shares of the Company as at the date of this annual report; and approximately 13.77% of the aggregated number of issued ordinary shares 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.

### Charges on group assets

As aforementioned, the Group made a HK$40 million charge over its bank deposits to a bank (2013: HK$40 million) for securing the 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 2014 (2013: HK$80 million).

### Gearing ratio

As at 31 December 2014, the Group's gearing ratio, expressed as total borrowings (solely the bank borrowings) over shareholders' equity, was approximately 0.08 (2013: zero).

### 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. For the year ended 31 December 2014, 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 2014, the Group employed a total of 92 employees (31 December 2013: 95), of whom all are located in Hong Kong. Staff costs (including the Directors' emoluments) and staff sales commission amounted to approximately HK$38.6 million and HK$21.6 million respectively for the year ended 31 December 2014 (2013: HK$43.6 million and HK$21.9 million respectively). 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

For the year ended 31 December 2014, the Group did not make any material acquisitions and disposal of subsidiaries, significant investments nor capital commitment except for deregistration of the PRC subsidiary as mentioned in the section “Loss on deregistration of a subsidiary” above.

### Future plans for material investments or capital assets

As at 31 December 2014, 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 2014, the Group did not have any significant commitments contracted but not provided for in respect of purchase of property and equipment in the consolidated financial statements (2013: Nil).

### Contingent liabilities

As at 31 December 2014, the Company had given financial guarantees of HK$130 million (2013: 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 2014, banking facilities of an amount of HK$40 million was utilised by VC Brokerage Limited (2013: Nil).

### Event after the reporting period

On 18 December 2014, the Company entered into a placing agreement with a placing agent whereby the Company agreed to place, through the placing agent, on a best effort basis, up to an aggregate of 82,600,000 new shares to not less than six placees at a price of HK$0.98 per placing share. The placement had been successfully completed on 21 January 2015 and a total of 82,600,000 new shares at HK$0.98 each were issued, representing approximately 16.49% of the aggregated number of the issued ordinary shares of the Company as enlarged by the issue of the 82,600,000 placing shares immediately after the completion, and provided the aggregate gross proceeds of approximately HK$80.9 million to the Company. The Company intends to use the net proceeds of approximately HK$79.7 million from the placement for (i) general working capital of the Group; (ii) expanding the margin financing and money lending business; and (iii) possible investment in the future when opportunities arise.

## DIRECTORS

### TIN Ka Pak, Timmy

### Chief Executive Officer & Executive Director

Mr. Tin, aged 38, 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.

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 of Hong Kong Limited (the "Stock Exchange"), duties including group management, strategic planning, investment evaluation and investor relationship.

### CHAU King Fai, Philip

### Executive Director

Mr. Chau, aged 53, joined the Group in May 2004 and has been 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 (Stock Code: 8053) for the period from 6 September 2011 to 13 December 2012, a company listed on the Growth Enterprises Market ("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.

### CHENG Tze Kit, Larry

### Chief Investment Officer & Executive Director

Mr. Cheng, aged 58, joined the Group as Non-executive Director in November 2009 and has been re-designated as Executive Director in December 2009. Currently, Mr. Cheng is the Chief Investment Officer of the Company, 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 33, joined the Group as Non-executive Director in November 2009 and has been re-designated as Executive Director in January 2010. Currently, she is the Chief Financial Officer of the Company, 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 over 10 years of experience in financial industry. Before joining the Company, she worked in one of the major international accounting firms in Hong Kong and was a financial controller in a company listed in Stock Exchange. She holds a Bachelor of Business Administration (Accounting & Finance) degree from The University of Hong Kong. Ms. So is a fellow member of the Hong Kong Institute of Certified Public Accountants.

### CHUNG Chi Shing, Eric

### Non-executive Director

Mr. Chung, aged 49, joined the Group as Non-executive Director in March 2015. He has more than 22 years of working experience. Currently, he is an executive director of China Nuclear Industry 23 International Corporation Limited (Stock Code: 611) and a general manager of several subsidiaries of GCL New Energy Holdings Limited (Stock Code: 451), both companies being listed on the Main Board of the Stock Exchange. He was an executive director of GCL New Energy Holdings Limited (formerly known as "Same Time Holdings Limited") from 4 July 2011 to 8 May 2014.

### IP Chun Chung, Robert

### Independent Non-executive Director

Mr. Ip, aged 58, 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, audit committee member, nomination committee member and remuneration committee member of Changhong Jiahua 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.

**WONG Chung Kin, Quentin**

**Independent Non-executive Director**

Mr. Wong, aged 43, 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 12 years working experience in audit and accounting gained from a sizeable international firm and has had almost 10 years of practicing experience.

**WONG Kam Choi, Kerry, MH**

**Independent Non-executive Director**

Mr. Wong, aged 48, 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.

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 57, possesses over 29 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 43, 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 20 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 50, 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 28 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.

## COMPLIANCE OF THE CODE PROVISION OF THE CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions set out in the Corporate Governance Code (the "CG 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") throughout the financial year ended 31 December 2014, 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. Mr. Tin Ka Pak, Timmy, Chief Executive Officer of the Company, has taken up the roles and functions of the Chairman.

### 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, pursuant to the provisions 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.

## 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 eight 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); one Non-executive Director, Mr. Chung Chi Shing, Eric; and three Independent Non-executive Directors, namely, Mr. Ip Chun Chung, Robert, Mr. Wong Chung Kin, Quentin and Mr. Wong Kam Choi, Kerry, MH.

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. Chung Chi Shing, Eric, who was appointed as Non-executive Director on 12 March 2015, 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. The Directors to retire every year shall be those who have been longest in office since their last election. As such, Mr. Chau King Fai, Philip, Mr. Ip Chun Chung, Robert and Mr. Wong Chung Kin, Quentin shall 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 shareholders 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 2014. 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 2014.

### 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, 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 2014.

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 had arranged in-house training for the Directors. Mr. Chau King Fai, Philip and Mr. Cheng Tze Kit, Larry had participated in the in-house training. Meanwhile, the Company funded the Directors to join the Director Training Series 2014 held by The Chamber of Hong Kong Listed Companies, in which Mr. Tin Ka Pak, Timmy and Ms. So Wai Yee, Betty had participated in different sessions. Also, Mr. Ip Chun Chung, Robert and Mr. Wong Chung Kin, Quentin had confirmed to the Company that they had 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 2014, the Board had held a total of six meetings. The details of the attendance record of each member of the Board for 2014 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 2014.

## 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 the Company's website under the section "Corporate Governance".

## AUDIT COMMITTEE

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, MH. 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".

In 2014, the Audit Committee had held a total of two meetings. The details of the attendance record of each member of the Audit Committee for 2014 are provided thereinafter.

## REMUNERATION COMMITTEE

The Remuneration Committee is made up of the Company's Independent Non-executive Directors, namely Mr. Wong Kam Choi, Kerry, MH (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 roles and functions of the Remuneration Committee are given at the Company's website under the section "Corporate Governance".

In 2014, the Remuneration Committee had held a meeting, among other matters, to review the remuneration package of the Directors and senior management of the Group. The details of the attendance record of each member of the Remuneration Committee for 2014 are provided thereinafter.

### 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 scheme 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 2014, the Remuneration Committee has (i) considered and reviewed the salary of Directors and senior management of the Group; and (ii) 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, MH 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".

In 2014, the Nomination Committee had held a meeting, among other matters, to review the structure, size and composition of the Board of the Company. The details of the attendance record of each member of the Nomination Committee for 2014 are provided thereinafter.

## 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 roles and functions 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, Paul 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 roles and functions of the Regulatory Compliance Committee are given at the Company's website under the section "Corporate Governance".

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

| | Attendance Record of Directors in 2014 | | | | |
|---|---|---|---|---|---|
| **Name of Directors** | **Board Meeting** | **Audit Committee Meeting** | **Remuneration Committee Meeting** | **Nomination Committee Meeting** | **2014 AGM** |
| ***Executive Directors*** | | | | | |
| Tin Ka Pak, Timmy | 6/6 | N/A | N/A | N/A | 1/1 |
| Chau King Fai, Philip | 6/6 | N/A | N/A | 1/1 | 1/1 |
| Cheng Tze Kit, Larry | 6/6 | N/A | N/A | N/A | 1/1 |
| So Wai Yee, Betty | 5/6 | N/A | N/A | N/A | 1/1 |
| ***Independent Non-executive Directors*** | | | | | |
| Ip Chun Chung, Robert | 6/6 | 2/2 | 1/1 | 1/1 | 1/1 |
| Wong Chung Kin, Quentin | 6/6 | 2/2 | 1/1 | 1/1 | 1/1 |
| Wong Kam Choi, Kerry, MH | 5/6 | 2/2 | 1/1 | 1/1 | 1/1 |

## 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 41 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 during 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 2014, 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.

## AUDITOR'S REMUNERATION

Deloitte Touche Tohmatsu has been appointed as the Company's external auditor since 2005. For the year ended 31 December 2014, approximately HK$1,051,000 was charged for audit services performed by Deloitte Touche Tohmatsu, which included the fee of HK$1,010,000 for the audit of the consolidated financial statements of the Group for the year ended 31 December 2014, HK$20,000 for the review of the preliminary announcement of results of the Group for the year ended 31 December 2014 and approximately HK$3,000 for the audit of a subsidiary's provident fund scheme for 2014 (which collectively were included as auditors' remuneration in note 12 to the consolidated financial statements) and also the disbursements of HK$18,000 incurred for the audit of the consolidated financial statements of the Group for the year ended 31 December 2013.

In addition, approximately HK$389,000 was charged for non-audit services performed by Deloitte Touche Tohmatsu to the Group in 2014, which included the fee of approximately HK$117,000 for provision of taxation services for the year ended 31 December 2014, the additional taxation services fee and disbursements of approximately HK$11,000 incurred for the year ended 31 December 2013 and the fee of approximately HK$261,000 for provision of U.S. Foreign Account Tax Compliance Act consulting services in 2014.

## 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 2014.

## 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 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 the registered office of the Company at 28th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong (the "Registered Office"). 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 622 of Laws of Hong Kong) (the "Companies Ordinance"). In accordance with the Section 566 of the Companies Ordinance, members holding not less than 5% of the total voting rights of all shareholders having a right to vote at general meeting of the Company as at the date of the deposit of the requisition may request the Directors of 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. 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 2014.

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 2014, together with the audited comparative figures for the year ended 31 December 2013.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 29 to the consolidated financial statements.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2014 are set out in the consolidated statement of profit or loss and comprehensive income on page 43 of this annual report.

No interim dividend was paid to the shareholders during the year (2013: Nil). The Directors do not recommend the payment of a final dividend for the year ended 31 December 2014 (2013: 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 28 and 31 respectively to the consolidated financial statements.

## DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2014, the Company's reserves available for distribution to shareholders amounted to approximately HK$23,408,000 (2013: HK$52,674,000).

## DONATIONS

During the year, the Group made charitable donations amounting to approximately HK$50,000 (2013: HK$40,000).

## 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 112 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 2014. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year ended 31 December 2014.

## DIRECTORS

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

### 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*

### Non-executive Director

Mr. CHUNG Chi Shing, Eric *(appointed on 12 March 2015)*

### Independence Non-executive Directors

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

In accordance with Article 92 of the Company's 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. In accordance with this provision, Mr. Chung Chi Shing, Eric 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. Chau King Fai, Philip, Mr. Ip Chun Chung, Robert and Mr. Wong Chung Kin, Quentin 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 15 to 18 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 34 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 31 and 27 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 2014, 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 the Company*

| Name of Director | Capacity | Nature of interest | Number of ordinary shares held | Approximate % of total number of ordinary shares |
|---|---|---|---|---|
| Mr. Chau King Fai, Philip | Beneficial owner | Personal | 3,369,869 | 0.81% |
| Ms. So Wai Yee, Betty | Beneficial owner | Personal | 802,000 | 0.19% |
| 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 2014 | Granted during the year | Exercised during the year | Lapsed during the year | Outstanding at 31 December 2014 | Approximate % of total number of ordinary shares | Date of grant | Exercisable period | Exercise price |
| | | | | | | | | | HK$ |
| Mr. Tin Ka Pak, Timmy | 1,000,000 | – | (500,000) | – | 500,000 | 0.12% | 24 September 2012 | 24 September 2012 – 23 September 2015 | 1.17 |
| Mr. Chau King Fai, Philip | 1,000,000 | – | (1,000,000) | – | – | – | 10 October 2011 | 10 October 2011 – 9 October 2014 | 0.794 |
| | 750,000 | – | – | – | 750,000 | 0.18% | 24 September 2012 | 24 September 2012 – 23 September 2015 | 1.17 |
| Sub-total | 1,750,000 | – | (1,000,000) | – | 750,000 | 0.18% | | | |

| Name of Director | Number of share options: Outstanding at 1 January 2014 | Granted during the year | Exercised during the year | Lapsed during the year | Outstanding at 31 December 2014 | Approximate % of total number of ordinary shares | Date of grant | Exercisable period | Exercise price |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | *HK$* |
| Mr. Cheng Tze Kit, Larry | 1,000,000 | – | (1,000,000) | – | – | – | 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 | 2,000,000 | – | (1,000,000) | – | 1,000,000 | 0.24% | | | |
| Ms. So Wai Yee, Betty | 500,000 | – | – | – | 500,000 | 0.12% | 24 September 2012 | 24 September 2012 – 23 September 2015 | 1.17 |
| Mr. Ip Chun Chung, Robert | 500,000 | – | – | – | 500,000 | 0.12% | 6 June 2012 | 6 June 2012 – 5 June 2015 | 1.04 |
| **Total** | **5,750,000** | **–** | **(2,500,000)** | **–** | **3,250,000** | **0.78%** | | | |

*Notes:*

1. As at 31 December 2014, the total number of ordinary shares of the Company was 418,166,829.

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 2014, 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 2014, 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 2014, 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**

*Ordinary shares of the Company*

| **Name** | **Capacity** | **Number of ordinary shares held** | **Approximate % of total number of ordinary shares** | *Notes* |
|---|---|---|---|---|
| Mr. Hu Guoen | Beneficial owner | 24,480,000 | 5.85% | – |
| West Kingdom Investments Limited | Beneficial owner | 32,904,000 | 7.87% | – |
| Mr. Han Hanting | Held by controlled corporation | 32,904,000 | 7.87% | 2 |

*Notes:*

1. As at 31 December 2014, the total number of ordinary shares of the Company was 418,166,829.

2. Mr. Han Hanting is taken to be interested in 32,904,000 ordinary shares of the Company as a result of him being beneficially interested in the entire issued share capital of West Kingdom Investments Limited which in turn holds approximately 7.87% of the total number of ordinary shares of the Company.

Save as disclosed above, as at 31 December 2014, 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; and (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.

**(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 2014, options to subscriber for an aggregate of 4,250,000 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 2014 under the GEM Share Option Scheme are as follows:

| Category of participant | Number of share options: Outstanding at 1 January 2014 | Granted during the year | Exercised during the year | Lapsed during the year | Outstanding at 31 December 2014 | 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 2014 under the 2009 Share Option Scheme are as follows:

| Category of participant | Number of share options: Outstanding at 1 January 2014 | Granted during the year | Exercised during the year | Lapsed during the year | Outstanding at 31 December 2014 | Date of grant | Share options duration | Exercise Price |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | *HK$* |
| Directors | 2,000,000 | – | (2,000,000) | – | – | 10 October 2011 | 10 October 2011 – 9 October 2014 | 0.794 |
| Directors | 500,000 | – | – | – | 500,000 | 6 June 2012 | 6 June 2012 – 5 June 2015 | 1.04 |
| Directors | 3,250,000 | – | (500,000) | – | 2,750,000 | 24 September 2012 | 24 September 2012 – 23 September 2015 | 1.17 |
| Sub-total | 5,750,000 | – | (2,500,000) | – | 3,250,000 | | | |
| Employees | 3,740,000 | – | (3,360,000) | (380,000) | – | 10 October 2011 | 10 October 2011 – 9 October 2014 | 0.794 |
| Employees | 1,000,000 | – | – | – | 1,000,000 | 24 September 2012 | 24 September 2012 – 23 September 2015 | 1.17 |
| Sub-total | 4,740,000 | – | (3,360,000) | (380,000) | 1,000,000 | | | |
| Other eligible persons | 1,000,000 | – | (500,000) | (500,000) | – | 10 October 2011 | 10 October 2011 – 9 October 2014 | 0.794 |
| **Total** | **11,490,000** | **–** | **(6,360,000)** | **(880,000)** | **4,250,000** | | | |

*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 2014, 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

For the year ended 31 December 2014, the aggregate revenue attributable to the Group's largest customer and five largest customers combined are approximately 9% (2013: 8%) and 31% (2013: 24%) respectively, of the Group's total revenue.

At no time during the year, none of the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest customers.

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 2014 are disclosed in note 34 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.

## EVENT AFTER THE REPORTING PERIOD

Details of the significant event of the Group occurring after the reporting period are set out in note 35 to the consolidated financial statements.

## AUDIT COMMITTEE

The Audit Committee has reviewed the Group's audited consolidated financial statements and results for the year ended 31 December 2014 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 2014.

Information on the work of the Audit Committee and its composition are set out in the "Corporate Governance Report" on pages 19 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 2014.

## AUDITOR

The financial statements of the Company for the year ended 31 December 2014 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
26 March 2015

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 43 to 111, which comprise the consolidated and Company's statements of financial position as at 31 December 2014, 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 (Cap. 622) (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 80 of Schedule 11 to 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 2014 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
26 March 2015

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2014

| | Notes | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|---|
| Revenue | 7 | **78,154** | 74,382 |
| Other income | 7 | **4,109** | 2,750 |
| Staff costs | 8 | **(60,201)** | (65,469) |
| Commission expenses | | **(4,665)** | (4,605) |
| Depreciation of property and equipment | 17 | **(1,634)** | (1,326) |
| Finance costs | 10 | **(726)** | (921) |
| Other operating expenses | | **(27,379)** | (28,736) |
| Other gains and losses | 11 | **4,262** | (18,065) |
| Loss before taxation | | **(8,080)** | (41,990) |
| Income tax (expense) credit | 13 | **(223)** | 1,249 |
| Loss for the year attributable to owners of the Company | 12 | **(8,303)** | (40,741) |
| Other comprehensive income | | | |
| Items that may be reclassified subsequently to profit or loss | | | |
| Exchange differences arising on translation of foreign operations | | **(1)** | (24) |
| Reclassification adjustment for exchange reserve realised on deregistration of a subsidiary | | **956** | – |
| Other comprehensive income for the year | | **955** | (24) |
| Total comprehensive income for the year attributable to owners of the Company | | **(7,348)** | (40,765) |
| Loss per share (HK cents) | | | |
| Basic | 15 | **(2.01)** | (9.98) |
| Diluted | 15 | **(2.01)** | (9.98) |

# Consolidated Statement of Financial Position

As at 31 December 2014

| | Notes | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Trading rights | 16 | – | – |
| Property and equipment | 17 | 2,587 | 4,028 |
| Statutory deposits | | 3,946 | 4,651 |
| Other intangible assets | 18 | 1,246 | 1,246 |
| Available-for-sale investments | 19 | – | – |
| Convertible bond receivable | 20 | – | 16,717 |
| Derivative financial asset | 21 | – | 2,570 |
| Rental and utility deposits | | 2,630 | 2,564 |
| | | 10,409 | 31,776 |
| **Current assets** | | | |
| Accounts receivable | 22 | 319,955 | 361,582 |
| Prepayments, deposits and other receivables | 23 | 3,864 | 4,167 |
| Investments held for trading | 24 | 10,500 | – |
| Convertible bond receivable | 20 | 18,833 | – |
| Pledged bank deposits | 23 | 40,000 | 40,000 |
| Bank balances and cash | 23 | 228,297 | 152,898 |
| | | 621,449 | 558,647 |
| **Current liabilities** | | | |
| Accounts payable | 25 | 70,651 | 56,908 |
| Accrued liabilities and other payables | | 9,888 | 10,538 |
| Taxation payable | | 223 | – |
| Short-term bank borrowings | 26 | 40,000 | – |
| Financial liability at fair value through profit or loss | 27 | 9,852 | 19,623 |
| | | 130,614 | 87,069 |
| **Net current assets** | | 490,835 | 471,578 |
| **Total assets less current liabilities** | | 501,244 | 503,354 |

# Consolidated Statement of Financial Position

As at 31 December 2014

| | Notes | 2014<br>*HK$'000* | 2013<br>*HK$'000* |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | 28 | **486,674** | 41,181 |
| Reserves | | **14,570** | 462,173 |
| **Total equity** | | **501,244** | 503,354 |

The consolidated financial statements on pages 43 to 111 were approved and authorised for issue by the Board of Directors on 26 March 2015 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 2014

| | Notes | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | 29 | **55,140** | 46,539 |
| Amounts due from subsidiaries | 29 | **380,558** | 383,558 |
| Convertible bond receivable | 20 | **–** | 16,717 |
| Derivative financial asset | 21 | **–** | 2,570 |
| | | **435,698** | 449,384 |
| **Current assets** | | | |
| Prepayments, deposits and other receivables | 23 | **958** | 959 |
| Investments held for trading | 24 | **10,500** | – |
| Convertible bond receivable | 20 | **18,833** | – |
| Amounts due from subsidiaries | 29 | **41,228** | 102,910 |
| Bank balances | 23 | **19,978** | 12,666 |
| | | **91,497** | 116,535 |
| **Current liabilities** | | | |
| Accrued liabilities and other payables | | **533** | 1,171 |
| Amounts due to subsidiaries | 29 | **7,764** | 11,866 |
| Financial liability at fair value through profit or loss | 27 | **9,852** | 19,623 |
| | | **18,149** | 32,660 |
| **Net current assets** | | **73,348** | 83,875 |
| **Total assets less current liabilities** | | **509,046** | 533,259 |
| **Capital and reserves** | | | |
| Share capital | 28 | **484,251** | 41,181 |
| Reserves | 30 | **24,795** | 492,078 |
| **Total equity** | | **509,046** | 533,259 |

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

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

| | Attributable to owners of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Share capital** HK$'000 | **Share premium** HK$'000 | **Capital reserve** HK$'000 (Note 1) | **Exchange reserve** HK$'000 | **Accumulated losses** HK$'000 | **Share option reserve** HK$'000 | **Other reserve** HK$'000 (Note 2) | **Total** HK$'000 |
| At 1 January 2013 | 40,592 | 432,827 | 123,758 | (931) | (64,653) | 8,094 | (767) | 538,920 |
| Loss for the year | – | – | – | – | (40,741) | – | – | (40,741) |
| Other comprehensive income for the year | | | | | | | | |
| Exchange differences arising on translation of foreign operations | – | – | – | (24) | – | – | – | (24) |
| Total comprehensive income for the year | – | – | – | (24) | (40,741) | – | – | (40,765) |
| Exercise of share options | 589 | 4,610 | – | – | – | – | – | 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 |
| Loss for the year | – | – | – | – | (8,303) | – | – | (8,303) |
| Other comprehensive income for the year | | | | | | | | |
| Exchange differences arising on translation of foreign operations | – | – | – | (1) | – | – | – | (1) |
| Reclassification adjustment for exchange reserve realised on deregistration of a subsidiary | – | – | – | 956 | – | – | – | 956 |
| Total comprehensive income for the year | – | – | – | 955 | (8,303) | – | – | (7,348) |
| Transfer upon abolition of par value under the new Hong Kong Companies Ordinance *(Note 3)* | 438,855 | (438,855) | – | – | – | – | – | – |
| Exercise of share options | 5,238 | – | – | – | – | – | – | 5,238 |
| Transfer of share option reserve upon exercise of share options | 1,400 | – | – | – | – | (1,400) | – | – |
| Reversal of share option reserve upon lapse of share options | – | – | – | – | 185 | (185) | – | – |
| At 31 December 2014 | 486,674 | – | 123,758 | – | (109,808) | 1,387 | (767) | 501,244 |

*Notes:*

(1) Pursuant to a scheme of capital reorganisation, which became effective on 28 May 2003, the High Court of Hong Kong had approved the reduction of the Company's capital and the cancellation of the Company's share premium account. The credit arising from the reduction of the share capital account and cancellation of the share premium account, after eliminated against the accumulated loss, in the aggregate amount of HK$123,758,200 was 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 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) Other reserve represented the negative differences between the purchase considerations and the amounts acquired from non-controlling interests arising from acquisitions of the remaining equity interests of 9.9% and 8.84% in VC Capital Limited and VC Asset Management Limited respectively completed in 2012.

(3) The Company has no authorised share capital and its shares have no par value from the commencement date of the new Hong Kong Companies Ordinance (i.e. 3 March 2014).

# Consolidated Statement of Cash Flows

For the year ended 31 December 2014

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Loss before taxation | **(8,080)** | (41,990) |
| Adjustments for | | |
| Interest income | **(4,102)** | (2,649) |
| Finance costs | **726** | 921 |
| Depreciation of property and equipment | **1,634** | 1,326 |
| Fair value change on financial liability at fair value through profit or loss | **(9,771)** | 18,023 |
| Fair value change on derivative financial asset | **2,570** | 1,663 |
| Loss on deregistration of a subsidiary | **956** | – |
| Net unrealised gain on investments held for trading | **(789)** | – |
| Impairment loss on other receivables | **2,778** | – |
| Impairment loss on available-for-sale investments | **50** | 109 |
| Reversal of impairment loss on accounts receivable, net | **(55)** | (2,016) |
| Loss on disposal of other intangible assets | **–** | 301 |
| (Gain) loss on disposal/write-off of property and equipment | **(12)** | 16 |
| | **(14,095)** | (24,296) |
| **Movements in working capital** | | |
| Decrease (increase) in accounts receivable | **41,682** | (45,486) |
| Decrease in prepayments, deposits and other receivables | **294** | 548 |
| Increase in rental and utility deposits | **(66)** | (1,161) |
| Increase in accounts payable | **13,743** | 19,235 |
| Decrease in accrued liabilities and other payables | **(655)** | (1,456) |
| **Cash generated from (used in) operations** | **40,903** | (52,616) |
| Interest paid | **(721)** | (933) |
| Income tax refunded | **–** | 402 |
| **Net cash generated from (used in) operating activities** | **40,182** | (53,147) |
| **Cash flows from investing activities** | | |
| Interest received | **1,995** | 1,078 |
| Purchase of property and equipment | **(193)** | (3,594) |
| Purchase of convertible bond | **–** | (20,000) |
| Purchase of available-for-sale investments | **(50)** | – |
| Purchase of investments held for trading | **(9,711)** | – |
| Loan to an investee | **(2,778)** | – |
| Proceeds from disposal of property and equipment | **12** | 2 |
| Payment of statutory deposits | **(3,020)** | (4,633) |
| Refund of statutory deposits | **3,725** | 3,005 |
| **Net cash used in investing activities** | **(10,020)** | (24,142) |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2014

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| **Cash flows from financing activities** | | |
| New short-term bank borrowings | **40,000** | – |
| Repayment of short-term bank borrowings | **–** | (40,000) |
| Proceeds from exercise of share options | **5,238** | 5,199 |
| Proceeds from issue of warrants | **–** | 1,600 |
| **Net cash generated from (used in) financing activities** | **45,238** | (33,201) |
| **Net increase (decrease) in cash and cash equivalents** | **75,400** | (110,490) |
| Cash and cash equivalents at the beginning of year | **152,898** | 263,387 |
| Effect of exchange rate changes on the balance of cash held in foreign currencies | **(1)** | 1 |
| **Cash and cash equivalents at the end of year, represented by bank balances and cash** | **228,297** | 152,898 |

## 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 amendments to HKFRSs and a new interpretation issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are mandatorily effective for the 2014 financial year.

The application of the amendments to HKFRSs and interpretation 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.

The Group has not early applied the following new standards and amendments to standards ("new and revised HKFRSs") that have been issued but are not yet effective:

| | |
|---|---|
| Amendments to HKFRSs | Annual improvements to HKFRSs 2010-2012 cycle[1] |
| Amendments to HKFRSs | Annual improvements to HKFRSs 2011-2013 cycle[2] |
| Amendments to HKFRSs | Annual improvements to HKFRSs 2012-2014 cycle[3] |
| Amendments to HKAS 1 | Disclosure initiative[3] |
| Amendments to HKAS 16 and HKAS 38 | Clarification of acceptable methods of depreciation and amortisation[3] |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer plants[3] |
| Amendments to HKAS 19 | Defined benefit plans: Employee contributions[2] |
| Amendments to HKAS 27 | Equity method in separate financial statements[3] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or contribution of assets between an investor and its associate or joint venture[3] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment entities: Applying the consolidation exception[3] |
| Amendments to HKFRS 11 | Accounting for acquisitions of interests in joint operations[3] |
| HKFRS 9 | Financial instruments[6] |
| HKFRS 14 | Regulatory deferral accounts[4] |
| HKFRS 15 | Revenue from contracts with customers[5] |

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

[1] Effective for annual periods beginning on or after 1 July 2014, with limited exception. Earlier application is permitted.
[2] Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.
[3] Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
[4] Effective for first annual HKFRS financial statements beginning on or after 1 January 2016, with earlier application permitted.
[5] Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
[6] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

**HKFRS 9 Financial instruments**

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include (a) impairment requirements for financial assets and (b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

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. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting 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.

- 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.

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

**HKFRS 9 Financial instruments – continued**

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- 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 HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance (Cap. 622). 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 or 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 measurements in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical asset or liability 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 component 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.

**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.

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

**Business combinations – continued**

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 assets and are recognised in the profit or loss when the assets are 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 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*

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 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.

The Group's investment in listed equity securities are held for trading.

Financial assets at FVTPL (including investments held for trading and derivative financial asset) 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.

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.

Dividends on available-for-sale equity investments are recognised in profit or loss when the Group's right to receive the dividends is established.

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 each 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 each 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

**Financial instruments – continued**

*Financial assets – continued*

Impairment of financial assets – continued
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. 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.

For financial assets carried at cost, such as available-for-sale investments, 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.

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.

*Financial liabilities and equity instruments*

Debt and equity instruments issued by a group entity are classified as either financial liabilities or 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 future; 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.

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 are recognised at the proceeds received, net of direct issue costs.

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Financial instruments – continued

*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.

Warrants

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.

Embedded derivatives

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.

*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 Company is initially measured at its fair value and, if not designated as at FVTPL, are subsequently measured 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.

*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 in its entirety, 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### 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 the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

**Taxation – continued**

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.

**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.

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

**Foreign currencies – continued**

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 items are translated at the average exchange rates for the period, 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.

On the disposal of a foreign operation (i. e. a disposal of the Group's entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

**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. For those share options exercised before 3 March 2014 (the commencement date of the Hong Kong Companies Ordinance (Cap. 622)), the amount previously recognised in share option reserve will be transferred to share premium and for those share options exercised on or after 3 March 2014, the amount previously recognised in share option reserve will be transferred to share capital. 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 (for those share options exercised before 3 March 2014) or share capital (for those share options exercised on or after 3 March 2014). 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

**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 (other than goodwill) 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.

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 2014, no deferred tax asset (2013: Nil) in relation to the estimated unused tax losses of approximately HK$236,877,000 (2013: HK$222,789,000) has been recognised in the consolidated statement of financial position. The realisability of the deferred tax asset mainly depends on whether sufficient future profits 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 profit or loss 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 2014, the carrying amount of accounts receivable is approximately HK$319,955,000 (2013: HK$361,582,000) and a reversal of impairment loss of approximately HK$55,000 (2013: HK$2,016,000) has been recognised during the year.

**Fair value measurement of derivative financial asset**

The fair value of derivative financial asset that is not quoted in an active market is determined by using valuation techniques, primarily Binomial pricing model. The management determines the appropriate valuation techniques and inputs for the fair value measurement after discussion with an independent professional valuer, in which market-observable data are used to the extent it is available. As at 31 December 2014, the fair value of the derivative financial asset of the Group and the Company is approximately zero (2013: HK$2,570,000) which was determined in accordance with the valuation performed by the independent professional valuer.

## 5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure each group entity 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 with the liquid capital requirements imposed by the SF(FR)R during the year.

## 6. FINANCIAL INSTRUMENTS

**Categories of financial instruments**

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| **Financial assets** | | | | |
| Loans and receivables (including cash and cash equivalents) | **611,261** | 575,370 | **461,395** | 516,649 |
| Investments held for trading | **10,500** | – | **10,500** | – |
| Derivative financial asset | **–** | 2,570 | **–** | 2,570 |
| **Financial liabilities** | | | | |
| Amortised cost | **117,367** | 64,094 | **8,297** | 13,037 |
| Financial liability at FVTPL | **9,852** | 19,623 | **9,852** | 19,623 |

**Financial risk management objectives and policies**

The Group's major financial instruments include convertible bond receivable, derivative financial asset, available-for-sale investments, accounts receivable, deposits and other receivables, investments held for trading, 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, investments held for trading, 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). 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 26). 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 (2013: 10 basis points) increase or decrease is used and represents management's assessment of the reasonably possible change in interest rates.

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | **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 | **233** | **(233)** | 330 | (330) |

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.

## 6. FINANCIAL INSTRUMENTS – continued

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

*Market risk – continued*

Other price risk

The Group and the Company are exposed to equity price risk through the Company's investment in listed equity securities which is classified as investments held for trading (see Note 24) and the warrants issued by the Company, which is classified as financial liability at FVTPL (see Note 27).

If the market price of the listed equity securities is 5% higher/lower, the Group's and the Company's loss would decrease/increase by approximately HK$525,000 for the year ended 31 December 2014 as a result of the change in fair value of investments held for trading. As at 31 December 2013, no sensitivity analysis of the listed equity securities has been presented as the Group and the Company did not have such investment.

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 (2013: 5% higher/lower), while all other variables were held constant, the Group's and the Company's loss would increase/decrease by approximately HK$2,058,000/HK$1,865,000 for the year ended 31 December 2014 (2013: HK$2,781,000/HK$2,629,000).

*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.

## 6. FINANCIAL INSTRUMENTS – continued

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

*Credit risk – continued*

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 32 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 2014 and 31 December 2013. As at 31 December 2014, the Group has concentration of credit risk on the accounts receivable as the aggregate balances with the five largest clients represent 32% (2013: 30%) of total accounts receivable. However, the fair values of the securities collateral held by the Group for these balances are in excess to the relevant carrying amounts. The Group has no other significant concentration of credit risk.

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

*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 2014, the Group has available unutilised banking facilities of HK$90,000,000 (2013: HK$130,000,000) and there is no available banking facility for the Company.

## 6. FINANCIAL INSTRUMENTS – continued

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

*Liquidity risk – continued*

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 (p.a.)** | **On demand or less than 1 month** | **1 – 3 months** | **3 months to 1 year** | **Total undiscounted cash flow** | **Total carrying amount** |
|---|---|---|---|---|---|---|
| | **%** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| **At 31 December 2014** | | | | | | |
| Non-derivative financial liabilities | | | | | | |
| Accounts payable | **–** | **70,651** | **–** | **–** | **70,651** | **70,651** |
| Other payables | **–** | **5,589** | **1,010** | **117** | **6,716** | **6,716** |
| Short-term bank borrowings | **2.38** | **40,013** | **–** | **–** | **40,013** | **40,000** |
| | | **116,253** | **1,010** | **117** | **117,380** | **117,367** |

| | Weighted average interest rate (p.a.) | On demand or less than 1 month | 1 – 3 months | 3 months to 1 year | Total undiscounted cash flow | Total carrying amount |
|---|---|---|---|---|---|---|
| | % | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *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 |

## 6. FINANCIAL INSTRUMENTS – continued

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

*Liquidity risk – continued*

Liquidity table – continued

**THE COMPANY**

| | Weighted average interest rate (p.a.) % | 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 2014** | | | | | | |
| Non-derivative financial liabilities | | | | | | |
| Other payables | **–** | **363** | **151** | **19** | **533** | **533** |
| Amounts due to subsidiaries | **–** | **7,764** | **–** | **–** | **7,764** | **7,764** |
| | | **8,127** | **151** | **19** | **8,297** | **8,297** |

| | Weighted average interest rate (p.a.) % | 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 |

The amounts 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 32 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**

*Financial assets and financial liabilities that are not measured at fair value*

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 investments held for trading, derivative financial asset and financial liability at FVTPL are measured at fair value at the end of each reporting period. The fair value of investments held for trading is determined based on the quoted market price available on the Stock Exchange. The fair values of derivative financial asset and financial liability at FVTPL are determined in accordance with Binomial pricing model. Details of these financial assets and financial liability are disclosed in Notes 21, 24 and 27 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 2014** | | | | |
| Investments held for trading | **10,500** | **–** | **–** | **10,500** |
| Derivative financial asset *(Note)* | **–** | **–** | **–** | **–** |
| Financial liability at FVTPL | **–** | **9,852** | **–** | **9,852** |

| | 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 (2013: 5% higher/lower), while all other variables were held constant, the fair value of the derivative financial asset would increase/decrease by approximately HK$4,000/Nil (2013: HK$471,000/HK$311,000).

There were no transfers between levels of the fair value hierarchy in the current and prior years.

## 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 |
| Loss on fair value change | (2,570) |
| At 31 December 2014 | – |

The fair value loss on derivative financial asset is recognised in profit or loss for the years ended 31 December 2014 and 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.

| | **2014** ***HK$'000*** | 2013 *HK$'000* |
|---|---|---|
| **Revenue** | | |
| Brokerage commission and other related fee from dealing in securities and futures and options contracts | **42,537** | 40,463 |
| Underwriting, sub-underwriting, placing and sub-placing commission | **2,188** | 4,997 |
| Arrangement, management, advisory and other fee income | **3,085** | 4,261 |
| Interest income from clients | **30,344** | 24,661 |
| | **78,154** | 74,382 |
| **Other income** | | |
| Interest income from authorised institutions | **386** | 901 |
| Interest income from convertible bond receivable | **3,716** | 1,748 |
| Sundry income | **7** | 101 |
| | **4,109** | 2,750 |
| **Total income** | **82,263** | 77,132 |

## 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 2014 and 2013.

**Year ended 31 December 2014**

| | 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 | 75,469 | 2,685 | – | 78,154 | – | 78,154 |
| Inter-segment sales | 24 | 460 | – | 484 | (484) | – |
| | 75,493 | 3,145 | – | 78,638 | (484) | 78,154 |
| Segment profit (loss) | 983 | (6,848) | (298) | (6,163) | – | (6,163) |
| Elimination of intra-group costs | | | | | | 15,823 |
| Central administrative costs | | | | | | (21,946) |
| Fair value change on financial liability at FVTPL | | | | | | 9,771 |
| Fair value change on derivative financial asset | | | | | | (2,570) |
| Loss on deregistration of a subsidiary | | | | | | (956) |
| Net unrealised gain on investments held for trading | | | | | | 789 |
| Impairment loss on other receivables | | | | | | (2,778) |
| Impairment loss on available-for-sale investments | | | | | | (50) |
| Loss before taxation for the year | | | | | | (8,080) |

## 7. REVENUE AND SEGMENT INFORMATION – continued

### Year ended 31 December 2014 – 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 | **(228)** | **(103)** | **(52)** | **(383)** | **(3,719)** | **(4,102)** |
| Staff costs | **36,675** | **5,748** | **127** | **42,550** | **17,651** | **60,201** |
| Commission expenses | **4,655** | **10** | **–** | **4,665** | **–** | **4,665** |
| Depreciation of property and equipment | **984** | **14** | **–** | **998** | **636** | **1,634** |
| Reversal of impairment loss on accounts receivable, net | **(55)** | **–** | **–** | **(55)** | **–** | **(55)** |
| Finance costs | **3,448** | **90** | **–** | **3,538** | **(2,812)** | **726** |
| Amounts regularly provided to the Group's Executive Committee but not included in the measure of segment profit or loss: | | | | | | |
| Income tax expense | **223** | **–** | **–** | **223** | **–** | **223** |

Year ended 31 December 2013

| | 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 | 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) |
| Fair value change on financial liability at FVTPL | | | | | | (18,023) |
| Fair value change on derivative financial asset | | | | | | (1,663) |
| Impairment loss on available-for-sale investments | | | | | | (109) |
| 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 accounts receivable, 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) |

*Note:* Adjustments include the central administrative costs that are not directly allocated to the three operating segments and also the intra-group finance costs and management fee which are eliminated at consolidation.

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, fair value change on financial liability at FVTPL, fair value change on derivative financial asset, loss on deregistration of a subsidiary, net unrealised gain on investments held for trading, impairment loss on other receivables and impairment loss on available-for-sale investments. 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 2014 and 2013, 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 2014 and 2013. 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)

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Staff commission | **21,594** | 21,896 |
| Salaries and wages | **32,625** | 37,040 |
| Staff welfare | **1,506** | 1,448 |
| Recruitment costs | **72** | 32 |
| Termination benefits | **–** | 532 |
| Provision of long service payment/annual leave benefits | **29** | 80 |
| Retirement benefits scheme contributions | **1,203** | 1,149 |
| Discretionary and performance related incentive payments | **3,172** | 3,292 |
| | **60,201** | 65,469 |

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. Effective from June 2014, the cap of contribution amount has been changed from HK$1,250 to HK$1,500 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 | Salaries and other benefits | Retirement benefits scheme contribution | Discretionary and performance related incentive payments | Total emoluments |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | | | | *(Note 1)* | |
| **2014** | | | | | |
| Tin Ka Pak, Timmy | – | 989 | 17 | 82 | 1,088 |
| Chau King Fai, Philip | – | 2,146 | 17 | 175 | 2,338 |
| Cheng Tze Kit, Larry | – | 2,096 | 17 | 175 | 2,288 |
| So Wai Yee, Betty | – | 1,451 | 17 | 120 | 1,588 |
| Ip Chun Chung, Robert | 216 | – | – | – | 216 |
| Wong Chung Kin, Quentin | 216 | – | – | – | 216 |
| Wong Kam Choi, Kerry, MH | 216 | – | – | – | 216 |
| | 648 | 6,682 | 68 | 552 | 7,950 |

## 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 | Discretionary and performance related incentive payments | Total emoluments |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | | | | *(Note 1)* | |
| 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, MH *(Note 4)* | 127 | – | – | – | 127 |
| Lam Kwok Hing, Wilfred *(Note 5)* | 90 | – | – | – | 90 |
| | 649 | 9,930 | 66 | 552 | 11,197 |

*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, MH 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

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 years ended 31 December 2014 and 2013, no share options were granted to the Directors of the Company to subscribe for ordinary shares of the Company in respect of their services provided to the Group. Further details of which are set out in Note 31.

For the years ended 31 December 2014 and 2013, 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 31.

### (b) Senior management's emoluments

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

| | Number of individuals | |
|---|---|---|
| | **2014** | 2013 |
| 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 34.

## 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 (2013: three) were Directors of the Company whose emoluments are included in Note 9(a) above. The emoluments of the remaining two individuals (2013: two) were as follows:

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| Salaries and other benefits | 3,957 | 3,956 |
| Retirement benefits scheme contributions | 33 | 30 |
| Discretionary and performance related incentive payments | 330 | 330 |
| | 4,320 | 4,316 |

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

| | Number of individuals | |
|---|---|---|
| | 2014 | 2013 |
| Emolument band | | |
| HK$2,000,001 – HK$2,500,000 | 2 | 2 |

During the years ended 31 December 2014 and 2013, 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

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| Interests on: | | |
| Bank loans and overdrafts wholly repayable within five years | 726 | 921 |

## 11. OTHER GAINS AND LOSSES

| | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| Fair value change on financial liability at FVTPL *(Note 27)* | **9,771** | (18,023) |
| Fair value change on derivative financial asset *(Note 21)* | **(2,570)** | (1,663) |
| Loss on deregistration of a subsidiary *(Note a)* | **(956)** | – |
| Net unrealised gain on investments held for trading | **789** | – |
| Impairment loss on other receivables *(Note b)* | **(2,778)** | – |
| Impairment loss on available-for-sale investments | **(50)** | (109) |
| Reversal of impairment loss on accounts receivable, net | **55** | 2,016 |
| Loss on disposal of other intangible assets | **–** | (301) |
| Gain (loss) on disposal/write-off of property and equipment | **12** | (16) |
| Net exchange (loss) gain | **(11)** | 31 |
| | **4,262** | (18,065) |

*Notes:*

(a) VC Capital (Shenzhen) Limited (the "deregistered entity"), a wholly owned subsidiary of the Group, which was engaged in the provision of consultancy services in the PRC, was deregistered in December 2014. The loss on deregistration represented the exchange reserve amounting to approximately HK$956,000 arisen from the assets and liabilities of the deregistered entity when they were translated into the presentation currency of the Group, which was reclassified to profit or loss for the year ended 31 December 2014. No other profit or loss and cash flow effects resulted as the deregistered entity had no assets or liabilities at the date of deregistration.

(b) For the year ended 31 December 2014, the Group recognised an impairment loss of approximately HK$2,778,000 on the loan (included in other receivables) to an investee which was classified as available-for-sale investments (see Note 19).

## 12. LOSS FOR THE YEAR

| | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| Loss for the year has been arrived at after charging: | | |
| Included in other operating expenses: | | |
| Auditors' remuneration | **1,033** | 1,006 |
| Operating leases in respect of land and buildings | **7,762** | 8,961 |

## 13. INCOME TAX EXPENSE/CREDIT

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

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current tax | | |
| Hong Kong Profits Tax | **223** | – |
| Overprovision in respect of prior year | | |
| PRC Enterprise Income Tax | **–** | (1,249) |
| | **223** | (1,249) |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

The tax charge/credit 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:

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loss before taxation | **(8,080)** | (41,990) |
| Calculated at Hong Kong Profits Tax rate of 16.5% | **(1,333)** | (6,928) |
| Tax effect of income not taxable for tax purpose | **(1,993)** | (272) |
| Tax effect of expenses not deductible for tax purpose | **1,052** | 3,661 |
| Overprovision in respect of prior year *(Note)* | **–** | (1,249) |
| Tax effect of taxable (deductible) temporary difference not recognised | **173** | (360) |
| Utilisation of previously unrecognised tax losses | **(182)** | (302) |
| Tax effect of tax losses not recognised | **2,506** | 4,196 |
| Others | **–** | 5 |
| Tax charge (credit) for the year | **223** | (1,249) |

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

At 31 December 2014, the Group has estimated unused tax losses and taxable temporary differences of approximately HK$236,877,000 and HK$105,000 respectively (2013: HK$222,789,000 and HK$1,105,000 respectively).

## 13. INCOME TAX EXPENSE/CREDIT – continued

No deferred tax asset has been recognised as at 31 December 2014 and 31 December 2013 in respect of the estimated unused tax losses as it is uncertain whether sufficient future taxable profits including those that will arise from the reversal of existing taxable temporary differences will be available in the future to offset the amount. These taxable 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 2014 (2013: 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:

| | **2014** | 2013 |
|---|---|---|
| | ***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) | **(8,303)** | (40,741) |
| | **'000** | '000 |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of basic and diluted loss per share | **414,073** | 408,327 |

The diluted loss per share for 2014 and 2013 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 2013, 31 December 2013 and 31 December 2014 | 5,066 |
| **Amortisation** | |
| At 1 January 2013, 31 December 2013 and 31 December 2014 | 5,066 |
| **Carrying value** | |
| At 31 December 2013 and 31 December 2014 | – |

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 2013 | 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 |
| Additions | – | 64 | 129 | – | 193 |
| Written off/disposal | – | (73) | (397) | – | (470) |
| At 31 December 2014 | 3,871 | 6,333 | 8,918 | 462 | 19,584 |
| **Depreciation** | | | | | |
| At 1 January 2013 | 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 |
| Charge for the year | 610 | 230 | 701 | 93 | 1,634 |
| Written off/disposal | – | (73) | (397) | – | (470) |
| At 31 December 2014 | 3,109 | 5,794 | 7,878 | 216 | 16,997 |
| **Carrying values** | | | | | |
| At 31 December 2014 | 762 | 539 | 1,040 | 246 | 2,587 |
| At 31 December 2013 | 1,372 | 705 | 1,612 | 339 | 4,028 |

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 | $33\frac{1}{3}$% |
| Motor vehicle | 20% |

## 18. OTHER INTANGIBLE ASSETS

| | HK$'000 |
|---|---|
| **Cost** | |
| At 1 January 2013 | 2,839 |
| Disposal | (1,301) |
| At 31 December 2013 and 31 December 2014 | 1,538 |
| **Accumulated impairment** | |
| At 1 January 2013 | 1,292 |
| Disposal | (1,000) |
| At 31 December 2013 and 31 December 2014 | 292 |
| **Carrying value** | |
| At 31 December 2014 | 1,246 |
| At 31 December 2013 | 1,246 |

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 INVESTMENTS

| | HK$'000 |
|---|---|
| **Cost** | |
| At 1 January 2013 and 31 December 2013 | 500 |
| Addition | 50 |
| At 31 December 2014 | 550 |
| **Accumulated impairment** | |
| At 1 January 2013 | 391 |
| Impairment loss recognised for the year | 109 |
| At 31 December 2013 | 500 |
| Impairment loss recognised for the year | 50 |
| At 31 December 2014 | 550 |
| **Carrying value** | |
| At 31 December 2013 and 31 December 2014 | – |
| **Analysed for reporting purpose as non-current assets** | |
| At 31 December 2013 and 31 December 2014 | – |

The above investments represent investment in unlisted equity securities issued by two private entities incorporated in Hong Kong and the British Virgin Islands and their principal activities are investment holding in the PRC and operation of restaurants in Hong Kong respectively. 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.

In 2014, the Group invested in a private entity with an investment cost of HK$50,000 and granted a loan of approximately HK$2,778,000 (included in other receivables) to that entity, which is unsecured, interest-free and repayable on demand. For the year ended 31 December 2014, the Group recognised full impairment losses on such investment cost and loan amount (see Note 11) as the entity had negative operating cash flow and sustained loss during the year. As at 31 December 2014, the Group considered the loan amount may not be recoverable.

## 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 (which was adjusted to HK$0.65 per share from 23 January 2015) at any time from the day immediately following three months after the issue date up to the maturity date. As at 31 December 2014, the convertible bond had not been converted.

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.

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loan portion | | |
| Carrying amount at end of the year | **18,833** | 16,717 |
| Analysed for reporting purpose as: | | |
| Current assets | **18,833** | – |
| Non-current assets | **–** | 16,717 |
| | **18,833** | 16,717 |

## 21. DERIVATIVE FINANCIAL ASSET

### THE GROUP AND THE COMPANY

The convertible bond as disclosed in 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:

| | **31 December 2014** | 31 December 2013 |
|---|---|---|
| Spot price of the underlying share | **HK$0.226** | HK$0.61 |
| Conversion price | **HK$0.79** | HK$0.79 |
| Risk free rate | **0.061%** | 0.263% |
| Expected volatility | **56.76%** | 48.68% |

## 21. DERIVATIVE FINANCIAL ASSET – continued

Risk free rate was determined with reference to yield of 0.51 year and 1.51 years Hong Kong Exchange Fund Notes as at the valuation dates of 31 December 2014 and 31 December 2013 respectively. Expected volatility was determined by reference to the historical volatility of the share price of the comparable companies over the previous 1 year and 1.51 years respectively.

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 |
| Fair value change recognised in profit or loss | (2,570) |
| Balance at 31 December 2014 | – |

## 22. ACCOUNTS RECEIVABLE

| | **2014**<br>***HK$'000*** | 2013<br>*HK$'000* |
|---|---|---|
| Accounts receivable arising from the ordinary course of business of dealing in: | | |
| Securities transactions: | | |
| Clearing house and brokers *(Note a)* | **40,847** | 5,392 |
| Cash clients *(Note b)* | **25,420** | 61,547 |
| Margin clients *(Note c)* | **232,799** | 233,550 |
| Futures and options contracts transactions: | | |
| Clearing house | **10** | – |
| Accounts receivable arising from the ordinary course of business of provision of corporate financial advisory, placing and underwriting services *(Note d)* | **709** | 524 |
| Accounts receivable arising from the ordinary course of business of money lending services *(Note e)* | **20,170** | 60,569 |
| | **319,955** | 361,582 |

## 22. ACCOUNTS RECEIVABLE – continued

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.

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

| | Gross amounts of accounts receivable | Gross amounts of accounts payable set off in the consolidated statement of financial position | Net amounts of accounts receivable in the consolidated statement of financial position | Related amounts not set off in the consolidated statement of financial position | | Net amount |
|---|---|---|---|---|---|---|
| | | | | Financial instruments | Cash collateral received | |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **At 31 December 2014** | | | | | | |
| Accounts receivable arising from the ordinary course of business of dealing in securities transactions | **458,012** | **(158,946)** | **299,066** | **(251,151)** | **(5,650)** | **42,265** |

| | Gross amounts of accounts receivable | Gross amounts of accounts payable set off in the consolidated statement of financial position | Net amounts of accounts receivable in the consolidated statement of financial position | Related amounts not set off in the consolidated statement of financial position | | Net amount |
|---|---|---|---|---|---|---|
| | | | | Financial instruments | Cash collateral received | |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'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 |

## 22. ACCOUNTS RECEIVABLE – continued

The credit quality of accounts receivable are summarised as follows:

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Neither past due nor impaired | **317,733** | 349,250 |
| Past due but not impaired *(Note f)* | **2,222** | 12,245 |
| Impaired | **–** | 145 |
| | **319,955** | 361,640 |
| Less: Allowance for impairment *(Note g)* | **–** | (58) |
| | **319,955** | 361,582 |

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, and accounts receivable arising from the ordinary course of business of dealing in futures and options contracts transactions are one trading date 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, futures and options transactions, except for those amounts due from margin clients, the aging analysis based on the trade date is as follows:

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **64,455** | 54,611 |
| 31 – 90 days | **111** | 10,492 |
| Over 90 days | **1,711** | 1,836 |
| | **66,277** | 66,939 |

As at 31 December 2014, accounts receivable of approximately HK$720,000 (2013: HK$255,000) was due from directors of the Group and close family members of these directors in respect of transactions in securities undertaken for their accounts.

## 22. ACCOUNTS RECEIVABLE – continued

*Notes:*

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

(b) As at 31 December 2014, accounts receivable due from cash clients were secured by the clients' pledged listed securities which carried a fair value of approximately HK$299,030,000 (2013: HK$487,703,000) in relation to the receivables of approximately HK$25,420,000 (2013: HK$61,461,000) that were not impaired. As at 31 December 2014, no accounts receivable due from cash clients were impaired. As at 31 December 2013, accounts receivable of approximately HK$116,000 were impaired, which were secured by the clients' pledged listed securities with a fair value of approximately HK$78,000.

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.

(c) As at 31 December 2014, accounts receivable due from margin clients were secured by the clients' pledged listed securities which carried a fair value of approximately HK$934,088,000 (2013: HK$1,118,082,000) in relation to the receivables of approximately HK$232,799,000 (2013: HK$233,549,000) that were not impaired. As at 31 December 2014, no accounts receivable due from margin clients were impaired. As at 31 December 2013, accounts receivable of approximately HK$29,000 were impaired, which were secured by the clients' pledged listed securities with a fair value of approximately HK$1,000.

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, placing and underwriting 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:

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **309** | 524 |
| 31 – 90 days | **400** | – |
| | **709** | 524 |

(e) As at 31 December 2014, accounts receivable arising from the ordinary course of business of money lending services were secured and bear fixed-rate interest at 1.7% (2013: range of 1%-1.5%) per month. The accounts receivable as at 31 December 2014 had remaining contractual maturity date falling within one year and were secured by the corporate guarantee provided by the client's holding company. As at 31 December 2013, the accounts receivable were secured by the client's pledged non-listed debt securities or the corporate guarantee provided by the clients' holding company. The management was satisfied with the credit quality of the accounts receivable.

## 22. ACCOUNTS RECEIVABLE – continued

*Notes: – continued*

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

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 31 – 90 days | **511** | 10,495 |
| Over 90 days | **1,711** | 1,750 |
| | **2,222** | 12,245 |

As at 31 December 2014, these receivables included cash clients' receivables of approximately HK$1,822,000 (2013: HK$12,242,000). No impairment loss had been provided as the fair values of the securities collateral held by the Group for these balances were generally in excess to the relevant carrying amounts.

As at 31 December 2014, the remaining balance of accounts receivable of approximately HK$400,000 were receivables arising from the corporate financial advisory services (2013: HK$3,000 arising from the money lending services). The Group had not provided for any impairment loss as the management was satisfied with the credit quality of the clients.

(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:

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Balance at beginning of the year | **58** | 4,643 |
| Reversal of impairment loss, net | **(55)** | (2,016) |
| Amounts written off as uncollectible | **(3)** | (2,569) |
| Balance at end of the year | **–** | 58 |

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.

## 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 2014, the Group has placed a bank deposit of HK$40,000,000 (2013: HK$40,000,000) at variable market interest rate of 0.52% (2013: 0.5%) per annum to a bank to secure banking facilities of HK$80,000,000 (2013: HK$80,000,000) in short-term money market loan and current account overdraft. Bank borrowings of HK$40,000,000 was drawn down from these facilities at the end of the reporting period (2013: Nil).

**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 1.36% (2013: 0.001% to 1.24%) 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 2014, the Group maintained segregated accounts at one clearing house of approximately HK$1,661,000 (2013: HK$1,299,000) and at other authorised institutions of approximately HK$186,339,000 (2013: HK$213,833,000) 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. INVESTMENTS HELD FOR TRADING

**THE GROUP AND THE COMPANY**

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Equity securities listed in Hong Kong, at market value | **10,500** | – |

## 25. ACCOUNTS PAYABLE

| | **2014** **HK$'000** | 2013 HK$'000 |
|---|---|---|
| Accounts payable arising from the ordinary course of business of dealing in securities transactions *(Notes a and b)*: | | |
| Clearing house | **–** | 33,675 |
| Cash clients | **68,293** | 21,223 |
| Margin clients | **2,358** | 2,010 |
| | **70,651** | 56,908 |

*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 2014, accounts payable of approximately HK$440,000 (2013: HK$2,045,000) 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** *HK$'000* | **Gross amounts of accounts receivable set off in the consolidated statement of financial position** *HK$'000* | **Net amounts of accounts payable in the consolidated statement of financial position** *HK$'000* | **Related amounts not set off in the consolidated statement of financial position — Cash collateral pledged** *HK$'000* | **Net amount** *HK$'000* |
|---|---|---|---|---|---|
| **At 31 December 2014** | | | | | |
| Accounts payable arising from the ordinary course of business of dealing in securities transactions | **229,597** | **(158,946)** | **70,651** | **–** | **70,651** |

## 25. ACCOUNTS PAYABLE – continued

| | 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: Cash collateral pledged | Net amount |
|---|---|---|---|---|---|
| | *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 |

## 26. SHORT-TERM BANK BORROWINGS

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Secured | **40,000** | – |

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 as at 31 December 2014.

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

### THE GROUP AND THE COMPANY

On 2 August 2013, the Company placed and issued 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 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:

| | **31 December 2014** | 31 December 2013 |
|---|---|---|
| Spot price of the Company | **HK$1.06** | HK$1.15 |
| Risk free rate | **0.074%** | 0.273% |
| Expected volatility | **53.909%** | 46.018% |
| Dividend yield | **0%** | 0% |
| Warrant life | **0.58 year** | 1.58 years |

Risk free rate was determined with reference to yield of 0.58 year and 1.58 years Hong Kong Exchange Fund Notes as at the valuation dates of 31 December 2014 and 31 December 2013 respectively. Expected volatility was determined by using the historical volatility of the Company's share price over the previous 1 year and 1.58 years respectively.

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 |
| Fair value change recognised to profit or loss | (9,771) |
| Balance at 31 December 2014 | 9,852 |

## 28. SHARE CAPITAL

| | Authorised Ordinary shares Number of shares | Amount HK$'000 |
|---|---|---|
| At 1 January 2013 and 31 December 2013 | 10,000,000,000 | 1,000,000 |
| At 31 December 2014 | N/A *(Note)* | N/A *(Note)* |

| | THE GROUP Issued and fully paid Ordinary shares | | THE COMPANY Issued and fully paid Ordinary shares | |
|---|---|---|---|---|
| | Number of shares | Amount HK$'000 | Number of shares | Amount HK$'000 |
| At 1 January 2013 | 405,924,829 | 40,592 | 405,924,829 | 40,592 |
| Exercise of share options | 5,882,000 | 589 | 5,882,000 | 589 |
| At 31 December 2013 | 411,806,829 | 41,181 | 411,806,829 | 41,181 |
| Transfer from share premium upon abolition of par value under the new Hong Kong Companies Ordinance *(Note)* | – | 438,855 | – | 436,432 |
| Exercise of share options | 6,360,000 | 6,638 | 6,360,000 | 6,638 |
| At 31 December 2014 | 418,166,829 | 486,674 | 418,166,829 | 484,251 |

*Note:* Under the Hong Kong Companies Ordinance (Cap. 622), with effect from 3 March 2014, the concept of authorised share capital no longer exists and the Company's shares no longer have a par value. There is no impact on the number of shares in issue or the relative entitlement of any of the shareholders as a result of this transaction.

In accordance with the transitional provisions set out in section 37 of schedule 11 to Hong Kong Companies Ordinance (Cap. 622), on 3 March 2014 any amount standing to the credit of the share premium account has become part of the Company's share capital. The share premium account of the Group included an amount of HK$2,423,000 in respect of an intra-group transaction eliminated at consolidation in prior years.

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

| | THE COMPANY | |
|---|---|---|
| | **2014** | 2013 |
| | ***HK$'000*** | *HK$'000* |
| Investments at cost: | | |
| Unlisted shares | **10** | 10 |
| Capital contribution *(Note)* | **55,130** | 46,529 |
| | **55,140** | 46,539 |

*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.

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

As as 31 December 2014, the balance is the amount due from a subsidiary 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.

As at 31 December 2013, the amounts include loan to a subsidiary by the Company of 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 is the amount due from a subsidiary of approximately HK$380,558,000 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 2014, the amounts include loans to subsidiaries by the Company of HK$23,000,000 (2013: HK$60,000,000) which are unsecured, interest-bearing at Hong Kong dollars prime rate minus 2% per annum or Hong Kong dollars prime rate plus 0.25% per annum and have expiry dates falling within one year. The remaining balances 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 2014, the Company recognised an impairment loss of approximately HK$41,992,000 on amounts due from subsidiaries (2013: Nil). The impairment was made based on an assessment of the estimated future cash flows of the subsidiaries discounted at original effective interest rate.

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

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

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Balance at beginning of the year | **17,388** | 17,388 |
| Impairment loss recognised | **41,992** | – |
| Balance at end of the year | **59,380** | 17,388 |

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

As at 31 December 2014 and 31 December 2013, amounts due to subsidiaries are unsecured, interest free and repayable on demand.

The following is a list of the principal subsidiaries of the Group as at 31 December 2014 and 2013:

| Name | Place of incorporation | Principal activities and place of operation | Class of shares held/paid up issued share capital | Effective interest held | |
|---|---|---|---|---|---|
| | | | | **2014** | 2013 |
| VC Financial Group Limited [1] | British Virgin Islands | Investment holding in Hong Kong | Ordinary share/ US$1 | **100%** | 100% |
| VC Brokerage Limited [2] | Hong Kong | Provision of brokerage and securities margin financing services in Hong Kong | Ordinary shares/ HK$330,000,000 | **100%** | 100% |
| VC Futures Limited [2] | Hong Kong | Provision of futures and options contracts dealing services in Hong Kong | Ordinary shares/ HK$30,000,000 | **100%** | 100% |
| VC Capital Limited [2] | Hong Kong | Provision of corporate finance and advisory services in Hong Kong | Ordinary shares/ HK$45,000,000 | **100%** | 100% |
| VC Asset Management Limited [2] | Hong Kong | Provision of asset management services to clients in Hong Kong | Ordinary shares/ HK$28,000,000 | **100%** | 100% |

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

| Name | Place of incorporation | Principal activities and place of operation | Class of shares held/paid up issued share capital | Effective interest held 2014 | Effective interest held 2013 |
|---|---|---|---|---|---|
| VC Finance Limited [2] | Hong Kong | Money lending in Hong Kong | Ordinary shares/ HK$1,000,000 | **100%** | 100% |
| VC Services Limited [1] | Hong Kong | Provision of management services to group companies in Hong Kong | Ordinary shares/ HK$10,000 | **100%** | 100% |
| VC Research Limited [2] | Hong Kong | Provision of research services in Hong Kong | Ordinary shares/ HK$500,000 | **100%** | 100% |

1 Shares held directly by the Company.

2 Shares held indirectly by the Company.

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.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. Among which, seven subsidiaries are incorporated in Hong Kong and seven subsidiaries are incorporated in British Virgin Islands. These subsidiaries were either inactive or investment holding companies during the year.

## 30. RESERVES

### THE COMPANY

| | Share premium HK$'000 | Capital reserve HK$'000 (Note 1) | Accumulated losses HK$'000 | Share option reserve HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2013 | 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 |
| Loss for the year representing total comprehensive income for the year | – | – | (29,451) | – | (29,451) |
| Transfer upon abolition of par value under the new Hong Kong Companies Ordinance *(Note 2)* | (436,432) | – | – | – | (436,432) |
| Transfer of share option reserve upon exercise of share options | – | – | – | (1,400) | (1,400) |
| Reversal of share option reserve upon lapse of share options | – | – | 185 | (185) | – |
| At 31 December 2014 | – | 123,758 | (100,350) | 1,387 | 24,795 |

*Notes:*

(1) Pursuant to a scheme of capital reorganisation, which became effective on 28 May 2003, the High Court of Hong Kong had approved the reduction of the Company's capital and the cancellation of the Company's share premium account. The credit arising from the reduction of the share capital account and cancellation of the share premium account, after eliminated against the accumulated loss, in the aggregate amount of HK$123,758,200 was 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 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 Company has no authorised share capital and its shares have no par value from the commencement date of the new Hong Kong Companies Ordinance (i.e. 3 March 2014).

## 31. 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.

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 2014, share options to subscribe for an aggregate of 4,250,000 underlying shares were outstanding, which in total represents approximately 1.02% (2013: 2.81%) of the shares of the Company in issue. The closing price of the Company's shares immediately before 25 March 2004, 10 October 2011, 6 June 2012 and 24 September 2012 were HK$0.64, 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 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 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.

## 31. 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 2014**

| | | | Number of share options | | | | |
|---|---|---|---|---|---|---|---|
| Categories of grantees | Grant date | Exercise price per share | Balance as at 1 January 2014 | Granted during the year | Exercised during the year | Lapsed during the year | Balance as at 31 December 2014 |
| Other eligible persons | 25 March 2004 | HK$0.64 | 100,000 | – | – | (100,000) | – |
| Directors of the Company | 10 October 2011 | HK$0.794 | 2,000,000 | – | (2,000,000) | – | – |
| Employees | 10 October 2011 | HK$0.794 | 3,740,000 | – | (3,360,000) | (380,000) | – |
| Other eligible persons | 10 October 2011 | HK$0.794 | 1,000,000 | – | (500,000) | (500,000) | – |
| | | | 6,740,000 | – | (5,860,000) | (880,000) | – |
| Directors of the Company | 6 June 2012 | HK$1.04 | 500,000 | – | – | – | 500,000 |
| Directors of the Company | 24 September 2012 | HK$1.17 | 3,250,000 | – | (500,000) | – | 2,750,000 |
| Employees | 24 September 2012 | HK$1.17 | 1,000,000 | – | – | – | 1,000,000 |
| | | | 4,250,000 | – | (500,000) | – | 3,750,000 |
| Total | | | 11,590,000 | – | (6,360,000) | (980,000) | 4,250,000 |
| Exercisable as at 31 December 2014 | | | | | | | 4,250,000 |
| Weighted average exercise price | | | HK$0.94 | – | HK$0.82 | HK$0.78 | HK$1.15 |

## 31. SHARE OPTIONS AND SHARE AWARDS – continued

### Share option schemes – continued

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 2014, the weighted average share price of the Company when the share options were exercised was HK$1.25 (2013: HK$1.22).

The Group did not recognise any expenses for the years ended 31 December 2014 and 2013 in relation to share options granted under the Schemes.

## 31. 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 2014 and 2013, there was no movement or outstanding awarded shares under the Share Purchase Scheme.

## 32. FINANCIAL GUARANTEE

As disclosed in Note 6, as at 31 December 2014, 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 (2013: HK$130 million). As at 31 December 2014, HK$40 million banking facilities was utilised by VC Brokerage Limited (2013: Nil). The fair value of the financial guarantee contracts is immaterial.

## 33. COMMITMENTS

### (a) Capital commitments

As at 31 December 2014, the Group has made commitments contracted but not provided for in respect of purchase of property and equipment for an amount of approximately HK$133,000 (2013: Nil).

As at 31 December 2014 and 31 December 2013, 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 2014 and 31 December 2013, 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:

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **7,791** | 7,547 |
| In the second to fifth years inclusive | **1,984** | 9,391 |
| | **9,775** | 16,938 |

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 (2013: 0.5 to 3 years).

As at 31 December 2014 and 31 December 2013, the Company did not have any operating lease commitments.

## 34. RELATED PARTY TRANSACTIONS

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

| | 2014 | 2013 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Brokerage commission income/interest income earned from certain directors of the Group or close family members of the directors | **232** | 348 |

The balances with related parties are set out on the statement of financial position of the Company and in Notes 22, 25 and 29.

**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:

| | 2014 | 2013 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Short term benefits | **13,413** | 16,673 |
| Post employment benefits | **117** | 111 |
| Reversal of other long-term benefits | **(6)** | (7) |
| | **13,524** | 16,777 |

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

## 35. EVENT AFTER THE REPORTING PERIOD

On 18 December 2014, the Company entered into a placing agreement with a placing agent whereby the Company agreed to place, through the placing agent, on a best effort basis, up to an aggregate of 82,600,000 new shares to not less than six placees at a price of HK$0.98 per placing share, which represented approximately 19.75% of the aggregated number of the issued ordinary shares of the Company as at 31 December 2014; and approximately 16.49% of the aggregated number of the issued ordinary shares of the Company as enlarged by the issue of the 82,600,000 placing shares. The placement had been completed on 21 January 2015 and a total of 82,600,000 new shares were issued providing the aggregate gross proceeds of approximately HK$80.9 million to the Company. The Company intends to use the net proceeds of approximately HK$79.7 million from the placing for (i) general working capital of the Group; (ii) expanding the margin financing and money lending business; and (iii) possible investment in the future when opportunities arise.

# 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 | | | | |
|---|---|---|---|---|---|
| | **2014** | 2013 | 2012 | 2011 | 2010 |
| **Consolidated results** | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue | **78,154** | 74,382 | 65,172 | 92,865 | 115,629 |
| Other income | **4,109** | 2,750 | 2,104 | 608 | 463 |
| Staff costs | **(60,201)** | (65,469) | (67,098) | (80,466) | (83,156) |
| Commission expenses | **(4,665)** | (4,605) | (4,287) | (3,668) | (6,257) |
| Depreciation of property and equipment | **(1,634)** | (1,326) | (1,576) | (1,960) | (2,063) |
| Amortisation of trading rights | **–** | – | – | – | (252) |
| Finance costs | **(726)** | (921) | (896) | (856) | (1,107) |
| Other operating expenses | **(27,379)** | (28,736) | (27,689) | (27,788) | (28,693) |
| Other gains and losses | **4,262** | (18,065) | (2,084) | (5,429) | (79,834) |
| Loss before taxation | **(8,080)** | (41,990) | (36,354) | (26,694) | (85,270) |
| Income tax (expense) credit | **(223)** | 1,249 | (1,216) | (550) | (3,666) |
| Loss for the year | **(8,303)** | (40,741) | (37,570) | (27,244) | (88,936) |
| Other comprehensive income | | | | | |
| Items that may be reclassified subsequently to profit or loss | | | | | |
| Exchange differences arising on translation of foreign operations | **(1)** | (24) | (2) | 13 | (88) |
| Reclassification adjustment for exchange reserve realised on deregistration of a subsidiary | **956** | – | – | – | – |
| Other comprehensive income for the year | **955** | (24) | (2) | 13 | (88) |
| Total comprehensive income for the year | **(7,348)** | (40,765) | (37,572) | (27,231) | (89,024) |
| Loss for the year attributable to: | | | | | |
| Owners of the Company | **(8,303)** | (40,741) | (37,243) | (26,660) | (87,985) |
| Non-controlling interests | **–** | – | (327) | (584) | (951) |
| | **(8,303)** | (40,741) | (37,570) | (27,244) | (88,936) |
| Total comprehensive income for the year attributable to: | | | | | |
| Owners of the Company | **(7,348)** | (40,765) | (37,245) | (26,647) | (88,073) |
| Non-controlling interests | **–** | – | (327) | (584) | (951) |
| | **(7,348)** | (40,765) | (37,572) | (27,231) | (89,024) |
| Loss per share (HK cents) | | | | | |
| Basic | **(2.01)** | (9.98) | (9.21) | (6.67) | (22.47) |
| Diluted | **(2.01)** | (9.98) | (9.21) | (6.67) | (22.47) |

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2014** | 2013 | 2012 | 2011 | 2010 |
| **Consolidated assets and liabilities** | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Total assets | **631,858** | 590,423 | 629,823 | 635,913 | 710,234 |
| Total liabilities | **(130,614)** | (87,069) | (90,903) | (66,005) | (120,592) |
| | **501,244** | 503,354 | 538,920 | 569,908 | 589,642 |
| Equity attributable to owners of the Company | **501,244** | 503,354 | 538,920 | 568,729 | 588,100 |
| Non-controlling interests | **–** | – | – | 1,179 | 1,542 |
| | **501,244** | 503,354 | 538,920 | 569,908 | 589,642 |