



VC GROUP
滙盈集團

Value Convergence Holdings Limited

A Hong Kong listed company with stock code: 821

www.vcgroup.com.hk

Delivering **Value**
Through **Excellence**



Annual Report **2017**

Corporate Information

Executive Directors

Mr. FU Yiu Man (*Chairman*)
Mr. ZHOU, Francis Bingrong (*Vice Chairman*)
Mr. TIN Ka Pak, Timmy (*Chief Executive Officer*)
Mr. LIN Hoi Kwong, Aristo
Mr. XIE Jintai
Ms. SHEN Li

Independent Non-executive Directors

Mr. WONG Chung Kin, Quentin
Mr. WONG Kam Choi, Kerry, MH
Mr. SIU Miu Man, Simon

Executive Committee

Mr. TIN Ka Pak, Timmy (*Chairman*)
Mr. FU Yiu Man
Mr. ZHOU, Francis Bingrong
Mr. LIN Hoi Kwong, Aristo
Ms. SHEN Li
Ms. FUNG Wai Har, Amanda^Δ
Mr. WONG Man Hin, Charles^Δ

Audit Committee

Mr. WONG Chung Kin, Quentin (*Chairman*)
Mr. WONG Kam Choi, Kerry, MH
Mr. SIU Miu Man, Simon

Remuneration Committee

Mr. WONG Kam Choi, Kerry, MH (*Chairman*)
Mr. WONG Chung Kin, Quentin
Mr. SIU Miu Man, Simon

Nomination Committee

Mr. SIU Miu Man, Simon (*Chairman*)
Mr. WONG Chung Kin, Quentin
Mr. WONG Kam Choi, Kerry, MH

^Δ Non-voting co-opted member

Authorised Representatives

Mr. TIN Ka Pak, Timmy
Ms. WONG Yee Wah, Daphne

Joint Company Secretaries

Ms. WONG Yee Wah, Daphne
Ms. CHU Hop Ping

Registered Office/Principal Place of Business

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

Auditor

Deloitte Touche Tohmatsu

Principal Bankers

Standard Chartered Bank (Hong Kong) Limited
Hang Seng Bank Limited
Bank of China (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>

CONTENTS

| | <i>PAGE(S)</i> |
|-------------------------------------------------------------------------|----------------|
| Chairman's Statement | 2 |
| Management Discussion and Analysis | 4 |
| Biographical Details of Directors and Senior Management | 18 |
| Corporate Governance Report | 22 |
| Directors' Report | 35 |
| Independent Auditor's Report | 55 |
| Consolidated Statement of Profit or Loss and Other Comprehensive Income | 60 |
| Consolidated Statement of Financial Position | 61 |
| Consolidated Statement of Changes in Equity | 62 |
| Consolidated Statement of Cash Flows | 63 |
| Notes to the Consolidated Financial Statements | 65 |
| Five Years' Financial Summary | 125 |



The background features a large orange hexagon in the center containing the text 'CHAIRMAN'S STATEMENT'. To the left, there is a stack of gold and silver coins. To the right, there is a golden hexagon with a grid pattern. The overall design is modern and professional, with a light blue and white background.

CHAIRMAN'S STATEMENT

The local stock market rallied in 2017. Thanks to both the global and Mainland economic growth throughout 2017. Global investors reacted positively to the improving global outlook despite the interest rate normalisation in the US and various policy and political uncertainties in the US and Europe. The Mainland economy had also performed promising in 2017, boosted by an improved outlook for global growth and demand for Chinese goods and services. The continuation of the internationalization of the RMB, the “going-out” of Mainland, as well as the Belt and Road Initiative have brought forth extensive investment opportunities. It is expected that the local growth momentum will be continued in 2018.

Although the financial-oriented business makes the Group particularly sensitive to fluctuating economic conditions and investors' sentiments, our fundamental strategy is firmly anchored and our core focus remains on developing and fortifying the Group's core businesses in (i) provision of financing services including brokerage and financing services, corporate finance and other advisory services, and asset management; and (ii) proprietary trading. The Group's business strategies continue to include enlarging the Group's revenue base through fostering its core businesses, and tapping into new emerging markets with expanded business initiatives. Indeed, the Group is committed to achieving long-term and balanced growth on the basis of solid financial capability and a pragmatic operating strategy, which help capitalizing on any growth opportunities and thereon enhance our shareholders' value.

While the Group is still waiting for the approval and authorisation from the relevant regulatory authorities in relation to the establishment of the joint venture securities company in Guangxi, The People's Republic of China (the “PRC”), which is expected to become a full-licensed securities company permitted to provide securities brokerage, trading and investment advisory, underwriting, sponsorship and asset management services in the PRC, the Group continues to explore other business and investment opportunities.

CHAIRMAN'S STATEMENT

During the year of 2017, the Company entered into a legally binding memorandum of understanding with an independent third party in relation to the proposed formation of a joint venture company to act as a sponsor to a limited partnership fund which will focus on infrastructure projects. Meanwhile, the Company acquired from a private company a 3-year two per cent. unsecured redeemable convertible bonds in the principal amount of HK\$153,585,000 issued by China Fortune Financial Group Limited (Stock Code: 290). The Board of the Company believes those corporate actions represent suitable investment opportunities for the Group and are expected to broaden the income stream of the Group.

The Group's financial position had continuously been strengthened in 2017, in which a total net cash proceeds of approximately HK\$117.1 million was received through the placement of 132 million new shares of the Company to certain placees who are independent parties. The increase of financial resources definitely not only helps the Group to reinforce and expand the existing core businesses, but also broadens the Group's shareholders' portfolio and enhances the Group's flexibility in future business developments or investments as and when opportunities arise. I believe that with a sound financial base, the Group is in a better position to seize any opportunities that to deliver greater returns for our shareholders.

Looking ahead, the Group's operating environment is expected to remain challenging in 2018. It is expected that global stock markets will still be influenced by various uncertain economic and political factors. Nevertheless, our strategies remain unchanged - enlarge our revenue base by strengthening the existing core businesses, tap into new emerging markets with expanded business initiatives and explore business opportunities in the PRC. 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.

In closing, on behalf of my fellow Directors, I wish to express our sincere appreciation and wholehearted gratitude to the management team and all staff of the Group for their professional dedication, hard work, commitment and contributions throughout the year. I would also like to extend our sincere thanks to our shareholders and stakeholders for their confidence and continuous support to the Group throughout the year. We will continue to put efforts in creating greater value for our shareholders and investors.

Fu Yiu Man

Chairman & Executive Director

Hong Kong
27 March 2018



MANAGEMENT DISCUSSION AND ANALYSIS

VC 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 (i) provision of financial services comprising securities, futures and options brokering and dealing, financing services, corporate finance and other advisory services, and asset management; and (ii) proprietary trading.

BUSINESS REVIEW

Hong Kong as an international financial center was inevitably affected by the continual uncertainties and challenges in the global economy. In 2017, the global investors reacted positively to the improving global and the Mainland economic outlook. Though the downturn in the local capital market continued in January 2017, the local investors' sentiment had improved subsequently and the local stock market experienced steady growth throughout the year. This was fully reflected in the movements of the local stock market's average daily trading turnover, market capitalization and other various key market indices in 2017.

Management Discussion and Analysis

The local stock market remained sluggish in January 2017 in which the average daily trading turnover was down to approximately HK\$57.2 billion. It had grown more vibrant thereafter. The average daily trading turnover in the second half of 2017 had reached approximately HK\$100.1 billion, representing an increase of about 32% as compared to that of the first half of 2017. Overall, the local stock market's average daily trading turnover had improved with approximately HK\$88.2 billion in 2017 as compared to approximately HK\$66.9 billion for the same period in 2016, representing an increase of about 32%. Meanwhile, the total market capitalization recorded approximately HK\$33,998.8 billion at the end of 2017, representing an increase of about 37% as compared with the end of 2016. Further, the Hang Seng Index (the "HSI") also gradually grew up and recorded an increase of about 36% in 2017, in which the HSI closed at 29,919 at the end of 2017. As the local market sentiments improved, fund raising activities also increased. The local fund raised amount was approximately HK\$579.9 billion in 2017, which was about 18% higher than that of the same period in 2016.

As a financial services provider, the business performance of the Group is certainly impacted by both the global and local economic and market conditions. Nevertheless, the Group always thrived on its solid financial standing and its various investment services and products offered to our clients. All of these consolidated the Group as a competitive player in the financial industry. While the financial-oriented business makes the Group particularly sensitive to fluctuating economic conditions and investors' sentiments, our fundamental strategy is firmly anchored and our core focus remains on developing and fortifying the Group's core businesses in provision of financial services including (i) securities, futures and options brokering and dealing, and financing services (including local and overseas securities dealing, futures and options trading, derivatives and other structured products trading, placement and underwriting, margin financing and money lending, etc.); (ii) corporate finance and other advisory services (including mergers and acquisitions and company secretarial services to clients, etc.); and (iii) asset management; and proprietary trading. Indeed, the Group is committed to achieving long-term and balanced growth on the basis of solid financial capability and a pragmatic operating strategy, which help capitalizing on any growth opportunities and thereon enhance our shareholders' value.

In July 2016, the Company announced that VC Brokerage Limited ("VC Brokerage"), an indirectly wholly owned subsidiary of the Company, entered into a joint venture agreement (the "Joint Venture Agreement") with three independent third parties to establish a joint venture securities company in Guangxi, the PRC (the "PRC JV Company"). Subject to the approval by China Securities Regulatory Commission (the "CSRC"), the PRC JV Company is expected to be a full-licensed securities company permitted to provide securities brokerage, trading and investment advisory, underwriting, sponsorship and asset management services in the PRC. Pursuant to the Joint Venture Agreement, VC Brokerage will contribute RMB445 million (equivalent to approximately HK\$525 million), representing 44.5% shareholding in the PRC JV Company.

The Company will finance the investment in the PRC JV Company by placing of convertible bonds in the aggregate principal amount of up to HK\$850 million (the "Convertible Bonds") at an initial conversion price of HK\$0.65 each pursuant to a placing agreement entered into at the same time. The aggregate net proceeds from placing of the Convertible Bonds will be approximately HK\$829 million, which is intended to use for capital contribution to the PRC JV Company and the remaining balance is intended to use for expanding the Group's existing businesses and other possible investments in the future, when opportunities arise. This investment definitely not only strengthen the Group's financial position and prospects, but provide a stepping stone to the Group for entering into and developing of the PRC market.

Management Discussion and Analysis

As at the date of this Annual Report, the Company and VC Brokerage have not yet obtained the approval and authorisation from the CSRC for establishment of the PRC JV Company. Details of the transaction please refer to the Company's announcements dated 24 July 2016, 20 September 2016, 26 October 2016, 18 November 2016, 17 January 2017, 29 March 2017, 28 June 2017, 20 September 2017, 12 October 2017, 12 January 2018 and 27 March 2018; and the Company's circulars dated 26 September 2016, 27 February 2017, 22 September 2017 and 23 February 2018.

During the year ended 31 December 2017, the following corporate actions had been taken by the Company with an aim to strengthen the Group's financial position and prospects, hence, enhance the shareholders' value:

- (i) On 28 July 2017, the Company entered into a placing agreement with VC Brokerage as the placing agent regarding the placement of, on a best effort basis, up to an aggregate of 132 million new shares of the Company (the "Placing Share(s)") to not less than six independent parties at a placing price of HK\$0.91 per Placing Share. The placing price represented a discount of about 19.47% to the closing market price of the Company's shares as quoted on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 July 2017, i.e. date of the placing agreement. The placement was completed on 18 August 2017 and a total of 132 million Placing Shares were issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 25 May 2017. The net proceeds from the placement amounted to approximately HK\$117.1 million and the net placing price per Placing Share was approximately HK\$0.887. The 132 million Placing Shares rank pari passu with other shares of the Company in issue in all respects.

The Company intends to use the net proceeds from the placement for (a) the general working capital of the Group; (b) expanding the Group's proprietary trading, brokerage and financing and corporate finance businesses; and (c) possible investment(s) in the future when opportunities arise. The Directors are of the view that the placement not only broadens the shareholders' portfolio, but also strengthens the financial position of the Group. Details of the placement had been disclosed in the Company's announcements dated 28 July 2017, 4 August 2017 and 18 August 2017.

- (ii) On 22 September 2017, the Company entered into a legally binding memorandum of understanding (the "MOU") with an independent third party (the "Party") in relation to the proposed formation of a joint venture company (the "JV Company") to act as a sponsor to a limited partnership fund (the "Fund") which will focus on infrastructure projects (the "Proposed Joint Venture"). The MOU is subject to the parties entering into formal agreements to set out the definitive terms of the Proposed Joint Venture (the "Definitive Agreements"). The Company shall have the right to acquire no less than 5% of the entire issued share capital of the JV Company. The initial cost required for the setting up of the JV Company and the Fund (the "Organisation Expenses") shall be borne equally between the Company and the Party, provided that in any event, the Company's provision of the initial cost shall be limited to HK\$7.5 million. As at 31 December 2017, the Company paid an amount of HK\$5 million for the Organisation Expenses. Details of the transaction had been disclosed in the Company's announcement dated 22 September 2017.

Management Discussion and Analysis

- (iii) On 18 October 2017, the Company entered into a sale and purchase agreement (the “Sale and Purchase Agreement”) with Pacific Alliance Limited (“PAL”) as vendor, pursuant to which the Company agreed to purchase, and PAL agreed to sell, the 3-year two per cent. unsecured redeemable convertible bonds in the principal amount of HK\$153,585,000 issued by China Fortune Financial Group Limited (“China Fortune”, Stock Code: 290) on 30 March 2017 (the “China Fortune Convertible Bonds”) for an aggregate consideration of HK\$400,000,000 (the “Acquisition”). The consideration of HK\$40,000,000 will be satisfied in cash and the balance of the consideration of HK\$360,000,000 will be satisfied by way of issue of the convertible bonds by the Company (the “VC Convertible Bonds”) at the completion date of the Acquisition. The China Fortune Convertible Bonds are convertible into 2,559,750,000 conversion shares at the initial conversion price of HK\$0.06 per conversion share (subject to adjustments), which representing approximately 26.54% of the enlarged issued share capital of China Fortune as at the date of this Annual Report. The VC Convertible Bonds is a 3-year zero interest unsecured redeemable convertible bonds in the principal amount of HK\$360,000,000, which are convertible into 288,000,000 conversion shares at the initial conversion price of HK\$1.25 per conversion share (subject to adjustments), which representing approximately 26.60% of the enlarged issued share capital of the Company as at the date of this Annual Report.

One of the Group’s principal businesses is proprietary trading including the trading of equity securities. Taking an optimistic view of the prospect of the financial services industry in Hong Kong and the PRC, the Group intends to hold the China Fortune Convertible Bonds for trading purposes with a view to achieve capital gains through disposal of the China Fortune Convertible Bonds or the conversion shares of the China Fortune Convertible Bonds. The transaction had been approved by the shareholders of the Company during the extraordinary general meeting held on 27 December 2017 and completed on 8 January 2018. Details of the transaction had been disclosed in the Company’s announcements dated 18 October 2017, 27 December 2017 and 8 January 2018; and the Company’s circular dated 7 December 2017.

Details of the Group’s business performance of each operating segment for the year ended 31 December 2017, together with the comparative figures of the corresponding period in 2016, are given in the section “FINANCIAL REVIEW” below.

OUTLOOK

Looking ahead, the Group’s operating environment looks promising in 2018. It is expected that the positive market sentiments of the local stock market will persist as both the global and Mainland economic growth are optimistic about the year ahead. However, investors are reminded to watch the capital market closely and avoid taking excessive risks. The global stock markets would still be influenced by various uncertain economic and political factors such as the US interest rate normalisation, negotiation process for the British’s formal exit from the European Union and possible US and European policy changes. Given Hong Kong economy is highly external-oriented, it certainly cannot escape the global economic volatility.

Management Discussion and Analysis

In Hong Kong, the Stock Connect, a unique collaboration between the Hong Kong, Shanghai and Shenzhen Stock Exchanges which allows international and Mainland Chinese investors to trade securities in each other's markets, continued to gather momentum in 2017 with the increased fund flows and trading volume. In addition, the Northbound trading services for the Bond Connect had also been commenced in July 2017, which allows investors from the Mainland China and overseas to trade in each other's bond markets through connection between the related Mainland and Hong Kong financial infrastructure institutions. With these new trading platforms, it is vital to the local financial market infrastructure and strategy for the long term.

Further, the Investment Agreement and Agreement on Economic and Technical Cooperation signed between Hong Kong and the Ministry of Commerce under the framework of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) on 28 June 2017 has been implemented on 1 January 2018. The arrangement for advancing Hong Kong's full participation in and contribution to the Belt and Road Initiative has been signed on 14 December 2017 between Hong Kong and The National Development and Reform Commission, which focus on six particular areas – finance and investment; infrastructure and maritime services; economic and trade facilitation; establishing closer links with groups and individuals along the Belt and Road Initiative routes; advancing the Guangdong-Hong Kong-Macau Bay Area Development project; and heightened collaboration with regard to project interfacing and dispute resolution. All these new arrangements will certainly bring positive impact and help to boost the growth of the local financial market in the foreseeable future.

Our business strategies continue to 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. The Group will continue to explore the business opportunities in the PRC market. At the same time, the Group also keeps a firm grasp on the business opportunities with comparably positive growth and return in the local financial market and more resources will then be devoted.

LONG-TERM BUSINESS STRATEGY

The Group's core businesses remain competitive with a focus on provision of financial services and proprietary trading.

Throughout 2017, 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 the investors and shareholders.

FINANCIAL REVIEW

For the year ended 31 December 2017, the Group's consolidated revenue was approximately HK\$53.7 million, which decreased by about 5% as compared with the same period in 2016. The Group recorded a consolidated loss attributable to shareholders amounted to approximately HK\$67.5 million for the year ended 31 December 2017 against a loss of approximately HK\$56.7 million for the same period in 2016, representing an increase of about 19%.

Management Discussion and Analysis

The increase in the Group's consolidated loss attributable to shareholders in 2017 was mainly attributable to the increase in net loss from the Group's proprietary trading business as a result of the recognition of the net loss of approximately HK\$10.8 million from the financial assets held for trading in 2017 as compared with the net gain of approximately HK\$42.9 million for the same period in 2016, which had been partially set-off by the increase in net profit from the Group's brokerage and financing businesses as a result of the significant decrease in recognition of the impairment loss on the client receivables of approximately HK\$32.2 million in 2017 as compared to that of 2016, and the absence of the recognition of the equity-settled share option expense of approximately HK\$20.6 million for the share options granted by the Company in 2016.

To facilitate the review, the Group's revenue and segment information shown in Note 5 to the consolidated financial statements is reproduced below after some re-arrangements:

Revenue Analysis

| | 2017 | | 2016 | | Increase (decrease) % |
|--------------------------------------------------------------------------|-----------------------------------------------|-------------|-----------------------------------------------|------|-----------------------------|
| | Proportion of total revenue HK\$'000 | % | Proportion of total revenue HK\$'000 | % | |
| Revenue from: | | | | | |
| Brokerage and Financing | 46,721 | 87% | 49,333 | 87% | (5%) |
| Brokerage commission and other related fees | 21,388 | 40% | 20,754 | 37% | 3% |
| Underwriting, sub-underwriting, placing and sub-placing commission | 311 | 1% | 4,654 | 8% | (93%) |
| Interest income from brokerage clients | 11,835 | 22% | 18,775 | 33% | (37%) |
| Interest income from money lending clients | 7,549 | 14% | 3,650 | 6% | 107% |
| Other fees | 5,638 | 10% | 1,500 | 3% | 276% |
| Corporate Finance and Other Advisory Services | 6,865 | 13% | 5,997 | 11% | 14% |
| Asset Management | – | – | – | – | – |
| Proprietary Trading | 99 | 0% | 953 | 2% | (90%) |
| Total revenue | 53,685 | 100% | 56,283 | 100% | (5%) |

Management Discussion and Analysis

Segment Analysis

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---------------------------------------------------------------------------------------------|--------------------------------|------------------|
| Segment results: | | |
| Brokerage and Financing | 9,981 | (32,933) |
| Corporate Finance and Other Advisory Services | (5,115) | (5,011) |
| Asset Management | (1,799) | (2,150) |
| Proprietary Trading | (23,956) | 40,257 |
| Group segment (loss) profit | (20,889) | 163 |
| Fair value change on financial assets designated as at fair value through profit or loss | 14,855 | 13,460 |
| Compensation income arising from profit guarantee | 978 | – |
| Central administrative costs | (61,722) | (70,358) |
| Loss before taxation | (66,778) | (56,735) |
| Income tax (expense) credit | (698) | 19 |
| Loss for the year attributable to shareholders of the Company | (67,476) | (56,716) |

Brokerage and Financing

During the year ended 31 December 2017, the Company, through its indirect wholly owned subsidiaries, namely, VC Brokerage 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 (“VC Finance”), provides money lending services in Hong Kong. For the year ended 31 December 2017, the brokerage and financing businesses recorded total revenue of approximately HK\$46.7 million as compared with approximately HK\$49.3 million for the same period last year, representing a slight decrease of about 5%, and accounted for about 87% of the Group’s total revenue.

The Group’s one of the major revenue streams, namely, brokerage commission and other related fees from dealing in securities, futures and options contracts for the year ended 31 December 2017 amounted to approximately HK\$21.4 million, which was about 3% slightly higher than that of 2016, and accounted for about 40% of the Group’s total revenue. The Group’s brokerage transactions registered growth throughout 2017 with average daily trading turnover increasing by about 12% as compared to that of 2016, which was in line with the local market conditions. Together with other fees, mainly the arrangement and referral fees of approximately HK\$5.6 million for the year ended 31 December 2017 as compared to approximately HK\$1.5 million in 2016, the revenue from these brokerage businesses recorded an increase of about 21% as compared to the same period last year.

Management Discussion and Analysis

Meanwhile, the Group's total interest income from financing for the year ended 31 December 2017 decreased by about 14% to approximately HK\$19.4 million from approximately HK\$22.4 million for the same period last year, and accounted for about 36% of the Group's total revenue. The revenue included the interest income derived from both the brokerage business and the money lending business. Among these, the Group's interest income from our brokerage clients recorded approximately HK\$11.8 million for the year ended 31 December 2017, representing a drop of about 37% as compared with the same period last year. The drop was mainly attributable to the decrease of average loan portfolio of our brokerage clients by about 31% for the year ended 31 December 2017 as compared with the same period last year. Nevertheless, among various client receivables, the aggregate initial public offering subscription financings provided to our clients registered significant growth of almost 5 times in 2017 as compared to that of 2016, though the net interest income derived is thin.

As abovementioned, the Group also provides money lending services to our clients. This aims at broadening our revenue base and also offering our clients with more financial flexibility to meet their personal and business needs. The Group's interest income generated from the money lending services was approximately HK\$7.5 million for the year ended 31 December 2017, representing an increase of about 107% as compared with the same period last year. The increase was mainly contributed by the increase of average loan portfolio of the money lending business by about 2.6 times in 2017 as compared with the same period last year.

The Group has put efforts on implementing our credit control policies and procedures to review our clients' creditworthiness and credit limits from time to time so as to minimize our credit risk exposure. The Group's credit control policies and procedures are principally based on the doubtful unsecured exposure having assessed the fair value of the clients' collaterals held, the evaluation of collectability and aging analysis of the client accounts. As the local economy is volatile from time to time, the Group always takes a cautious approach in provision of the financing services. For the year ended 31 December 2017, there was an additional impairment loss of approximately HK\$0.5 million on client receivables from the brokerage and financing businesses (2016: HK\$32.7 million) in accordance with the Group's credit control policies and procedures. The Group has taken the effort and all necessary legal actions against the relevant clients to follow up the settlement of the outstanding loans. Details of the impairment loss on the client receivables had been disclosed in Note 19 to the consolidated financial statements.

Meanwhile, the Group offers placing and underwriting services to our clients, and acts as placing agent and underwriter for Hong Kong listed companies' fund raising activities. For the year ended 31 December 2017, the Group's placing and underwriting commission was approximately HK\$0.3 million as compared with approximately HK\$4.7 million for the same period last year. The Group will continue to put efforts to capture the opportunities towards the local initial public offerings and other fund raising exercises.

Overall, the brokerage and financing businesses generated an operating profit after tax of approximately HK\$9.7 million for the year ended 31 December 2017 against a loss of approximately HK\$32.9 million for the same period last year. The significant improvement in operating performance in 2017 was mainly due to the decrease in recognition of impairment loss on the client receivables of approximately HK\$32.2 million in 2017 as compared to that of 2016.

Management Discussion and Analysis

Corporate Finance and Other Advisory Services

The Company through its indirect wholly owned subsidiary, VC Capital Limited (“VC Capital”), provides corporate finance advisory services to its clients. In 2017, VC Capital was appointed as the financial adviser of several Hong Kong listed companies for a number of corporate transactions.

Further, from the fourth quarter of 2017, the Company through its indirect wholly owned subsidiary, VC Corporate Services Limited, provides corporate services, including company secretarial services, registered office and business services, etc., to listed and private companies. It is expected that the expansion of the Group’s advisory services will broaden our revenue and clients’ base in the long term.

Overall, the operating performance of the corporate finance and other advisory services business for the year ended 31 December 2017 was close to that of the same period last year, which recorded revenue and operating loss after tax of approximately HK\$6.9 million and HK\$5.1 million as compared with approximately HK\$6 million and HK\$5 million for the same period last year respectively.

Asset Management

For the year ended 31 December 2017, the Company’s asset management business, through its indirect wholly owned subsidiary, VC Asset Management Limited, recorded an operating loss after tax of approximately HK\$1.8 million as compared with a loss of approximately HK\$2.2 million for the same period last year, which mainly included the general operating expenses such as staff costs and professional costs.

The Group continues to pursue new business opportunities and resources to develop its asset management business so as to enhance our products and services offerings to cater for the diverse and growing needs of our clients. In the past few years, the local capital market was volatile and full of uncertainties, which made the development of our asset management business still difficult. Nevertheless, the Group has continued to put efforts in approaching the potential clients so as to gain understanding of their needs, establish long-term business relationship with them and finally provide the personalized investment and wealth management services which can create greater value to them. In 2017, there was some progress in pursuit of new clients for the Group’s asset management business.

Proprietary Trading

As at 31 December 2017, the Group held equity securities listed in Hong Kong of approximately HK\$272.7 million (31 December 2016: HK\$257.4 million) as financial assets held for trading, which was stated at market value. The fair value of these listed equity securities represents about 32% of the Group’s total assets as at 31 December 2017 (31 December 2016: 33%). The Group started to devote more resources for proprietary trading business from the second half of 2016 so as to capture opportunities arising from improving market sentiments and considered it as one of the Group’s core businesses thereafter.

Management Discussion and Analysis

The Group invests mainly through purchases in the secondary market. The management follows strictly the internal securities investment policy and seeks the approval from the Board, when necessary, so as to enhance the financial returns to the shareholders and limit the risk exposure associated therewith. During the year ended 31 December 2017, there was net additional purchase in securities investment of approximately HK\$25.6 million (2016: HK\$212.1 million).

For the year ended 31 December 2017, the Group recorded a revenue of approximately HK\$99,000 from the proprietary trading business, which was mainly the dividend income received on the trading investments (2016: HK\$1 million). Meanwhile, the Group recognised a net loss of approximately HK\$10.8 million (including a realised loss of approximately HK\$0.7 million and an unrealised loss of approximately HK\$10.1 million) on the trading investments for the year ended 31 December 2017 as compared with a net gain of approximately HK\$42.9 million (including a realised gain of approximately HK\$22.8 million and an unrealised gain of approximately HK\$20.1 million) for the same period in 2016.

Overall, the Group's proprietary trading business recorded an operating loss after tax of approximately HK\$24.3 million for the year ended 31 December 2017 against a profit of approximately HK\$40.3 million for the same period last year.

Financial assets designated as at fair value through profit or loss

Century Race Investments Limited ("Century Race"), an indirect wholly owned subsidiary of the Company, acquired 10.5% equity interest of IBO Technology Company Limited ("IBO Tech") (formerly known as "China Security Control Company Limited") at a cash consideration of HK\$35 million in 2016. On 28 December 2017, IBO Tech (stock code: 2708) has been listed on the Main Board of the Stock Exchange and the Company's shareholding in IBO Tech was then diluted to 7.875% as at 31 December 2017. Century Race has undertaken not to dispose of or otherwise encumber any of its interest in IBO Tech up to the date falling on the expiration of 6 months of the listing (both days inclusive).

The fair value of the Group's investment in IBO Tech as at 31 December 2017 was approximately HK\$63.3 million based on the quoted market price available on the Stock Exchange (31 December 2016: HK\$48.5 million with reference to the recent and similar transaction executed in late December 2016). As such, there was an increase in the fair value of approximately HK\$14.9 million during the year ended 31 December 2017 (2016: HK\$13.5 million). The fair value of these listed equity securities represented about 7% of the Group's total assets as at 31 December 2017 (31 December 2016: unlisted equity securities of 6%).

Further, Century Race was guaranteed that IBO Tech's net profit after tax for the year ended 31 March 2017 shall not be less than RMB37.5 million (the "Guaranteed Amount"). In the event that IBO Tech's net profit after tax falls below the Guaranteed Amount, the sellers of IBO Tech (the "Sellers") shall compensate Century Race by proportion to the percentage of shareholding interest in cash. Based on the audited financial information of IBO Tech for the year ended 31 March 2017, it was noted that IBO Tech's audited net profit after tax was less than RMB37.5 million and was unable to meet its profit guarantee for the year ended 31 March 2017. As such, compensation in cash for an amount of approximately RMB846,000 (equivalent to approximately HK\$978,000) by the Sellers to Century Race was required and recognised as compensation income arising from profit guarantee and included in the Group's other gains and losses in 2017. Besides, upon the listing of IBO Tech, all the rights granted by the Sellers to Century Race have been terminated and ceased to be effective. Details had been disclosed in Note 17 to the consolidated financial statements.

Management Discussion and Analysis

Central administrative costs

For the year ended 31 December 2017, the Group's central administrative costs amounted to approximately HK\$61.7 million as compared with approximately HK\$70.4 million for the same period last year, which mainly included the unallocated corporate operating expenses. The decrease in the central administrative costs of approximately HK\$8.7 million in 2017 was mainly attributable to the absence in recognition of the corporate portion of the equity-settled share option expense of approximately HK\$20.1 million for the 41 million share options granted by the Company in 2016, which had been partially set-off by the increase in corporate operating expenses incurred for the Group's business development such as staff costs, entertainment and travel expenses.

Income tax (expense) credit

For the year ended 31 December 2017, the Group recognised an income tax expense of approximately HK\$698,000 which included current tax expense of approximately HK\$310,000 and deferred tax expense of approximately HK\$388,000. The current tax expense was made for the provision of Hong Kong Profits Tax charge in relation to the profitability generated from the brokerage and financing businesses and the corporate finance and other advisory services businesses and the provision of PRC Enterprise Income Tax in relation to the PRC representative offices of the Group in 2017. The deferred tax expense was recognised in relation to the unrealised gain on financial assets held for trading for the proprietary trading business.

No provision for Hong Kong Profits Tax had been made during the year ended 31 December 2016 as the assessable profit was wholly absorbed by the tax losses brought forward. For the year ended 31 December 2016, the Group recognised an income tax credit of approximately HK\$19,000 which represented the over-provision of Hong Kong Profits Tax in prior year for the brokerage and financing businesses.

Finance costs

For the year ended 31 December 2017, the finance costs of the Group amounted to approximately HK\$452,000 as compared with approximately HK\$76,000 for the same period last year, in which all were incurred for the short-term bank loans, especially for financing the clients in subscription of new issue shares, in relation to the Group's brokerage and financing businesses.

Headcount and employees information

As at 31 December 2017, the Group employed a total of 122 employees (31 December 2016: 109), which excluded 7 self-employed account executives for brokerage services (31 December 2016: 8), and 117 and 5 were located in Hong Kong and the PRC respectively (31 December 2016: 109 and Nil). Salaries and staff benefits costs (including the Directors' emoluments) and staff commission amounted to approximately HK\$65.1 million and HK\$10.9 million respectively for the year ended 31 December 2017 as compared with approximately HK\$82 million and HK\$9.6 million respectively for the same period last year. Details had been disclosed in Notes 7 and 8 to the consolidated financial statements.

The decrease in the salaries and staff benefits costs of approximately HK\$16.9 million in 2017 was mainly attributable to the absence in recognition of the equity-settled share option expense of approximately HK\$20.6 million for the 41 million share options granted in 2016 and the decrease in discretionary and performance related incentive payments of approximately HK\$3.1 million in 2017, which had been partially set-off by the related staff costs incurred for the increase in headcounts for the Group's business development in the PRC.

Management Discussion and Analysis

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, the Group also provides medical coverage, sales commission, discretionary and performance related bonus, discretionary share options and share awards to its employees. Meanwhile, employees are provided or funded to attend training and development programs which are relevant to their works.

Liquidity and financial resources/capital structure

For the year ended 31 December 2017, the Group financed its business operations and investments with internal resources, cash revenue generated from operating activities, shares placement and short-term bank loans.

The Group adopts a prudent treasury policy. As at 31 December 2017, 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 2017.

As at 31 December 2017, the Group held banking facilities of HK\$100 million granted from a bank to VC Brokerage (31 December 2016: HK\$100 million), which is required to be secured by bank deposits of HK\$40 million (31 December 2016: HK\$40 million) and corporate guarantee of HK\$100 million (31 December 2016: HK\$100 million) provided by the Company. Among the available banking facilities, HK\$40 million (31 December 2016: HK\$40 million) is general short-term money market loan and current account overdraft. The other HK\$50 million (31 December 2016: HK\$50 million) is short-term money market loan for margin financing business, which is required to be secured by VC Brokerage's margin clients' listed securities when utilised. The balance of HK\$10 million (31 December 2016: HK\$10 million) is used for drawings against uncleared cheques. As at 31 December 2017, the Group had utilised an amount of HK\$40 million for the general short-term money market loan (31 December 2016: HK\$40 million), which bore an interest rate at 3.22% per annum (31 December 2016: 2.78% per annum).

As at 31 December 2017, the Group's bank balances and cash, net current assets and shareholders' equity (other than clients' segregated accounts) amounted to approximately HK\$228.2 million (31 December 2016: HK\$247.7 million), HK\$740.5 million (31 December 2016: HK\$638.8 million) and HK\$752.2 million (31 December 2016: HK\$699.6 million) respectively, representing a decrease of about 8% and an increase of about 16% and 8% respectively as compared with that of 31 December 2016. Current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of about 8.9 times as at 31 December 2017 (31 December 2016: 8.4 times). These showed that the Group still maintained a solid financial position as at 31 December 2017.

As at 31 December 2017 and 31 December 2016, the total numbers of issued ordinary shares of the Company were 794,616,829 and 662,616,829 respectively. The increase of share capital in 2017 was attributable to the completion of placement of 132 million new shares in August 2017 providing the net proceeds of approximately HK\$117.1 million to the Company. The details are disclosed in the section "BUSINESS REVIEW" above. As at 31 December 2017, all aforesaid net proceeds had been utilised based on the intended usage, in which approximately HK\$31.1 million, HK\$49.8 million, HK\$10 million, HK\$21.2 million and HK\$5 million were used for (a) acquisition of investment securities for proprietary trading business; (b) providing additional working capital for brokerage and financing businesses; (c) providing additional capital for corporate finance business; (d) settlement of the Group's corporate administrative expenses; and (e) payment of the organisation expenses for the formation of a joint venture respectively.

Management Discussion and Analysis

Charges on group assets

As mentioned in the section “Liquidity and financial resources/capital structure” above, the Group made a HK\$40 million charge over its bank deposits to a bank as at 31 December 2017 (31 December 2016: HK\$40 million) for securing the banking facilities granted to VC Brokerage.

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 2017, 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.

Contingent liabilities

As at 31 December 2017, the Company had given financial guarantees of HK\$100 million (31 December 2016: HK\$100 million) to a bank in respect of banking facilities of HK\$100 million (31 December 2016: HK\$100 million) provided to VC Brokerage as mentioned in the section “Liquidity and financial resources/capital structure” above. As at 31 December 2017, banking facilities of an amount of HK\$40 million was utilised by VC Brokerage (31 December 2016: HK\$40 million).

Save as the legal actions taken by the Group as mentioned in the section “Brokerage and Financing” above, so far as known to the Directors, there was no other litigation or claim of material importance in which the Group is engaged or pending or which was threatened against the Group.

Gearing ratio

As at 31 December 2017, the Group’s gearing ratio, expressed as total borrowings (solely the bank borrowings) over shareholders’ equity, was approximately 0.05 time (31 December 2016: 0.06 time).

Significant investments held, their performance and future prospects

For the year ended 31 December 2017, details of the Group’s significant investments held, their performance and future prospects are disclosed in the sections “Proprietary Trading” and “Financial assets designated as at fair value through profit or loss” above.

Material acquisitions and disposal of subsidiaries, associates and joint ventures

For the year ended 31 December 2017, the Group did not make any material acquisitions and disposal of subsidiaries, associates and joint ventures.

Future plans for material investments or capital assets and their expected sources of funding in the coming year

As at 31 December 2017 and as at the date of this Annual Report, the Group had no other known plans with regard to material investments or capital assets and their expected sources of funding in the coming year except for the formation of the joint venture securities company in the PRC and the proposed formation of a joint venture company to act as a sponsor to a limited partnership fund which will focus on infrastructure projects as disclosed in the section “BUSINESS REVIEW” above and the potential acquisition of an equity interest in a company principally engaged in provision of loan financing and financial consultancy services in the PRC and provision of money lending services in Hong Kong as disclosed in the section “Events after the reporting period” below. 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 by using its internal resources and/or different financing options available, whichever should be deemed appropriate.

Meanwhile, as at 31 December 2017, the Group did not have any significant commitments contracted but not provided for in respect of purchase of property and equipment. Details of the Group’s commitments are disclosed in Note 28 to the consolidated financial statements.

Events after the reporting period

- (i) Regarding the MOU as disclosed in the section “BUSINESS REVIEW” above, the MOU was expired on 21 December 2017. As at 31 December 2017, the MOU was under negotiation for extension. On 5 January 2018, the Company and the Party entered into an extension letter to extend the exclusivity period of the MOU to 30 June 2018. As at the date of this Annual Report, the parties had not entered into the Definitive Agreements. Details of the transaction had been disclosed in the Company’s announcement dated 5 January 2018.
- (ii) Regarding the acquisition of the China Fortune Convertible Bonds as disclosed in the section “BUSINESS REVIEW” above, the transaction had been completed on 8 January 2018. Details of the potential proforma financial effects of the transaction to the Group’s consolidated financial statements had been disclosed in the Company’s circular dated 7 December 2017.
- (iii) On 8 March 2018, Apex Treasure International Limited, the Company’s indirect wholly owned subsidiary, entered into a sale and purchase agreement (the “Sale and Purchase Agreement”) with CVP Financial Group Limited (“CVP Financial”) as vendor pursuant to which the Company intends to acquire and CVP Financial intends to sell 18% of the entire issued share capital of Hackett Enterprises Limited (the “Target Company”) at a consideration of HK\$160 million (the “Consideration”). The Target Company and its subsidiaries are principally engaged in the provision of loan financing and financial consultancy services in the PRC and the provision of money lending services in Hong Kong. The Consideration will be settled by issue of a 3-year two per cent. unsecured convertible bonds by the Company in the principal amount of HK\$160 million, which are convertible into 123,076,923 conversion shares at an initial conversion price of HK\$1.3 per conversion share (subject to adjustments). The Sale and Purchase Agreement shall become effective upon the approval from the shareholders of the Company and the fulfillment of other conditions. Details of the transaction had been disclosed in the Company’s announcement dated 8 March 2018.

Biographical Details of Directors and Senior Management

DIRECTORS

FU Yiu Man

Chairman & Executive Director

Mr. Fu, aged 62, joined the Group in July 2016 and has been appointed as Chairman and Executive Director in March 2018. Currently, Mr. Fu is the business development director of China Affair Department, a member of the Executive Committee and a director of certain subsidiaries of the Company.

Mr. Fu obtained a bachelor's degree from Wharton Business School of the University of Pennsylvania in the U.S. He has served in various senior positions in BNP Paribas, Peregrine, Baring Securities, UBS, Citigroup Inc., CCB International and CCB International (China), etc. He served as the vice-president of GCL-Poly Group since November 2013. For the period from March 2014 to June 2016, Mr. Fu had been redesignated as the vice-president of GCL Oil and Gas Company. He was responsible for overseas finance and M&A business for the oil and gas projects of the company. Mr. Fu is an independent non-executive director of Beijing North Star Company Limited (Stock Code: 588), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), since May 2015. Mr. Fu has almost 40 years of experience in financial management and securities business.

ZHOU, Francis Bingrong

Vice Chairman & Executive Director

Mr. Zhou, aged 32, joined the Group as Vice Chairman and Executive Director in January 2018. Currently, Mr. Zhou is a member of the Executive Committee and a director of certain subsidiaries of the Company. He is the President of Silk Road Energy Services Group Limited ("Silk Road") (Stock Code: 8250), a company listed on the Growth Enterprise Market (the "GEM") of the Stock Exchange. He was Vice Chairman and executive director of Silk Road from 11 March 2016 to 21 January 2018. Prior to joining Silk Road, Mr. Zhou has held senior equity research positions with prominent regional and China-based investment banks, such as China International Capital Corporation (HK) Limited and Daiwa Capital Markets Hong Kong Limited. He also served as Vice President of Financial Planning & Analysis for Galaxy Entertainment Group.

Mr. Zhou has extensive experience in corporate finance and strategy, financial analysis and the capital markets. He started his career as an M&A Analyst with a boutique investment bank. Mr. Zhou holds a Bachelor of Arts degree in Economics and Asian Studies from Bowdoin College in Brunswick, Maine, United States.

TIN Ka Pak, Timmy

Chief Executive Officer & Executive Director

Mr. Tin, aged 41, 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. He has almost 10 years management experience in listed companies, whose shares are listed on the Stock Exchange, duties including group management, strategic planning, investment evaluation and investor relationship.

Biographical Details of Directors and Senior Management

LIN Hoi Kwong, Aristo

Executive Director

Mr. Lin, aged 47, joined the Group in January 2014 and has been appointed as the Executive Director in April 2015. Currently, he is the director of China Affair Department, a member of the Executive Committee and a director of certain subsidiaries of the Company. Mr. Lin is a director of China Fortune Foundation Limited and the Honorary Secretary of Hong Kong Skating Union Limited (the associate member of the Sports Federation and Olympic Committee of Hong Kong). He is also an Executive Director of Hong Kong Wenchang Natives Association, Commander of Hong Kong Road Safety Patrol of (Kowloon East Region) Railway District and Honorary President of JPC of Tseung Kwan O District.

Mr. Lin holds a Bachelor Degree in Business Administration from the Thames Valley University, United Kingdom and a Master of Science Degree in Marketing from The National University of Ireland. He has over 20 years experience in corporate development and business strategy.

XIE Jintai

Executive Director

Mr. Xie, aged 68, joined the Group as Executive Director in June 2016. Currently, he is a general manager and chairman of Shanghai Wuhe Industrial Co., Ltd., a diversified investment management company incorporated in the PRC. He has been the director of Xiamen Xinya Economic Technology Research Institute, a senior economist, senior business analyst and the general manager and chairman of a corporate group for around 20 years.

Mr. Xie graduated from Xiamen University with a Bachelor's Degree in Economics Management. He has been working in economic research and corporate investment planning, and had participated in the business management of various industries including international trade, warehouse and logistics, construction and real estate etc. for many years. Mr. Xie is familiar with business management and has abundant experience in management and business operation.

SHEN Li

Executive Director

Ms. Shen, aged 45, joined the Group as Executive Director in March 2018. Currently, Ms. Shen is a member of the Executive Committee and a director of certain subsidiaries of the Company. She is also a non-executive director of Zhong An Real Estate Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 672), with effect from 22 June 2017.

Ms. Shen graduated from the International Business School of the Shanghai University, with a bachelor of science degree in 1995. Ms. Shen had worked as a staff accountant and an audit senior at Price Waterhouse Da Hua CPAs, as a manager at General Motors (China) Investment Co. Ltd., and as the Controller of Asia Operations at Chrysler Asia Operations. Ms. Shen was the chief executive officer of Credit China Holdings Limited ("Credit China") (now known as Chong Sing Holdings Fintech Group Limited), a company listed on the GEM of the Stock Exchange (Stock Code: 8207) from January 2010 to July 2014. She was an executive director of Credit China from January 2010 to June 2015.

Biographical Details of Directors and Senior Management

WONG Chung Kin, Quentin

Independent Non-executive Director

Mr. Wong, aged 46, 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. Mr. Wong was an independent non-executive director of China Investment Fund International Holdings Limited (Stock Code: 612), a company 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, Association of Chartered Certified Accountants and The Society of Chinese Accountants & Auditors. Meanwhile, he is a member of 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 15 years working experience in audit and accounting gained from a sizeable international firm and has had 10 years of practicing experience.

WONG Kam Choi, Kerry, MH

Independent Non-executive Director

Mr. Wong, aged 51, 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. Currently, Mr. Wong is a substantial shareholder and a director of a design and printing company. He has over 20 years' experience in design and printing industry. Mr. Wong was the executive director and chairman of the board of China Fortune Financial Group Limited (Stock Code: 290), a company listed on the Main Board of the Stock Exchange.

Mr. Wong has been dedicating to wide range of community services in Hong Kong and Southern China. He is the director 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.

Biographical Details of Directors and Senior Management

SIU Miu Man, Simon

Independent Non-executive Director

Mr. Siu, aged 60, joined the Group as Independent Non-executive Director in October 2016. Mr. Siu is the chairman of the Nomination Committee and a member of the Audit Committee and Remuneration Committee of the Company. Currently, he is an independent non-executive director of Asia Energy Logistics Group Limited (Stock Code: 351), a company listed on the Main Board of the Stock Exchange, and Excalibur Global Financial Holdings Limited (Stock Code: 8350), a company listed on the GEM of the Stock Exchange. He is also a director of DBG Technology Co., Ltd. (Stock Code: 300735), a company listed on Shenzhen Stock Exchange. Meanwhile, Mr. Siu is also a director of a consultancy firm and engineering firm. He was an independent non-executive director of Sheung Yue Group Holdings Limited (stock code: 1633), a company listed on the Main Board of the Stock Exchange for the period from 24 October 2016 to 21 January 2018. He had served in many public listed companies as senior management and has over 25 years of managerial experience in general management, commerce, banking, finance, real estate development and construction business.

Mr. Siu is actively participating in public affairs and charitable activities. He is the Vice President of the Association of Hong Kong Professionals and the Hong Kong Real Property Federation, the Honorary President of the Hong Kong Kowloon City Industry and Commerce Association and the Chairman of the Building Healthy Kowloon City Association.

Mr. Siu graduated from The Hong Kong Polytechnic University with a Polytechnic Associateship in Building Technology and Management and a Master of Science in Electronic Commerce. He is a corporate member of the Hong Kong Institution of Engineers, Hong Kong Institute of Surveyors (General Practice Stream), Royal Institution of Chartered Surveyors (General Practice Stream) and Chartered Institute of Arbitrator. Mr. Siu is an Authorized Person under the Hong Kong Building Ordinance of the Government of the HKSAR. He is also a Registered Professional Engineer (Building Stream) and a Registered Professional Surveyor (General Practice Stream).

SENIOR MANAGEMENT

FUNG Wai Har, Amanda

Finance Director

Ms. Fung, aged 46, joined the Group in September 2009. Currently, she is the Finance Director and a non-voting member of the Executive 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. Ms. Fung 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 53, joined the Group in June 2004. Currently, he is the Managing Director of VC Brokerage Limited, a non-voting member of the Executive Committee and a director of certain subsidiaries of the Company. Mr. Wong has more than 30 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.

Corporate Governance Report

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 2017, 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. During the year ended 31 December 2017, Mr. Tin Ka Pak, Timmy, the Chief Executive Officer (the “CEO”) of the Company, has taken up the roles and functions of the Chairman and the CEO. The Board considers that the balance of power and authority of the Board will not be impaired even the roles of the Chairman and the CEO are performed by the same individual. It also believes that it is in the best interest of the Group with Mr. Tin Ka Pak, Timmy to assume the roles of the Chairman and the CEO as which the Board’s decision could be made effectively.

Although the Board believes that Mr. Tin Ka Pak, Timmy is the best candidate to take up the roles and functions of the Chairman and the CEO, it always wants to be the best of the best, so to comply with the CG Code. On 22 January 2018, Mr. Chung Chi Shing, Eric, the Executive Director of the Company, was appointed as the Chairman of the Company. Following the appointment of Mr. Chung Chi Shing, Eric, the Company has complied with code provision A.2.1. However, due to other business development which requires more of his dedication, Mr. Chung Chi Shing, Eric resigned as the Chairman and the Executive Director of the Company on 2 March 2018. On the same date, Mr. Fu Yiu Man had been appointed as the Chairman and the Executive Director of the Company.

ii. Code Provision A.4.1

Under the code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term and subject to re-election. All the Non-executive Directors of the Company are not appointed for specific term. However, under the Article 97 of the Articles of Association of the Company (the “Articles of Association”), all Directors, including non-executive Directors, 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 CEO 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 CEO and (2) division of responsibilities between the Chairman and CEO are given at the Company's website under the section "Corporate Governance".

i. Board Composition

The Board currently comprises a total of nine Directors, with six Executive Directors, namely, Mr. Fu Yiu Man (Chairman), Mr. Zhou, Francis Bingrong (Vice Chairman), Mr. Tin Ka Pak, Timmy (CEO), Mr. Lin Hoi Kwong, Aristo, Mr. Xie Jintai and Ms. Shen Li; and three Independent Non-executive Directors, namely, Mr. Wong Chung Kin, Quentin, Mr. Wong Kam Choi, Kerry, MH and Mr. Siu Miu Man, Simon.

Pursuant to Article 88 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. In accordance with this provision, Mr. Fu Yiu Man, Mr. Zhou, Francis Bingrong and Ms. Shen Li shall retire at the forthcoming annual general meeting, being eligible, offer themselves for re-election.

Pursuant to Article 97 of the Articles of Association, one third of the Directors for the time being shall retire from office, 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. Lin Hoi Kwong, Aristo 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 2017. 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 2017.

Corporate Governance Report

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 2017.

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. Continuous Professional Development

Every newly appointed Director receives a comprehensive, formal and tailored induction package to ensure that he/she has a proper understanding of the Company's operation and business as well as his/her duties and responsibilities of directors under statutory regulations and the Listing Rules. The Company Secretary also provides the updates on the latest development and changes in the Listing Rules and other relevant legal and regulatory requirements to the Board from time to time.

Meanwhile, the Directors are provided with monthly updates on the Group's financial performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

Directors are encouraged to participate in continuing professional development to develop and refresh their knowledge and skills. During the year, each Director had participated in continuous professional development by attending seminars/workshops/reading materials on the following topics to develop and refresh their knowledge and skills and had provided the training records to the Company.

| Name of Directors | Topics on Training covered¹ |
|-----------------------------------------|-----------------------------------------------|
| Mr. Fu Yiu Man ² | N/A |
| Mr. Zhou, Francis Bingrong ³ | N/A |
| Mr. Tin Ka Pak, Timmy | (a) to (c) |
| Mr. Lin Hoi Kwong, Aristo | (a) to (c) |
| Mr. Xie Jintai | (a) and (c) |
| Ms. Shen Li ⁴ | N/A |
| Mr. Wong Chung Kin, Quentin | (a) |
| Mr. Wong Kam Choi, Kerry, MH | (a) |
| Mr. Siu Miu Man, Simon | (a) |
| Mr. Chung Chi Shing, Eric ⁵ | (a) and (c) |

Notes:

1. Topics on training covered (a) Regulatory and corporate governance updates; (b) Finance related issues; and (c) Other information relevant to the business of the Group.
2. Mr. Fu Yiu Man has been appointed as the Chairman and Executive Director of the Company on 2 March 2018.
3. Mr. Zhou, Francis Bingrong has been appointed as the Vice Chairman and Executive Director of the Company on 22 January 2018.
4. Ms. Shen Li has been appointed as an Executive Director of the Company on 2 March 2018.
5. Mr. Chung Chi Shing, Eric resigned as the Chairman and Executive Director of the Company on 2 March 2018.

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

In 2017, the Board had held a total of 10 meetings. The details of the attendance record of each member of the Board for 2017 are provided in the section "ATTENDANCE RECORD OF THE DIRECTORS AT BOARD MEETINGS, BOARD COMMITTEE MEETINGS AND GENERAL MEETINGS" below.

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 2017.

Corporate Governance Report

DELEGATION BY THE BOARD

i. Management Functions

The Board delegates day-to-day operations of the Group to the board committees and 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 the 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 and nomination 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. Fu Yiu Man, Mr. Zhou, Francis Bingrong, Mr. Lin Hoi Kwong, Aristo and Ms. Shen Li and the Company's senior management (non-voting capacity), namely, 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 is also responsible to develop, review and monitor the Group's corporate governance policies and practices. It holds meetings from time to time to discuss the Group's financial and operational matters and other 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. Wong Kam Choi, Kerry, MH and Mr. Siu Miu Man, Simon. 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 2017, the Audit Committee had held a total of two meetings, among other matters, to review the Group's final results for the year ended 31 December 2016 and the interim results for the six months ended 30 June 2017. The details of the attendance record of each member of the Audit Committee for 2017 are provided in the section "ATTENDANCE RECORD OF THE DIRECTORS AT BOARD MEETINGS, BOARD COMMITTEE MEETINGS AND GENERAL MEETINGS" below.

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. Wong Chung Kin, Quentin and Mr. Siu Miu Man, Simon.

The Remuneration Committee makes recommendations to the Board on policies and structure for remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration, determines the remuneration packages for executive directors and senior management and makes recommendations to the Board on the remuneration of non-executive directors. Other details of the role and function of the Remuneration Committee are given at the Company's website under the section "Corporate Governance".

In 2017, 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 2017 are provided in the section "ATTENDANCE RECORD OF THE DIRECTORS AT BOARD MEETINGS, BOARD COMMITTEE MEETINGS AND GENERAL MEETINGS" below.

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).

Corporate Governance Report

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 2017, the Remuneration Committee has (i) considered and reviewed the salary of Directors and senior management of the Group; and (ii) approved the discretionary 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. Siu Miu Man, Simon (Chairman), Mr. Wong Chung Kin, Quentin and Mr. Wong Kam Choi, Kerry, MH.

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.

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

In 2017, 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 2017 are provided in the section "ATTENDANCE RECORD OF THE DIRECTORS AT BOARD MEETINGS, BOARD COMMITTEE MEETINGS AND GENERAL MEETINGS" below.

Board Diversity Policy

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. Details of the Board Diversity Policy are given at the Company's website under the section "Corporate Governance".

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

| Name of Directors | Attendance record of Directors in 2017 | | | | 2017 AGM/EGM |
|--------------------------------------------|----------------------------------------|-------------------------|--------------------------------|------------------------------|-----------------|
| | Board Meeting | Audit Committee Meeting | Remuneration Committee Meeting | Nomination Committee Meeting | |
| Executive Directors | | | | | |
| Mr. Fu Yiu Man ¹ | N/A | N/A | N/A | N/A | N/A |
| Mr. Zhou, Francis Bingrong ² | N/A | N/A | N/A | N/A | N/A |
| Mr. Tin Ka Pak, Timmy | 10/10 | N/A | N/A | N/A | 4/4 |
| Mr. Lin Hoi Kwong, Aristo | 10/10 | N/A | N/A | N/A | 4/4 |
| Mr. Xie Jintai | 10/10 | N/A | N/A | N/A | 4/4 |
| Ms. Shen Li ¹ | N/A | N/A | N/A | N/A | N/A |
| Mr. Chung Chi Shing, Eric ³ | 10/10 | N/A | N/A | N/A | 4/4 |
| Mr. Chau King Fai, Philip ⁴ | 2/2 | N/A | N/A | N/A | 2/2 |
| Independent Non-executive Directors | | | | | |
| Mr. Wong Chung Kin, Quentin | 10/10 | 2/2 | 1/1 | 1/1 | 4/4 |
| Mr. Wong Kam Choi, Kerry, MH | 10/10 | 2/2 | 1/1 | 1/1 | 4/4 |
| Mr. Siu Miu Man, Simon | 10/10 | 2/2 | 1/1 | 1/1 | 4/4 |
| Average Attendance Rate | 100% | 100% | 100% | 100% | 100% |

Notes:

1. Mr. Fu Yiu Man and Ms. Shen Li have been appointed as the Executive Directors of the Company on 2 March 2018.
2. Mr. Zhou, Francis Bingrong have been appointed as the Executive Director of the Company on 22 January 2018.
3. Mr. Chung Chi Shing, Eric resigned as the Executive Director of the Company on 2 March 2018.
4. Mr. Chau King Fai, Philip retired as the Executive Director of the Company on 25 May 2017.

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 Directors' responsibilities for preparing the financial statements and the reporting responsibilities of the external auditor are set out on pages 57 to 59 of this Annual Report.

RISK MANAGEMENT AND INTERNAL CONTROL

i. Responsibility

The Group has established Risk Management Policy to:

- a. define the roles and responsibilities of the relevant parties in the risk management process;
- b. provide a practical framework to the management for mitigating various risks; and
- c. promote risk awareness within the Group.

The Directors and the Board Committees have an oversight role to determine that appropriate risk management processes are in place and that these processes are adequate and effective. The Directors should determine the level of risk that the Board is willing to accept in pursuit of its business objectives by considering whether the risk against reward ratio is appropriate. Management should be responsible for the identification, assessment and mitigation of material risks faced by the business unit(s)/group function(s) which they are responsible for. The management should also regularly conduct review and monitoring of the Group's compliance with the risk management process, system and internal control.

The risk management and internal control systems are designed to safeguard the Shareholders' investments and the Group's assets; to maintain proper accounting records for the provision of reliable financial information; and to ensure compliance with applicable laws and regulations. It aims to provide reasonable but not absolute assurance against material misstatement, fraud or loss and to manage rather than eliminate the risk of failure to achieve the Group's business objectives.

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 continuously.

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 risk management.

System and procedures are in place to identify, control and report on the major types of risks. The management endorses policies, procedures, codes and guidelines to mitigate significant inherent risks embedded in the operational and financial 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 Group operates multiple lines of defenses to effect a robust control framework. At the first level, the operating business and support units are responsible for the day-to-day management of risks inherent in the various business activities. The second line of defense sets the policy and guidelines for managing specific risk areas, provides advice and guidance in relation to the risk. Internal audit function forms the third line of defense which evaluates significant risk exposure and contributes to the improvement of the risk management and control systems.

The Executive Committee conducts regular meetings to review the Group's business performance, key operations statistics and risk management 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 reviewed and approved by the Audit Committee. 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.

Corporate Governance Report

iv. **Audit Committee Supervision**

The Board is responsible for maintaining and reviewing the effectiveness of risk management and internal control systems. The Audit Committee has been assigned by the Board to review and supervise the financial reporting process and internal control procedures of the Group. The Board also, through the Audit Committee, has conducted an annual review of the effectiveness of the Group's system of risk management and internal control covering all material controls, including financial, operational and compliance controls.

The Audit Committee conducts regular meetings with 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 2017, which covers the key controls for mitigating the major risks associated with the significant processes. During the year under review, no major issue but areas for improvement have been identified.

The Audit Committee has considered that the risk management and internal control systems are 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 Internal Audit Department and considered that it is adequate.

v. **Inside Information**

With respect to procedures and internal controls for the handling and dissemination of inside information, the Group:

- a. has developed Price Sensitive Information Disclosure Policy in relation to the disclosure of price-sensitive information about the Group companies, its officers and substantial shareholders. The disclosure can communicate such information to investors for investment decision on equal and informed basis;
- b. has established Corporate Communications Policy for responding to all media related inquiries, interviews and conference on the corporate issues. Authorized person are assigned to act as spokespersons to speak on behalf of the Group and to respond to external enquiries; and
- c. has included in its Code of Business Conduct and Ethics a strict prohibition for all employees of the Group on the unauthorized use of confidential or inside information.

AUDITOR'S REMUNERATION

Deloitte Touche Tohmatsu has been appointed as the Company's external auditor since 2005. For the year ended 31 December 2017, approximately HK\$1,378,000 was charged for audit services performed by Deloitte Touche Tohmatsu, which included the fee of HK\$1,320,000 for the audit of the consolidated financial statements of the Group for the year ended 31 December 2017, HK\$20,000 for the review of the preliminary announcement of results of the Group for the year ended 31 December 2017 and approximately HK\$3,000 for the audit of a subsidiary's provident fund scheme for 2017 (which collectively in a total of HK\$1,343,000 were included as auditor's remuneration in note 11 to the consolidated financial statements) and also the disbursements of HK\$35,000 incurred for the audit of the consolidated financial statements of the Group for the year ended 31 December 2016.

In addition, approximately HK\$682,000 was charged for non-audit services performed by Deloitte Touche Tohmatsu to the Group in 2017, which included the fee and disbursement of approximately HK\$455,000 for preparing the agreed upon procedures for statement of indebtedness and sufficiency of working capital for the circular of the Company dated 7 December 2017, the partial fee of HK\$58,000 for providing consulting services in compliance with Automatic Exchange of Financial Account Information, the fee and disbursement of approximately HK\$152,000 for provision of taxation services for the year ended 31 December 2017 and the additional taxation services fee and disbursements of approximately HK\$17,000 incurred for the year ended 31 December 2016.

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 2017.

COMMUNICATION WITH SHAREHOLDERS

The Board recognizes the value of providing current and quality information to its Shareholders, both individual and institutional. It also recognizes the importance of maintaining continuous communication with Shareholders and constantly looks for ways to ensure the Group maintains an open and ongoing dialogue with the existing and potential Shareholders.

i. Shareholders' Communication Policy

The Company has adopted a shareholders' communication policy to ensure an effective ongoing dialogue with Shareholders. Such policy shall be reviewed by the Board on a regular basis to ensure its effectiveness. Details of the Shareholders' Communication Policy are given at the Company's website under the section "Corporate Governance".

ii. The Company's Website

The Company's website at www.vcgroup.com.hk provides comprehensive and most updated information about the Company, including financial results, announcements, circulars, composition of the Board/Board committees and their respective terms of reference, biographical information of Directors and Senior Management, and other corporate documents such as Articles of Association and other policies adopted by the Company.

iii. Annual General Meeting

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 21 clear 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.

Corporate Governance Report

iv. Enquiries

The Company Secretary responds to letters and telephone enquiries from Shareholders/ investors. Shareholders and investors are welcome to raise enquiries through the Company's email contact info@vcgroup.com.hk or by mail to our Company Secretary at 28th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong.

SHAREHOLDERS' RIGHTS

i. Convening of General Meetings

Under Section 566 of the Companies Ordinance (Chapter 622 of Laws of Hong Kong) (the "Companies Ordinance"), Shareholders of the Company who representing at least 5% of the total voting rights of all members having a right to vote at general meetings of the Company may request the Directors of the Company to convene general meetings. The requisition must state the general nature of business to be dealt with at the meeting, and must be signed by the requisitionist(s) and deposited at the registered office of the Company at 28th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong. Shareholders may include the text of a resolution that may properly be moved and is intended to be moved at the meeting.

The Directors must proceed to convene a general meeting within 21 days from the date of receipt of the requisition. Such meeting should be held on a date not more than 28 days after the date on which the notice convening the meeting is given. If the Directors fail to convene the general meeting as aforesaid, the requisitionist(s), or any of them representing more than one-half of the total voting rights of all of them, may themselves convene the meeting. Any meeting so convened shall not be held after the expiration of three months from the date of the deposit of the requisition.

For more details, Shareholders may refer to the requirements as set out in the Companies Ordinance.

ii. Putting Forward Proposals at General Meeting

Under Section 615 of the Companies Ordinance, Shareholders representing at least 2.5% of the total voting rights of all the members having a right to vote, or at least 50 Shareholders who have a relevant right to vote may (a) put forward proposal at general meeting; and (b) circulate to other Shareholders written statement with respect to matter to be dealt with or other business to be dealt with at general meeting.

The requisition must be sent to the Company in hard copy or in electronic form and must identify the resolution of which notice is to be given. It must be signed by the requisitionist(s) and be received by the Company not less than six weeks before the annual general meeting to which the request related, or, if later, the time at which notice is given of that meeting.

For more details on the Shareholders' qualifications, and the procedures and timeline, in connection with the above, Shareholders may refer to the Sections 580 and 615 of the Companies Ordinance.

CONSTITUTIONAL DOCUMENTS

There is no significant change in the constitutional documents of the Company in 2017.

The consolidated version of the Company's Articles of Association is given at the Company's website under the section "Corporate Governance".

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 2017, together with the audited comparative figures for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 33 to the consolidated financial statements.

BUSINESS REVIEW

A review of the Group's business during the year including the description of the Group's business and its external environment, business objectives and strategies, business model and development and principal performance drivers are provided in the Chairman's Statement and the Management Discussion and Analysis on pages 2 to 3 and pages 4 to 17 respectively of this Annual Report.

Further, the Management Discussion and Analysis also contains the information about the Group's financial performance analysis and financial position assessment, number and remuneration of employees and remuneration policies, particulars of important events affecting the Group that had occurred since the year ended 31 December 2017 and the Group's likely future development in business.

Environmental policies and performance

The Group encourages environment protection, complies with environmental legislation and promotes awareness towards environment protection to the employees. The careful use of resources and adoption of the best practices across the Group's business shows our commitment towards environmental protection. The Group adheres to the principle of Recycling and Reducing. Stationeries such as envelopes, letterheads and business cards, as well as interim reports and annual reports delivered to the shareholders are printed on environmentally friendly paper. It also implements green office practices such as encouraging double-sided printing and copying. Obsolete computer equipments, after removal of data storage devices, are either donated to charities or passed to recyclers together with used computer consumables such as ink and toner cartridges.

Directors' Report

Compliance with laws and regulations in relation to financial services business

The Group's financial services business is mainly under the supervision of Securities and Futures Commission ("SFC"), including securities, futures and options brokering and dealing, margin financing services, corporate finance services as well as asset management, and other authorities for the money lending services. As such, the Group has to comply with the rules and regulations of SFC and other related regulators and authorities. In order to comply with all these rules and regulations, the Group's Compliance Department and Internal Audit Department have tailored-made some specific operation manuals and implemented the internal control procedures to regulate the Group's daily business activities. Regularly testings are conducted on the Group's operations to minimize the risk exposures and take appropriate remedial actions, when necessary. Meanwhile, the Group will engage independent professional bodies to provide advices and assistance on the Group's compliance issues, when necessary. In 2017, the Group engaged its external auditor, Deloitte Touche Tohmatsu, to provide consulting services in compliance with the Automatic Exchange of Financial Account Information with effect from 1 January 2017, the new Hong Kong legislation adopted for Organisation for Economic Co-operation and Development Common Reporting Standard.

In addition, the Group has adopted a more targeted approach to customer due diligence through the use of a sophisticated software provided by a third party financial service provider. This simplifies and accelerates the customer due diligence for the entire customer base of the Group, which includes screening for money laundering, sanctions and threat finance and also enables detailed monitoring of politically exposed person relationships and networks and is also customizable to identify a variety of specific third party risks, when necessary. All these measures are important in increasing the efficiency and effectiveness in dealing with the regulatory and operational burdens and risks the Group's regulated businesses are facing.

Relationships with customers and suppliers and major customers and suppliers

The Group understands that it is important to maintain a good relationship with its customers and suppliers. To do so, the Group delivers its financial services and products in professional attitude to garner clients' trust, which help to create new business opportunities to the Group. During the year, there was no material and significant dispute between the Group and its customers and/or suppliers.

For the year ended 31 December 2017, the aggregate revenue attributable to the Group's largest customer and five largest customers combined are approximately 10% (2016: 8%) and 39% (2016: 29%) respectively, of the Group's total revenue. 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. For 2017, all the five largest customers have 1 year to 19 years of business relationship with the Group and one is the listed company in Hong Kong. Besides, the Group had no major supplier due to the nature of principal activities of the Group.

Relationships with employees

(a) *Emolument policy and employee benefits*

The Group understands that employees are valuable assets, therefore it provides competitive remuneration package to attract and motivate the employees. The emolument policy of the Group is set up by the Remuneration Committee of the Company. The Group's employees are selected, remunerated and promoted on the basis of their merit, qualifications, performance and competence. Regular revision for each employee is conducted annually. Meanwhile, the emoluments of the Directors and senior management of the Group 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.

Apart from the basic salaries and participation in Mandatory Provident Fund Scheme, the Group also provides medical coverage, sales commission, discretionary performance-based bonus, discretionary share options and share awards to all employees.

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

(b) *Training and development*

Employees of the Group are encouraged to attend training and development courses so as to keep abreast of their skills and knowledge. Our Compliance Department organizes in-house training courses for all employees of the Group, specifically for those are licenced persons registered under the Hong Kong Securities and Futures Ordinance, and provides ongoing compliance updates and regulatory requirements to them. The Group also funds the Directors to attend continuous professional development training including updates on regulatory requirements and corporate governance practices. Relevant employees are also funded to attend external training courses which are relevant to their works.

(c) *Health and safety*

In order to provide a safe working environment, offices' workstations are regularly checked and maintained by the Administration Department of the Group. Besides, cleaning of carpets and air-conditioning systems are regularly carried out so as to provide hygienic working conditions for the employees.

Directors' Report

Principal risks and uncertainties of the Group

The Group's core businesses are the provision of financial services comprising securities, futures and options brokering and dealing, financing services and corporate finance and other advisory services, and asset management; and proprietary trading. Due to the nature of the Group's financial services business and proprietary trading business, the Group may be affected by a number of risks and uncertainties associated with its key financial services and products. It mainly divided into two categories, namely operational risk and financial risks. To ensure implementation of the appropriate measures in managing and monitoring these risk exposures on a timely and effective manner, policies and procedures are established by the Group. Details of the key risks and uncertainties identified by the Group and the ways on how the Group encounters these are given as follows:

(a) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed operational processes, people and systems or from external events. In the other words, the operational risk arises from non-compliance of policies and procedures and lack of control. The Group has established some operational policies and guidelines, delegation of authorities and reporting requirements for helping each employee of the Group to develop a set of personal practices in performing their job to the highest level. The operational policies provide detailed guidelines for various functions of the Group in executing most of the business transactions such as accounting and finance, operations, legal and compliance, human resources, information technology and administration.

Meanwhile, detailed compliance and procedural manuals and policies are designed for the major subsidiaries of the Group which carried out the finance services business. The internal policies and manuals aim to ensure that the major subsidiaries of the Company comply with all rules, regulations, codes and legislations governing every aspect of the Group's regulated activities at all times. All sales staff and/or investment representatives are required at all times to fully understand and follow the regulated requirements, which will be updated from time to time in response to changes of rules and regulations. Training programs and active communications are continuously provided to promote their awareness. Internal control procedures are applied to monitor compliance of the Group's policies and guidelines. Appropriate disciplinary actions shall be taken against the responsible staff, who is guilty of serious misconduct. Further, for the proprietary trading business, securities investment policy has been established providing investment guidelines and reporting procedures for the responsible persons to follow.

The Group's Compliance Department and Internal Audit Department are responsible for identifying and monitoring the key operational exposures and report regularly the potential risk issues to the management and the Audit Committee of the Group respectively.

(b) **Financial risks**

In the course of business activities, the Group is exposed to a variety of financial risks, including market, credit and liquidity risks.

(i) *Market risk*

The Group's market risk primarily includes currency risk (foreign exchange rate risk), interest rate risk and equity price risk.

- *Currency risk* – It is the Group's policy for each group entity to operate in local currencies as far as possible to minimize 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 foreign currency. 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. The Finance Department will manage and monitor the relevant risk from time to time.
- *Interest rate risk* – The Group is exposed to fair value interest rate risk in relation to fixed-rate accounts receivable from money lending business and pledged bank deposits, in which the risk is considered to be insignificant as the majority of the amount is carried at amortised cost. The Group is also exposed to cash flow interest rate risk in relation to variable-rate accounts receivable from brokerage and financing businesses such as cash clients, margin clients and short-term bank borrowings, which is mainly relating to the fluctuation of prime rate or bank's cost of funding arising from the Group's interest bearing financial instruments. The Finance Department has prepared sensitivity analysis on the exposure to cash flow interest rates for the Group's interest bearing financial instruments on a semi-annually basis and note that such exposure to the Group is not significant.
- *Equity price risk* – The Group is exposed to equity price risk arising from fluctuation in the price through the Group's investment in listed equity securities. Management regularly reviews and monitors the Group's investment portfolio so as to limit the risk exposure.

Directors' Report

(ii) *Credit risk*

The Group's credit risk is the risk of losses from a borrower or counterparty defaulting on an obligation which will result in financial loss to the Group. The risk mainly arises from the following business activities undertaken by the Group:

- *Financing from brokerage business* – In relation to the financing from brokerage business, the credit risk arises on the margin portfolio and clients' trade settlement. When the market goes downside, the possibility of doubtful debts will arise. The clients may be unable or unwilling to settle the sum owed. As such, credit assessment and continuous management of credit exposures are indispensable. The Group has established the credit policies and procedures setting out in details the structure of the credit risk management, the credit approval and monitoring mechanism, and the issue for provision for doubtful receivables. Meanwhile, the management of the Group has delegated a team forming the credit committee for setting the direction of the credit risk management and to oversee the Group's overall credit risk exposure. The credit committee meets monthly to review the work of the credit officer who is responsible for the daily credit management activities, determine and review the credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts and receivables from the clients with shortfalls. Ad hoc discussions and meetings may also be held by the credit committee whenever necessary. Moreover, the Group closely evaluates the borrower's credit rating, financial background and repayment abilities. The assessment is based on a closely monitoring and evaluation of the collectability of individual account and on management's judgment from different aspects including the current credit worthiness of the borrowers, collateral value and the past collection history of each individual borrower.
- *Money lending* – All individual loans are currently assessed and approved by the Group's management. The Group closely evaluates the borrowers' credit rating, financial background, repayment abilities and the value of securities collateral. The assessment is based on a close monitoring and evaluation of the collectability of individual borrower and on management's judgment from different aspects including the current credit worthiness of the borrower, collateral value and the past collection history of each individual borrower. The Finance Department is responsible for the daily monitoring of the borrowers including the adequacy of the collateral value and any default or delinquency in interest or principal payments in accordance with the contractual terms, and promptly report to the management, when necessary.

Furthermore, the Group has monitored its concentration of credit risk in different aspects. The Group's concentration of credit risk by geographical locations is mainly in Hong Kong. The Group has policies in monitoring both client concentration risk and stock concentration risk. The Group regularly performs stress tests on stock concentration to evaluate the Group's credit risk exposure and capital adequacy in the event of abnormal and significant changes in market condition. As at 31 December 2017, the Group has concentration of credit risk on the accounts receivable as the aggregate balances with the five largest clients representing approximately 60% (2016: 64%) of total accounts receivable. However, all these clients' balances are within the credit limits granted by the Group and meet the loan-to-value ratio. Further, the fair values of the securities collateral held by the Group for the balances of these five largest customers are in excess of the relevant carrying amounts or has no overdue amounts as at 31 December 2017. Accordingly, the Directors consider that the Group's credit risk is closely monitored. The Group has no other significant concentration of credit risk.

(iii) *Liquidity risk*

Liquidity risk is the potential that the Group will be unable to meet its obligations when they fall due. The Group's liquidity risk management includes making available standby banking facilities and diversifying the funding sources. The Group's operations are mainly financed by internal generated cash flow and short-term bank borrowings. In managing the liquidity risk, it is important that the Group maintains an adequate level of cash and credit facilities to finance the Group's daily operations.

Indeed, the Group's major subsidiaries are regulated by SFC, which are subject to SFC's liquid capital requirements. Under the liquid capital requirements, the regulated subsidiaries must maintain the minimum liquid capital, which shall in excess of HK\$3 million or 5% of their total adjusted liabilities, whichever the higher. The Finance Department monitors the Group's major funding positions on a daily basis so as to ensure adequate financial resources are available to meet the Group's financial obligations as well as to comply with SFC requirement. Meanwhile, the Group's banking facilities are subject to floating interest rate and are renewable annually. It is believed that the Group has adequate working capital to meet its financial obligations and the regulated subsidiaries have no non-compliance with the liquid capital requirements during the year.

For more details about the principal risks and uncertainties in which the Group are facing and also the relevant risk management objectives and policies, please refer to section 'Financial Review' contained in the Management Discussion and Analysis and notes 29 and 30 to the consolidated financial statements on pages 8 to 17 and pages 110 to 118 respectively of this Annual Report.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2017 and the Group's financial position at that date are set out in the Group's consolidated financial statements on pages 60 to 124 of this Annual Report.

No interim dividend was paid to the Shareholders during the year (2016: Nil). The Directors do not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

PROPERTY AND EQUIPMENT

Details of the movements in property and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL, SHARE OPTIONS AND SHARE AWARDS

During the year, the Company issued a total of 132,000,000 ordinary shares to a number of independent third parties in August 2017 pursuant to the placing agreement dated 28 July 2017 providing a net proceeds of approximately HK\$117.1 million, representing approximately 16.61% of the enlarged share capital of the Company. The net proceeds as abovementioned are to be used for the Group's daily operation, business expansion and possible investments in the future when opportunities arise. Details of the movements in share capital, share options and share awards of the Company during the year are set out in notes 26 and 27 respectively to the consolidated financial statements.

EQUITY-LINKED AGREEMENT

As at 31 December 2017, the Company has not entered into any equity-linked agreement.

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 2017. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year ended 31 December 2017.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2017, the Company has no reserves available for distribution to shareholders (2016: Nil).

DONATIONS

During the year, the Group made charitable donations amounting to approximately HK\$150,000 (2016: HK\$65,000).

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 pages 125 to 126 of this Annual Report. This summary does not form part of the audited consolidated financial statements.

DIRECTORS OF THE COMPANY

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

Executive Directors

Mr. FU Yiu Man, *Chairman* (appointed on 2 March 2018)

Mr. ZHOU, Francis Bingrong, *Vice Chairman* (appointed on 22 January 2018)

Mr. TIN Ka Pak, Timmy, *Chief Executive Officer*

Mr. LIN Hoi Kwong, Aristo

Mr. XIE Jintai

Ms. SHEN Li (appointed on 2 March 2018)

Mr. CHUNG Chi Shing, Eric (redesignated from non-executive director to executive director on 31 March 2017 and resigned on 2 March 2018)

Mr. CHAU King Fai, Philip (retired on 25 May 2017)

Independence Non-executive Directors

Mr. WONG Chung Kin, Quentin

Mr. WONG Kam Choi, Kerry, MH

Mr. SIU Miu Man, Simon

Pursuant to Article 88 of the Articles of Association of the Company ("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. Fu Yiu Man, Mr. Zhou, Francis Bingrong and Ms. Shen Li shall retire at the forthcoming annual general meeting of the Company ("AGM"), and being eligible, offer themselves for re-election.

Pursuant to Article 97 of the Articles of Association, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office. The Directors to retire every year shall be those who have been longest in office since their last election. In accordance with this provision, Mr. Lin Hoi Kwong, Aristo and Mr. Wong Chung Kin, Quentin shall retire at the AGM, and being eligible, offer themselves for re-election.

DIRECTORS OF THE SUBSIDIARIES

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

Mr. WONG Man Hin, Charles

Mr. TSE Ming Kwong, Louis

Mr. LEUNG Chi Ho, David

Mr. LEUNG Chi Wai, Chris

Ms. CHAN Tik Man (appointed on 12 July 2017)

Ms. CHEUNG Ching Man (appointed on 20 July 2017)

Ms. HO Wing Man, Ginny (appointed on 27 October 2017)

Mr. NG Man Hoi, Paul (resigned on 6 February 2018)

Mr. LI Qiang (appointed on 27 October 2017 and resigned on 5 January 2018)

Mr. TSUI Ching Wan, Terence (appointed on 6 March 2017 and resigned on 16 May 2017)

Ms. LAM Yuk Ying, Elsa (resigned on 15 February 2017)

STATUS OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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 of 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 OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP

Biographical details of the Directors of the Company and senior management of the Group as at the date of this report are set out on pages 18 to 21 of this Annual Report.

DIRECTORS' SERVICE CONTRACTS

No Directors who are proposed for re-election at the AGM has a service contract 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 31 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.

DIRECTORS' INDEMNITIES

Pursuant to the Articles of Association, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities (to be fullest extent permitted by the Companies Ordinance (Cap. 622)) which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save for the share option scheme and share award schemes disclosed in note 27 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 2017, the interests of the Directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by the Directors of Listed Issuers (the "Model Code"), 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 issued ordinary shares |
|---------------------------------------|-----------------------------------------|--------------------|--------------------------------|----------------------------------------------|
| Mr. Chung Chi Shing, Eric (Note 2) | Beneficial owner | Personal | 17,352,000 | 2.18% |
| | Held by controlled corporation (Note 2) | Corporation | 75,000,000 | 9.44% |
| Mr. Wong Chung Kin, Quentin | Beneficial owner | Personal | 500,000 | 0.06% |

(b) Share options of the Company

| Name of Director | Number of share options | | | | Outstanding at 31 December 2017 | Approximate% of total issued ordinary shares | Date of grant | Exercisable period | Exercise price HK\$ |
|---------------------------------------|-------------------------------|-------------------------|---------------------------|------------------------|---------------------------------|----------------------------------------------|-------------------|---------------------------------------|------------------------|
| | Outstanding at 1 January 2017 | Granted during the year | Exercised during the year | Lapsed during the year | | | | | |
| Mr. Tin Ka Pak, Timmy | 6,500,000 | - | - | - | 6,500,000 | 0.82% | 29 September 2016 | 29 September 2016 – 28 September 2019 | 1.76 |
| Mr. Lin Hoi Kwong, Aristo | 6,500,000 | - | - | - | 6,500,000 | 0.82% | 29 September 2016 | 29 September 2016 – 28 September 2019 | 1.76 |
| Mr. Xie Jintai | 5,000,000 | - | - | - | 5,000,000 | 0.63% | 29 September 2016 | 29 September 2016 – 28 September 2019 | 1.76 |
| Mr. Chung Chi Shing, Eric (Note 2) | 600,000 | - | - | - | 600,000 | 0.08% | 29 September 2016 | 29 September 2016 – 28 September 2019 | 1.76 |
| Mr. Wong Chung Kin, Quentin | 200,000 | - | - | - | 200,000 | 0.02% | 29 September 2016 | 29 September 2016 – 28 September 2019 | 1.76 |
| Mr. Wong Kam Choi, Kerry, MH | 200,000 | - | - | - | 200,000 | 0.02% | 29 September 2016 | 29 September 2016 – 28 September 2019 | 1.76 |
| Total | 19,000,000 | - | - | - | 19,000,000 | 2.39% | | | |

Directors' Report

Notes:

1. As at 31 December 2017, the Company's total issued ordinary shares was 794,616,829.
2. Mr. Chung Chi Shing, Eric is taken to be interested in 75,000,000 ordinary shares of the Company as a result of him being beneficially interested in the entire issued share capital of Power Global Group Limited, which in turn holds approximately 9.44% of the Company's total issued ordinary shares as at 31 December 2017. Mr. Chung resigned as an executive director of the Company on 2 March 2018.
3. During the year, no share options mentioned above were cancelled.
4. Details of the Share Option Scheme are set out under the section of "SHARE OPTION SCHEME" in this report.
5. The share options mentioned above represent personal interests held by the relevant Directors as beneficial owners.

Save as disclosed above, as at 31 December 2017, none of the Directors and their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company and 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 2017, none of the Directors or their respective associates has 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 SHAREHOLDERS' INTERESTS IN THE SHARES OF THE COMPANY

As at 31 December 2017, other than the interest of the Directors or chief executive of the Company as disclosed above, the following persons had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

Long positions in the shares of the Company

Ordinary shares of the Company

| Name | Capacity | Number of ordinary shares held | Approximate% of total issued ordinary shares | Notes |
|---------------------------------|---------------------------------|--------------------------------------|----------------------------------------------------|-------|
| Power Global Group Limited | Beneficial owner | 75,000,000 | 9.44% | 2 |
| Planters Universal Limited | Beneficial owner | 52,380,000 | 6.59% | |
| Mr. Lin Wenqing | Held by controlled corporation | 52,380,000 | 6.59% | 3 |
| Grade Rich Investments Limited | Beneficial owner | 79,000,000 | 9.94% | |
| Mr. Wong Kin Ting | Held by controlled corporation | 79,000,000 | 9.94% | 4 |
| Kaiser Capital Holdings Limited | Beneficial owner | 43,628,000 | 5.49% | |
| Mr. Ting Pang Wan Raymond | Beneficial owner | 400,000 | 0.05% | |
| | Held by controlled corporations | 48,048,000 | 6.05% | 5 |
| | Interest of spouse | 48,000 | 0.006% | 6 |
| Ms. Luu Huyen Boi | Beneficial owner | 48,000 | 0.006% | |
| | Interest of spouse | 48,448,000 | 6.10% | 7 |

Notes:

1. As at 31 December 2017, the Company's total issued ordinary shares was 794,616,829.
2. Power Global Group Limited is a company 100% owned by Mr. Chung Chi Shing, Eric, who resigned as an Executive Director of the Company on 2 March 2018.
3. Mr. Lin Wenqing is taken to be interested in 52,380,000 ordinary shares of the Company as a result of him being beneficially interested in the entire issued share capital of Planters Universal Limited, which in turn holds approximately 6.59% of the Company's total issued ordinary shares as at 31 December 2017.
4. Mr. Wong Kin Ting is taken to be interested in 79,000,000 ordinary shares of the Company as a result of him being beneficially interested in the entire issued share capital of Grade Rich Investments Limited, which in turn holds approximately 9.94% of the Company's total issued ordinary shares as at 31 December 2017.
5. Mr. Ting Pang Wan Raymond is taken to be interested in 48,048,000 ordinary shares of the Company as a result of him being beneficially interested in the entire issued share capital of Kaiser Capital Holdings Limited and Highgrade Holdings Limited, which in turn holds approximately 5.49% and 0.56% of the Company's total issued ordinary shares as at 31 December 2017 respectively.
6. Mr. Ting Pang Wan Raymond is the spouse of Ms. Luu Huyen Boi and is, therefore, taken to be interested in the 48,000 ordinary shares of the Company Ms. Luu is interested in.
7. Ms. Luu Huyen Boi is the spouse of Mr. Ting Pang Wan Raymond and is, therefore, taken to be interested in the 48,448,000 ordinary shares of the Company Mr. Ting is interested in.

Save as disclosed above, as at 31 December 2017, 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 SCHEME

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

Summary of the Share Option Scheme

(a) *Purpose of the Share Option Scheme*

The purpose of the Share Option Scheme 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 Scheme*

Pursuant to the Share Option Scheme, 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 Scheme to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated in the Share Option Scheme.

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

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 Scheme 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 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 Share Option Scheme (i.e. 37,116,977 shares of the Company, which represented approximately 10% of the total number of shares of the Company in issue 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 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 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.

As at 31 December 2017 and the date of this Annual Report, the total number of shares available for issue under the Share Option Scheme was 106,861,682 and 106,661,682 respectively, representing approximately 13.45% and 13.42% of the total number of shares of the Company in issue as at the date of this Annual Report.

(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 Scheme, 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 Scheme. 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 Scheme, 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 Scheme 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 Scheme

The 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 Share Option Scheme). After termination, no further share options will be granted but the provisions of the 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 Share Option Scheme may continue to be exercisable in accordance with their respective terms of issue.

Directors' Report

Movement of Share Options

As at 31 December 2017, 40,600,000 share options of the Company were outstanding. Details of the movements of the share options during the year are as follows:

| Category of participant | Number of share options | | | | | Outstanding at 31 December 2017 | Date of grant | Share options duration | Exercise price |
|-------------------------|-------------------------------------|-------------------------------|------------------------------------|---------------------------------|------------------------------|---------------------------------------|-------------------|------------------------------------------|-------------------|
| | Outstanding at 1 January 2017 | Granted during the year | Reclassified during the year | Exercised during the year | Lapsed during the year | | | | |
| Directors | 19,500,000 | - | (500,000) | - | - | 19,000,000 | 29 September 2016 | 29 September 2016 – 28 September 2019 | 1.76 |
| Employees | 21,100,000 | - | (8,000,000) | - | - | 13,100,000 | 29 September 2016 | 29 September 2016 – 28 September 2019 | 1.76 |
| Other eligible persons | - | - | 8,500,000 | - | - | 8,500,000 | 29 September 2016 | 29 September 2016 – 28 September 2019 | 1.76 |
| Total | 40,600,000 | - | - | - | - | 40,600,000 | | | |

HK\$

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 Scheme.

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 provide incentives for 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 its 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 shares of the Company in issue respectively from time to time (excluding shares which have already been transferred to employees on vesting).

Directors' Report

(e) Grant of the Awarded 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 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.

No payment shall be made to the trustee of the Share Award Schemes (the "Trustee") and no instructions to subscribe for shares shall be given to the Trustee under the Share Award Schemes where any member of the Board is in possession of the inside information in relation to the Company or where dealings by Directors are prohibited under the Model Code as set out in the appendices to the Listing Rules or any applicable laws and regulations or any internal code of conduct in securities dealing adopted by the Company from time to time.

(f) Vesting of the Awarded 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. Any shares held by the Trustee on behalf of the selected employee of the Share Award Schemes shall vest in accordance with the timetable determined by the Board at its discretion. 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.

(g) Trustee of the Schemes

The Company shall have the power exercisable by deed to appoint or remove any person as a Trustee. The minimum number of trustees shall be two individuals or a body corporate. The Trustee has the power to exercise at its discretion all voting rights attached to any shares held. Pursuant to the scheme rules, the Trustee is obligated to exercise its power with the objective of maximizing the benefits of the participants of the Share Award Schemes and shall not be subject to influence from any party.

Outstanding Awarded Shares

During the year ended 31 December 2017, 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.

CONNECTED TRANSACTIONS

Significant related party transactions entered by the Group during the year ended 31 December 2017 are disclosed in note 31 to the consolidated financial statements.

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

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's audited consolidated financial statements and results for the year ended 31 December 2017 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 2017.

Information on the work of the Audit Committee and its composition are set out in the “Corporate Governance Report” on page 27 of this Annual Report.

CORPORATE GOVERNANCE

The Corporate Governance Report is set out on pages 22 to 34 of this Annual Report.

Directors' 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 2017.

AUDITOR

The financial statements of the Company for the year ended 31 December 2017 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
Fu Yiu Man
Chairman & Executive Director

Hong Kong
27 March 2018



TO THE MEMBERS OF VALUE CONVERGENCE HOLDINGS LIMITED

(incorporated in Hong Kong with limited liability)

OPINION

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 60 to 124, which comprise the consolidated statement of financial position as at 31 December 2017, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report

KEY AUDIT MATTERS – continued

Key audit matter

How our audit addressed the key audit matter

Impairment allowance on accounts receivable from money lending services

We identified the estimation of impairment allowance on accounts receivable from money lending services as a key audit matter due to the judgement applied by the management in the identification of impaired loans and the subjective assumptions used for the estimation of impairment loss for loans with impairment indicators.

As at 31 December 2017, the Group had accounts receivable from money lending services with carrying amount of HK\$82,029,000. The Group has identified loans with indicators of impairment and recognised an impairment allowance of HK\$33,243,000 as set out in note 19(c) to the consolidated financial statements.

Our procedures in relation to the management's estimation of the impairment allowance on accounts receivable from money lending services included:

- understanding through enquiry of the management the established policies and procedures on credit risk management of the Group regarding the accounts receivable from money lending services;
- assessing and evaluating the assumptions used by the management in evaluating the recoverable amount and the measurement of impairment allowance;
- assessing and evaluating the process with respect to the identification of loans with potential impairment risk like default in payments;
- examining documentation supporting the existence and market value of listed securities held as collaterals and any subsequent settlement for the loans with impairment indicators; and
- checking the calculation and assessing the adequacy of impairment allowances on the loans with impairment indicators.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS – continued

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS – continued

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Tong, Mei Yin.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong
27 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

| | NOTES | 2017 HK\$'000 | 2016 HK\$'000 |
|---------------------------------------------------|-------|------------------|------------------|
| Revenue | 5 | 53,685 | 56,283 |
| Other income | 5 | 814 | 658 |
| Other gains and losses | 6 | 4,585 | 23,544 |
| Staff costs | 7 | (75,953) | (91,556) |
| Commission expenses | | (3,039) | (3,348) |
| Depreciation of property and equipment | 16 | (2,026) | (1,839) |
| Finance costs | 9 | (452) | (76) |
| Other operating expenses | | (44,392) | (40,401) |
| Loss before taxation | | (66,778) | (56,735) |
| Income tax (expense) credit | 10 | (698) | 19 |
| Loss and total comprehensive expense for the year | 11 | (67,476) | (56,716) |
| Loss per share (HK cents) | | | |
| Basic | 13 | (9.48) | (9.39) |
| Diluted | 13 | (9.48) | (9.39) |

Consolidated Statement of Financial Position

As at 31 December 2017

| | NOTES | 2017 HK\$'000 | 2016 HK\$'000 |
|---------------------------------------------------------------------|-------|------------------|------------------|
| Non-current assets | | | |
| Trading rights | 14 | – | – |
| Other intangible assets | 15 | 1,246 | 1,246 |
| Property and equipment | 16 | 4,704 | 4,619 |
| Statutory deposits | | 3,447 | 3,125 |
| Rental and utility deposits | | 2,702 | 3,253 |
| Financial assets designated as at fair value through profit or loss | 17 | – | 48,460 |
| Available-for-sale investments | 18 | – | – |
| | | 12,099 | 60,703 |
| Current assets | | | |
| Accounts receivable | 19 | 216,897 | 173,720 |
| Prepayments, deposits and other receivables | | 12,871 | 6,038 |
| Financial assets designated as at fair value through profit or loss | 17 | 63,315 | – |
| Financial assets held for trading | 20 | 272,728 | 257,418 |
| Tax recoverable | | 32 | – |
| Pledged bank deposits | 21 | 40,000 | 40,000 |
| Bank balances and cash | 22 | 228,190 | 247,661 |
| | | 834,033 | 724,837 |
| Current liabilities | | | |
| Accounts payable | 23 | 36,891 | 26,881 |
| Accrued liabilities and other payables | | 16,338 | 19,109 |
| Taxation payable | | 330 | – |
| Short-term bank borrowings | 24 | 40,000 | 40,000 |
| | | 93,559 | 85,990 |
| Net current assets | | 740,474 | 638,847 |
| Total assets less current liabilities | | 752,573 | 699,550 |
| Non-current liability | | | |
| Deferred tax liability | 10 | 388 | – |
| Net assets | | 752,185 | 699,550 |
| Capital and reserves | | | |
| Share capital | 26 | 855,363 | 735,252 |
| Reserves | | (103,178) | (35,702) |
| Total equity | | 752,185 | 699,550 |

The consolidated financial statements on pages 60 to 124 were approved and authorised for issue by the Board of Directors on 27 March 2018 and are signed on its behalf by:

Fu Yiu Man
DIRECTOR

Tin Ka Pak, Timmy
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

| | Share capital HK\$'000 | Capital reserve HK\$'000 | Accumulated losses HK\$'000 | Share option reserve HK\$'000 | Other reserve HK\$'000 | Total HK\$'000 |
|----------------------------------------------------------------|------------------------------|--------------------------------|-----------------------------------|----------------------------------------|------------------------------|-------------------|
| | | (Note 1) | | | (Note 2) | |
| At 1 January 2016 | 639,851 | 123,758 | (122,383) | – | (767) | 640,459 |
| Loss and total comprehensive expense for the year | – | – | (56,716) | – | – | (56,716) |
| Recognition of equity-settled share option expense | – | – | – | 20,607 | – | 20,607 |
| Issue of shares upon exercise of share options | 905 | – | – | (201) | – | 704 |
| Issue of shares by placement | 95,700 | – | – | – | – | 95,700 |
| Transaction costs attributable to issue of shares by placement | (1,204) | – | – | – | – | (1,204) |
| At 31 December 2016 | 735,252 | 123,758 | (179,099) | 20,406 | (767) | 699,550 |
| Loss and total comprehensive expense for the year | – | – | (67,476) | – | – | (67,476) |
| Issue of shares by placement | 120,120 | – | – | – | – | 120,120 |
| Transaction costs attributable to issue of shares by placement | (9) | – | – | – | – | (9) |
| At 31 December 2017 | 855,363 | 123,758 | (246,575) | 20,406 | (767) | 752,185 |

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 capital of Value Convergence Holdings Limited (the "Company") 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 losses, 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 9.90% and 8.84% in VC Capital Limited and VC Asset Management Limited respectively completed in 2012.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

| | NOTES | 2017 HK\$'000 | 2016 HK\$'000 |
|------------------------------------------------------------------------------------------|-------|------------------|------------------|
| Operating activities | | | |
| Loss before taxation | | (66,778) | (56,735) |
| Adjustments for | | | |
| Interest income from authorised institutions | | (581) | (587) |
| Finance costs | 9 | 452 | 76 |
| Depreciation of property and equipment | 16 | 2,026 | 1,839 |
| Unrealised loss (gain) on financial assets held for trading | | 10,110 | (20,130) |
| Fair value change on financial assets designated as at fair value through profit or loss | | (14,855) | (13,460) |
| Impairment loss on accounts receivable, net | | 501 | 32,745 |
| Loss (gain) on disposal of property and equipment | | 2 | (8) |
| Equity-settled share option expense | | – | 20,607 |
| Compensation income arising from profit guarantee | 17 | (978) | – |
| | | (70,101) | (35,653) |
| Movements in working capital | | | |
| (Increase) decrease in accounts receivable | | (43,678) | 95,962 |
| Increase in prepayments, deposits and other receivables | | (820) | (2,795) |
| Decrease in rental and utility deposits | | 551 | – |
| Increase in financial assets held for trading | | (25,420) | (211,496) |
| Increase (decrease) in accounts payable | | 10,010 | (17,403) |
| (Decrease) increase in accrued liabilities and other payables | | (2,773) | 9,619 |
| | | (132,231) | (161,766) |
| Cash used in operations | | | |
| Bank interest received | | 546 | 606 |
| Income tax paid | | (12) | (236) |
| | | (131,697) | (161,396) |
| Investing activities | | | |
| Purchase of property and equipment | 16 | (2,120) | (2,600) |
| Purchase of financial assets designated as at fair value through profit or loss | | – | (35,000) |
| Proceeds from disposal of property and equipment | | 7 | 8 |
| Payment of statutory deposits | | (1,369) | (3,036) |
| Refund of statutory deposits | | 1,047 | 3,727 |
| Deposits for setting up cost of a joint venture company | 34(a) | (5,000) | – |
| | | (7,435) | (36,901) |
| Net cash used in investing activities | | | |

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

| | NOTES | 2017 HK\$'000 | 2016 HK\$'000 |
|--------------------------------------------------------------------------------------------|-------|------------------|------------------|
| Financing activities | | | |
| Proceeds from exercise of share options | | – | 704 |
| Proceeds from issue of shares by placement | 26 | 120,120 | 95,700 |
| Payments for transaction costs attributable to issue of shares by placement | 26 | (9) | (1,204) |
| Interest paid | 25 | (450) | (74) |
| Net cash generated from financing activities | | 119,661 | 95,126 |
| Net decrease in cash and cash equivalents | | (19,471) | (103,171) |
| Cash and cash equivalents at the beginning of year | | 247,661 | 350,832 |
| Cash and cash equivalents at the end of year, represented by bank balances and cash | | 228,190 | 247,661 |
| Cash flows from operating activities include: | | | |
| Interest received | | 19,930 | 23,031 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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 and proprietary trading.

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”)

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time in the current year:

| | |
|------------------------|--------------------------------------------------------------|
| Amendments to HKAS 7 | Disclosure initiative |
| Amendments to HKAS 12 | Recognition of deferred tax assets for unrealised losses |
| Amendments to HKFRS 12 | As part of the annual improvements to HKFRSs 2014 – 16 cycle |

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

Amendments to HKAS 7 “Disclosure initiative”

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in Note 25. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in Note 25, the application of these amendments has had no impact on the Group’s consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

New standards, amendments to and interpretation of HKFRSs (“new and revised HKFRSs”) in issue but not yet effective

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

| | |
|------------------------------------|----------------------------------------------------------------------------------------------------|
| HKFRS 9 | Financial instruments ¹ |
| HKFRS 15 | Revenue from contracts with customers and the related amendments ¹ |
| HKFRS 16 | Leases ² |
| HKFRS 17 | Insurance contracts ⁴ |
| Amendments to HKAS 28 | As part of the annual improvements to HKFRSs 2014 – 2016 cycle ¹ |
| Amendments to HKAS 28 | Investments in associates and joint ventures ² |
| Amendments to HKAS 40 | Transfers of investment property ¹ |
| Amendments to HKFRS 2 | Classification and measurement of share-based payment transactions ¹ |
| Amendments to HKFRS 4 | Applying HKFRS 9 “Financial instruments” with HKFRS 4 “Insurance contracts” ¹ |
| Amendments to HKFRS 9 | Prepayment features with negative compensation ² |
| Amendments to HKFRS 10 and HKAS 28 | Sale or contribution of assets between an investor and its associate or joint venture ³ |
| Amendments to HKFRSs | Annual improvements to HKFRSs 2015 – 2017 cycle ² |
| HK(IFRIC) – Int 22 | Foreign currency transactions and advance consideration ¹ |
| HK(IFRIC) – Int 23 | Uncertainty over income tax treatments ² |

¹ Effective for annual periods beginning on or after 1 January 2018.

² Effective for annual periods beginning on or after 1 January 2019.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 January 2021.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

HKFRS 9 “Financial instruments”

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- All recognised financial assets that are within the scope of HKFRS 9 are required to be 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 that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income (“FVTOCI”). All other financial assets are measured at their fair value at 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.
- 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 “Financial instruments: recognition and measurement”. 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.

Based on the Group’s financial instruments and risk management policies as at 31 December 2017, the Directors of the Company anticipate the following impacts on initial application of HKFRS 9:

Classification and measurement

- Financial assets designated as at fair value through profit or loss (“FVTPL”) as disclosed in note 17: The Group will not elect the option for designation at FVTOCI for these financial assets (investments in equity securities) designated as at FVTPL. Therefore, these financial assets will continue to be measured at fair value with subsequent fair value gains or losses recognised in profit or loss upon application of HKFRS 9.
- Equity instruments classified as available-for-sale financial assets carried at costs less impairment as disclosed in Note 18: these financial assets (investment in equity securities) qualify for designation as measured at FVTOCI under HKFRS 9 and the Group will elect this option for designation at FVTOCI for these financial assets. Therefore, these financial assets will be measured at fair value with fair value gains or losses to be recognised as other comprehensive income and accumulated in the investments revaluation reserve. Upon initial application of HKFRS 9, the Directors of the Company considered the differences between the cost less impairment and fair value that will be adjusted to accumulated losses as at 1 January 2018 to be not material.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

HKFRS 9 “Financial instruments” – continued

Classification and measurement – continued

- Accounts receivable from margin clients arising from the ordinary course of business of dealing in securities transactions and amounts receivable arising from the ordinary course of business of money lending services classified as loans and receivables carried at amortised costs as disclosed in Note 19: All of these financial assets are held within a business model whose objective is to collect contractual cash flows that are solely payments of principal and interest on the principal outstanding (“contractual cash flow characteristics test”). Accordingly, they will continue to be subsequently measured at amortised costs upon the application of HKFRS 9;
- All other financial assets and liabilities will continue to be measured on the same basis as are currently measured under HKAS 39.

According to the assessment made by Directors of the Company up to the date of this Annual Report, the changes in measurement basis mentioned above in respect of financial assets will not significantly impact the total equity of the Group at 1 January 2018 on initial application of HKFRS 9, after taking into account the impact of deferred tax, if any.

Impairment

In general, the Directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group’s financial assets measured at amortised cost and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the Directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would be increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to the expected credit losses provision on accounts receivable arising from securities transactions and money lending services. Such further impairment recognised under the expected credit loss model would increase the opening accumulated losses at 1 January 2018 by less than 2% of the total equity as at 31 December 2017.

The above estimates of the impact on initial application of HKFRS 9 as at 1 January 2018 are based on the accounting policies, assumptions, judgments and estimation techniques that remain subject to change until the Group finalises its consolidated financial statements for the year ending 31 December 2018.

HKFRS 15 “Revenue from contracts with customers”

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction contracts” and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

HKFRS 15 “Revenue from contracts with customers” – continued

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Group provides various types of financial services. Revenue comprises primarily commission income arising from securities, futures and options brokering and dealing, and placing and underwriting services, fee income arising from arrangement, referral and advisory services, and interest income from provision of margin financing and money lending services. The Directors of the Company intend to use the modified approach of transition to HKFRS 15. Under the modified approach, the Group shall apply the standard from the date of initial application (i.e. 1 January 2018). The Group is not required to adjust prior year comparatives and do not need to consider contracts that have completed prior to the date of initial application. Broadly, the figures reported from the date of initial application will be the same as if the standard had always been applied, but figures for comparative periods will remain on the previous basis. The Directors of the Company have assessed the impact on application of HKFRS 15 and did not anticipate a material impact on revenue from securities, futures and options brokering and dealing, and placing and underwriting services, fee income arising from arrangement and referral services, and interest income from provision of margin financing and money lending services. However, application of HKFRS 15 may have impact on the timing on revenue recognition from advisory services. In addition, the application of HKFRS 15 may result in more disclosures in the consolidated financial statements.

HKFRS 16 “Leases”

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 “Leases” and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively by the Group.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

HKFRS 16 “Leases” – continued

As at 31 December 2017, the Group has non-cancellable operating lease commitments of approximately HK\$11,500,000 as disclosed in Note 28(b). A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of approximately HK\$3,244,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

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. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”) and the Hong Kong Companies Ordinance.

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.

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 “Share-based payment”, or leasing transactions that are within the scope of HKAS 17 “Leases”, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 “Inventories” or value in use in HKAS 36 “Impairment of assets”.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES – continued

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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 is recognised on the following bases:

- Brokerage commission and other related fee from dealing in securities and futures and options contracts are recorded as income on a trade date basis.
- Underwriting, sub-underwriting, placing 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, advisory, referral fee and other fee income are recognised when the relevant transactions have been arranged or the relevant services have been rendered.
- Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.
- Dividend income from financial assets held for trading is recognised when the shareholder's right to receive payment has been established.

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

Depreciation 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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.

Financial assets

Financial assets are classified into loans and receivables, available-for-sale financial assets and financial assets at FVTPL. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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
- 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Financial assets at FVTPL – continued

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

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 accounts receivable, deposits and other receivables, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment of financial assets below).

Available-for-sale financial assets

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

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of each reporting period (see accounting policy in respect of impairment of financial assets below).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

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.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

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.

Other financial liabilities

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

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.

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

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity or when it neither transfers nor retain substantially all the risks and rewards of ownership and does not retain control.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Borrowing costs

All 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 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.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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

Current tax and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current tax and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Leasing

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

The Group as lessee

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 carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to directors, employees and other eligible persons

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, 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 each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting condition. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss. When the share options are exercised, the amount previously recognised in the 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 accumulated losses.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Share-based payment transactions – continued

Equity-settled share-based payment transactions – continued

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 accumulated losses.

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.

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities’ carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Impairment losses on tangible and intangible assets

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

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. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or the cash-generating unit 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 immediately in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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 2017, no deferred tax asset has been recognised in respect of certain tax losses of approximately HK\$329,042,000 (2016: HK\$268,027,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits generated are more than expected, or changes in facts and circumstances which result in revision of future taxable profits estimation, a material recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a recognition takes place. Details of the deferred tax assets and liabilities are set out in Note 10.

Estimated impairment of accounts receivable

When there is an objective evidence of impairment loss, the Group takes this into consideration in 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 from collaterals pledged and expected cash settlement by the borrowers. Where the actual future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss/further impairment loss may arise. As at 31 December 2017, the carrying amount of accounts receivable was approximately HK\$216,897,000 (2016: HK\$173,720,000) and impairment losses of approximately HK\$499,000 (2016: HK\$32,744,000) and HK\$2,000 (2016: HK\$1,000) arising from money lending services and securities transactions respectively have been recognised during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

5. REVENUE AND SEGMENT INFORMATION

Revenue principally arises from the financial services business comprising the provision of 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 services, and other corporate finance related advisory services, and proprietary trading.

| | 2017 HK\$'000 | 2016 <i>HK\$'000</i> |
|----------------------------------------------------------------------------------------------------------|--------------------------------|-------------------------|
| Revenue | | |
| Brokerage commission and other related fees from dealing in securities and futures and options contracts | 21,388 | 20,754 |
| Underwriting, sub-underwriting, placing and sub-placing commission | 311 | 4,654 |
| Arrangement, referral, advisory and other fee income | 12,503 | 7,497 |
| Interest income from clients | 19,384 | 22,425 |
| Dividend income from listed securities | 99 | 953 |
| | 53,685 | 56,283 |
| Other income | | |
| Interest income from authorised institutions | 581 | 587 |
| Sundry income | 233 | 71 |
| | 814 | 658 |
| Total income | 54,499 | 56,941 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

5. 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 and proprietary trading businesses and classifies its business into four operating segments, namely brokerage and financing businesses, corporate finance and other advisory services, asset management and proprietary trading and reports to the Group's Executive Committee (being the Group's Chief Operating Decision Maker) accordingly. Details of these four 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 and other advisory services segment engages in the provision of corporate financial advisory services and company secretarial services;
- (iii) the asset management segment engages in the provision of asset management services; and
- (iv) the proprietary trading segment engages in the trading of equity securities, debt securities and other financial products.

The following tables presented revenue and results of these reportable and operating segments for the years ended 31 December 2017 and 2016.

Year ended 31 December 2017

| | Brokerage and financing HK\$'000 | Corporate finance and other advisory services HK\$'000 | Asset management HK\$'000 | Proprietary trading HK\$'000 | Segment total HK\$'000 | Eliminations HK\$'000 | Total HK\$'000 |
|--------------------------------------------------------------|-------------------------------------|-----------------------------------------------------------|------------------------------|---------------------------------|---------------------------|--------------------------|-------------------|
| Segment revenue | 46,721 | 6,865 | - | 99 | 53,685 | - | 53,685 |
| Inter-segment sales | 3,968 | 20 | - | - | 3,988 | (3,988) | - |
| | 50,689 | 6,885 | - | 99 | 57,673 | (3,988) | 53,685 |
| Segment profit (loss) | 9,981 | (5,115) | (1,799) | (23,956) | (20,889) | - | (20,889) |
| Central administrative costs | | | | | | | (61,722) |
| Fair value change on financial assets designated as at FVTPL | | | | | | | 14,855 |
| Compensation income arising from profit guarantee (Note 17) | | | | | | | 978 |
| Loss before taxation for the year | | | | | | | (66,778) |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

5. REVENUE AND SEGMENT INFORMATION – continued

Year ended 31 December 2017 – continued

Other segment information

| | Brokerage and financing HK\$'000 | Corporate finance and other advisory services HK\$'000 | Asset management HK\$'000 | Proprietary trading HK\$'000 | Adjustments HK\$'000 | Segment total HK\$'000 | Total HK\$'000 |
|--------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|--------------------------------------------------------------------|---------------------------------|------------------------------------|-------------------------|------------------------------|-------------------|
| | | | | | | (Note) | |
| Amounts included in the measure of segment profit or loss: | | | | | | | |
| Net realised and unrealised loss on financial assets held for trading | - | - | - | 10,820 | 10,820 | - | 10,820 |
| Interest income from authorised institutions | (523) | (38) | (19) | - | (580) | (1) | (581) |
| Staff costs | 26,967 | 7,506 | 1,320 | - | 35,793 | 40,160 | 75,953 |
| Commission expenses | 3,039 | - | - | 965 | 4,004 | (965) | 3,039 |
| Depreciation of property and equipment | 648 | 111 | 2 | - | 761 | 1,265 | 2,026 |
| Impairment loss on accounts receivable, net | 501 | - | - | - | 501 | - | 501 |
| Finance costs | 4,275 | - | - | 9,338 | 13,613 | (13,161) | 452 |
| Amounts regularly provided to the Group's Executive Committee but not included in the measure of segment profit or loss: | | | | | | | |
| Income tax expense | 270 | 25 | - | 388 | 683 | 15 | 698 |

Year ended 31 December 2016

| | Brokerage and financing HK\$'000 | Corporate finance and other advisory services HK\$'000 | Asset management HK\$'000 | Proprietary trading HK\$'000 | Segment total HK\$'000 | Eliminations HK\$'000 | Total HK\$'000 |
|----------------------------------------------------------------|-------------------------------------------|--------------------------------------------------------------------|---------------------------------|------------------------------------|------------------------------|--------------------------|-------------------|
| Segment revenue | 49,333 | 5,997 | - | 953 | 56,283 | - | 56,283 |
| Inter-segment sales | 896 | 20 | - | - | 916 | (916) | - |
| | 50,229 | 6,017 | - | 953 | 57,199 | (916) | 56,283 |
| Segment (loss) profit | (32,933) | (5,011) | (2,150) | 40,257 | 163 | - | 163 |
| Central administrative costs | | | | | | | (70,358) |
| Fair value change on financial asset designated as at FVTPL | | | | | | | 13,460 |
| Loss before taxation for the year | | | | | | | (56,735) |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

5. REVENUE AND SEGMENT INFORMATION – continued

Year ended 31 December 2016 – continued

Other segment information

| | Brokerage and financing HK\$'000 | Corporate finance and other advisory services HK\$'000 | Asset management HK\$'000 | Proprietary trading HK\$'000 | Segment total HK\$'000 | Eliminations HK\$'000 | Total HK\$'000 |
|--------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|--------------------------------------------------------------------|---------------------------------|------------------------------------|------------------------------|--------------------------|-------------------|
| | | | | | | | |
| | | | | | | (Note) | |
| Amounts included in the measure of segment profit or loss: | | | | | | | |
| Net realised and unrealised gain on financial assets held for trading | - | - | - | (42,018) | (42,018) | (896) | (42,914) |
| Interest income from authorised institutions | (479) | (30) | (17) | - | (526) | (61) | (587) |
| Staff costs | 25,160 | 6,769 | 1,528 | - | 33,457 | 58,099 | 91,556 |
| Commission expenses | 3,248 | 100 | - | - | 3,348 | - | 3,348 |
| Depreciation of property and equipment | 948 | 20 | 2 | - | 970 | 869 | 1,839 |
| Impairment loss on accounts receivable, net | 32,745 | - | - | - | 32,745 | - | 32,745 |
| Finance costs | 1,375 | - | - | 2,634 | 4,009 | (3,933) | 76 |
| Amounts regularly provided to the Group's Executive Committee but not included in the measure of segment profit or loss: | | | | | | | |
| Income tax credit | (19) | - | - | - | (19) | - | (19) |

Note: Adjustments include the central administrative costs that are not directly allocated to the four operating segments and also represent the intra-group sales, 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 deduction of central administrative costs, fair value change on financial assets designated as at FVTPL and compensation income arising from profit guarantee. This is the measure reported to the Group's Executive Committee for the purposes of resource allocation and performance assessment.

In 2017, two customers contributed 10% or more of the Group's revenue each, in which the revenue from these customers amounted to approximately HK\$5,603,000 and HK\$5,445,000 respectively. In 2016, no single customer contributed 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 is mainly derived from Hong Kong for both 2017 and 2016. Almost all of its non-current assets are attributed to the operations in Hong Kong and located in Hong Kong.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

6. OTHER GAINS AND LOSSES

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---------------------------------------------------------------------------------|-------------------------|-------------------------|
| Fair value change on financial assets designated as at FVTPL (<i>Note 17</i>) | 14,855 | 13,460 |
| Net realised and unrealised (loss) gain on financial assets held for trading | (10,820) | 42,914 |
| Impairment loss on accounts receivable, net | (501) | (32,745) |
| (Loss) gain on disposal of property and equipment | (2) | 8 |
| Net exchange gain (loss) | 75 | (93) |
| Compensation income arising from profit guarantee (<i>Note 17</i>) | 978 | – |
| | 4,585 | 23,544 |

7. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|------------------------------------------------------------------------------------|-------------------------|-------------------------|
| Staff commission | 10,894 | 9,567 |
| Salaries and wages | 52,930 | 46,535 |
| Staff welfare | 2,282 | 1,871 |
| Recruitment costs | 411 | 102 |
| (Reversal) provision of long service payment/annual leave benefits | (122) | 361 |
| Retirement benefits scheme contributions | 1,555 | 1,375 |
| Discretionary and performance related incentive payments and provision of gratuity | 8,003 | 11,138 |
| Equity-settled share option expense | – | 20,607 |
| | 75,953 | 91,556 |

The Group participates in 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 Schemes Ordinance in December 2000. The assets of which are held in separate trustee-administered funds. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme have switched to the MPF Scheme and all new eligible employees joining the Group on or after December 2000 are all under the MPF Scheme. No further contribution was made to the ORSO Scheme after the switch.

Both the Group and the employees contribute a fixed percentage of the relevant payroll to the MPF Scheme. The contribution by the Group is capped at HK\$1,500 per employee per month and is expensed as incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

8. 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 HK\$'000 | Salaries and other benefits HK\$'000 | Retirement benefits scheme contribution HK\$'000 | Discretionary and performance related incentive payments HK\$'000 | Equity-settled share option expense HK\$'000 | Total emoluments HK\$'000 |
|-------------------------------------|------------------|-----------------------------------------------|--------------------------------------------------------------|-------------------------------------------------------------------------------------|-------------------------------------------------------|---------------------------------|
| (Note 1) | | | | | | |
| 2017 | | | | | | |
| Executive Directors | | | | | | |
| Chung Chi Shing, Eric (Note 2) | - | 1,174 | 14 | 1,330 | - | 2,518 |
| Tin Ka Pak, Timmy | - | 1,559 | 18 | 1,331 | - | 2,908 |
| Lin Hoi Kwong, Aristo | - | 1,559 | 18 | 131 | - | 1,708 |
| Xie Jintai | - | 1,000 | - | 83 | - | 1,083 |
| Chau King Fai, Philip (Note 3) | - | 954 | 8 | - | - | 962 |
| Non-executive Director | | | | | | |
| Chung Chi Shing, Eric (Note 2) | 49 | - | - | - | - | 49 |
| Independent Non-executive Directors | | | | | | |
| Wong Chung Kin, Quentin | 216 | - | - | - | - | 216 |
| Wong Kam Choi, Kerry, MH | 216 | - | - | - | - | 216 |
| Siu Miu Man, Simon | 216 | - | - | - | - | 216 |
| | 697 | 6,246 | 58 | 2,875 | - | 9,876 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

(a) Directors' emoluments – continued

| | Fees <i>HK\$'000</i> | Salaries and other benefits <i>HK\$'000</i> | Retirement benefits scheme contribution <i>HK\$'000</i> | Discretionary and performance related incentive payments <i>HK\$'000</i> | Equity-settled share option expense <i>HK\$'000</i> | Total emoluments <i>HK\$'000</i> |
|-----------------------------------------|-------------------------|------------------------------------------------------|---------------------------------------------------------------------|--------------------------------------------------------------------------------------------|--------------------------------------------------------------|----------------------------------------|
| <i>(Note 1)</i> | | | | | | |
| 2016 | | | | | | |
| Executive Directors | | | | | | |
| Tin Ka Pak, Timmy | – | 1,493 | 18 | 125 | 2,884 | 4,520 |
| Chau King Fai, Philip | – | 2,305 | 18 | 189 | 222 | 2,734 |
| Lin Hoi Kwong, Aristo | – | 1,494 | 18 | 125 | 2,884 | 4,521 |
| Xie Jintai (<i>Note 4</i>) | – | 517 | – | 43 | 2,218 | 2,778 |
| Cheng Tze Kit, Larry (<i>Note 5</i>) | – | 1,580 | 13 | 5,000 | – | 6,593 |
| So Wai Yee, Betty (<i>Note 6</i>) | – | 1,329 | 17 | 1,559 | 222 | 3,127 |
| Non-executive Director | | | | | | |
| Chung Chi Shing, Eric | 200 | – | – | – | 266 | 466 |
| Independent Non-executive Directors | | | | | | |
| Wong Chung Kin, Quentin | 216 | – | – | – | 89 | 305 |
| Wong Kam Choi, Kerry, MH | 216 | – | – | – | 89 | 305 |
| Siu Miu Man, Simon (<i>Note 7</i>) | 51 | – | – | – | – | 51 |
| Ip Chun Chung, Robert (<i>Note 8</i>) | 165 | – | – | – | 89 | 254 |
| | 848 | 8,718 | 84 | 7,041 | 8,963 | 25,654 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

(a) Directors' emoluments – continued

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. Chung Chi Shing, Eric was re-designated as the Executive Director of the Company with effect from 31 March 2017.
- (3) Mr. Chau King Fai, Philip retired as the Executive Director of the Company with effect from 25 May 2017.
- (4) Mr. Xie Jintai was appointed as the Executive Director of the Company with effect from 17 June 2016.
- (5) Mr. Cheng Tze Kit, Larry resigned as the Executive Director of the Company with effect from 13 September 2016.
- (6) Ms. So Wai Yee, Betty resigned as the Executive Director of the Company with effect from 22 November 2016.
- (7) Mr. Siu Miu Man, Simon was appointed as the Independent Non-executive Director of the Company with effect from 7 October 2016.
- (8) Mr. Ip Chun Chung, Robert resigned as the Independent Non-executive Director of the Company with effect from 7 October 2016.

The Executive Directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group. The Non-executive Director's and the Independent Non-executive Directors' emoluments shown above were mainly for their services as directors of the Company.

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

For the year ended 31 December 2017, 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. For the year ended 31 December 2016, 20,200,000 share options were granted and vested immediately and share option expense of HK\$8,963,000 was recognised. Details of the share option scheme of the Company are set out in Note 27.

For the years ended 31 December 2017 and 2016, no ordinary shares were awarded to the Directors of the Company under share incentive award schemes in respect of their services provided to the Group. Further details of which are set out in Note 27.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

(b) Senior management's emoluments

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

| | Number of individuals | |
|-------------------------------|-----------------------|------|
| | 2017 | 2016 |
| Emolument bands | | |
| HK\$1,000,001 – HK\$1,500,000 | 2 | 1 |
| HK\$2,000,001 – HK\$2,500,000 | 1 | 1 |
| HK\$2,500,001 – HK\$3,000,000 | 1 | 1 |

The senior management represents key management personnel of the Group, other than Directors of the Company whose emoluments are included in Note 8(a) above. The emoluments of the key management personnel are included in Note 31.

(c) Five highest paid individuals' emoluments

For the year ended 31 December 2017, of the five individuals with the highest emoluments in the Group, three (2016: all) were Directors of the Company whose emoluments are included in Note 8(a) above. One of these three Directors of the Company retired as the Director of the Company during the year and his emoluments as an employee for the rest of year since retirement and the emoluments of the remaining two individuals in 2017 were as follows:

| | 2017 HK\$'000 | 2016 HK\$'000 |
|----------------------------------------------------------|------------------|------------------|
| Salaries and other benefits | 5,618 | – |
| Retirement benefits scheme contributions | 43 | – |
| Discretionary and performance related incentive payments | 373 | – |
| | 6,034 | – |

The emoluments of the two individuals who are not Directors of the Company and the retired Director of the Company (excluding Directors' emoluments) fell within the following bands:

| | Number of individuals | |
|-------------------------------|-----------------------|------|
| | 2017 | 2016 |
| Emolument bands | | |
| HK\$1,000,001 – HK\$1,500,000 | 1 | – |
| HK\$2,000,001 – HK\$2,500,000 | 1 | – |
| HK\$2,500,001 – HK\$3,000,000 | 1 | – |

During the years ended 31 December 2017 and 2016, 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

9. FINANCE COSTS

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---------------------------|------------------|------------------|
| Interests on: | | |
| Bank loans and overdrafts | 452 | 76 |

10. INCOME TAX EXPENSE (CREDIT)

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

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--------------------------------------------|------------------|------------------|
| Current tax | | |
| Hong Kong Profits Tax | 315 | - |
| The People's Republic of China (the "PRC") | | |
| Enterprise Income Tax | 15 | - |
| Overprovision in prior year | | |
| Hong Kong Profits Tax | (20) | (19) |
| Deferred tax | | |
| Current year | 388 | - |
| | 698 | (19) |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. The PRC representative offices are subject to the PRC Enterprise Income Tax at 25% for 2017.

The tax expense (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:

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---------------------------------------------------------------------------|------------------|------------------|
| Loss before taxation | (66,778) | (56,735) |
| Calculated at Hong Kong Profits Tax rate of 16.5% (2016: 16.5%) | (11,018) | (9,361) |
| Tax effect of different tax rate of the PRC representative offices | 15 | - |
| Tax effect of income not taxable for tax purpose | (2,182) | (2,439) |
| Tax effect of expenses not deductible for tax purpose | 4,284 | 6,424 |
| Overprovision in respect of prior year | (20) | (19) |
| Tax effect of temporary difference not recognised | 20 | 549 |
| Tax effect of previously unrecognised taxable temporary difference | - | 1,339 |
| Utilisation of previously unrecognised deductible temporary difference | (469) | - |
| Utilisation of previously unrecognised tax losses | (1,574) | (266) |
| Tax effect of tax losses not recognised | 11,642 | 3,754 |
| Tax expense (credit) for the year | 698 | (19) |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

10. INCOME TAX EXPENSE (CREDIT) – continued

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the year:

| | Tax losses <i>HK\$'000</i> | Unrealised gain on financial assets held for trading <i>HK\$'000</i> | Accelerated tax depreciation <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|-----------------------------------|----------------------------------|-------------------------------------------------------------------------------------|-------------------------------------------------------|--------------------------|
| At 1 January 2016 | – | – | – | – |
| (Credit) charge to profit or loss | (5,330) | 4,961 | 369 | – |
| At 31 December 2016 | (5,330) | 4,961 | 369 | – |
| Charge (credit) to profit or loss | 2,576 | (2,137) | (51) | 388 |
| At 31 December 2017 | (2,754) | 2,824 | 318 | 388 |

At 31 December 2017, the Group has estimated unused tax losses of approximately HK\$345,738,000 (2016: HK\$300,331,000) available for offset against future profits. As at 31 December 2017, deferred tax asset and liability have been recognised in respect of tax losses of approximately HK\$16,696,000 (2016: HK\$32,304,000) and taxable temporary difference of approximately HK\$19,046,000 (2016: HK\$32,304,000) respectively. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK\$329,042,000 (2016: HK\$268,027,000) due to the unpredictability of future profit streams. The estimated unused tax losses have no expiry date but are subject to further approval of the Hong Kong Inland Revenue Department.

11. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|------------------------------------------------------------------------------|-------------------------|-------------------------|
| Included in other operating expenses: | | |
| Auditor's remuneration | 1,343 | 1,123 |
| Minimum operating lease payments in respect of rental premises | 9,960 | 9,906 |
| Entertainment and travel expenses (mainly incurred for business development) | 14,243 | 12,447 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

12. DIVIDENDS

No dividends have been paid or declared or proposed by the Company during the years ended 31 December 2017 and 2016.

13. 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:

| | 2017 | 2016 |
|-------------------------------------------------------------------------------------------------|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Loss | | |
| Loss for the purposes of basic and diluted loss per share | (67,476) | (56,716) |
| | '000 | '000 |
| Number of shares | | |
| Weighted average number of ordinary shares for the purposes of basic and diluted loss per share | 711,800 | 603,972 |

The diluted loss per share for the years ended 31 December 2017 and 2016 are computed excluding the effect of share options as the exercise of the Company's share options is anti-dilutive.

14. TRADING RIGHTS

| | <i>HK\$'000</i> |
|----------------------------------------------------------|-----------------|
| Cost | |
| At 1 January 2016, 31 December 2016 and 31 December 2017 | 5,066 |
| Amortisation | |
| At 1 January 2016, 31 December 2016 and 31 December 2017 | 5,066 |
| Carrying values | |
| At 31 December 2016 and 31 December 2017 | – |

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 ("HKSCC").

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

15. OTHER INTANGIBLE ASSETS

| | <i>HK\$'000</i> |
|----------------------------------------------------------|-----------------|
| Cost | |
| At 1 January 2016, 31 December 2016 and 31 December 2017 | <u>1,538</u> |
| Accumulated impairment | |
| At 1 January 2016, 31 December 2016 and 31 December 2017 | <u>292</u> |
| Carrying values | |
| At 31 December 2016 and 31 December 2017 | <u>1,246</u> |

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 ended 31 December 2017 and 2016.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

16. PROPERTY AND EQUIPMENT

| | Leasehold improvements <i>HK\$'000</i> | Furniture, fixtures and equipment <i>HK\$'000</i> | Computer equipment and software <i>HK\$'000</i> | Motor vehicles <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|----------------------|----------------------------------------------|------------------------------------------------------------|----------------------------------------------------------|--------------------------------------|--------------------------|
| Cost | | | | | |
| At 1 January 2016 | 3,871 | 6,378 | 9,359 | 1,649 | 21,257 |
| Additions | – | 141 | 1,054 | 1,405 | 2,600 |
| Written off/disposal | – | (69) | (930) | – | (999) |
| At 31 December 2016 | 3,871 | 6,450 | 9,483 | 3,054 | 22,858 |
| Additions | 651 | 486 | 163 | 820 | 2,120 |
| Written off/disposal | (82) | (2,014) | (32) | – | (2,128) |
| At 31 December 2017 | 4,440 | 4,922 | 9,614 | 3,874 | 22,850 |
| Depreciation | | | | | |
| At 1 January 2016 | 3,719 | 5,947 | 7,553 | 180 | 17,399 |
| Charge for the year | 152 | 170 | 1,047 | 470 | 1,839 |
| Written off/disposal | – | (69) | (930) | – | (999) |
| At 31 December 2016 | 3,871 | 6,048 | 7,670 | 650 | 18,239 |
| Charge for the year | 169 | 238 | 906 | 713 | 2,026 |
| Written off/disposal | (82) | (2,005) | (32) | – | (2,119) |
| At 31 December 2017 | 3,958 | 4,281 | 8,544 | 1,363 | 18,146 |
| Carrying values | | | | | |
| At 31 December 2017 | 482 | 641 | 1,070 | 2,511 | 4,704 |
| At 31 December 2016 | – | 402 | 1,813 | 2,404 | 4,619 |

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 vehicles | 20% |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

17. FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---------------------------------------------|------------------|------------------|
| Equity securities with embedded derivatives | – | 48,460 |
| Equity securities listed in Hong Kong | 63,315 | – |
| | 63,315 | 48,460 |

On 11 May 2016, Century Race Investments Limited (“Century Race”), an indirect wholly owned subsidiary of the Company, entered into a sale and purchase agreement (the “First S&P Agreement”) with an independent third party (the “Holder”) to acquire 6% equity interest of a private entity incorporated in the British Virgin Islands (the “Acquired Company”) at a consideration of HK\$20 million. On 7 July 2016, Century Race entered into another sale and purchase agreement (the “Second S&P Agreement”) with the Holder and the Acquired Company whereby the Holder agreed to buy back the 6% equity interest of the Acquired Company from Century Race at a consideration of HK\$20 million and Century Race agreed to acquire 10.5% equity interest of IBO Technology Company Limited (“IBO Tech”), which is incorporated in the Cayman Islands and held by the Acquired Company, at a consideration of HK\$35 million. Net cash outflow of the Second S&P Agreement was HK\$15 million.

According to the Second S&P Agreement, the Holder and the Acquired Company jointly and severally guarantee that IBO Tech’s net profit after tax for the years ending 31 March 2017 and 31 March 2018 shall not be less than RMB37.5 million and RMB50 million (the “Guaranteed Amounts”) respectively. In the event that IBO Tech’s net profit after tax falls below the Guaranteed Amounts in any of the two years, the Holder and the Acquired Company shall compensate Century Race by proportion to the percentage of shareholding interest in cash. Meanwhile, Century Race has the right to request the Holder and the Acquired Company to buy back its shareholding interest in IBO Tech (the “Buy-back Option”) if IBO Tech is not listed on the Main Board of the Stock Exchange on or before 31 December 2017.

The investment is managed and its performance is evaluated on a fair value basis, in accordance with the Group’s investment strategy so that the Group designated the investment as financial assets designated as at fair value through profit or loss.

As at 31 December 2016, the Group’s equity interest of IBO Tech were remeasured at fair value of HK\$48,460,000 with reference to the recent and similar transaction executed in late December 2016, with a fair value gain of approximately HK\$13,460,000 recognised in profit or loss for the year ended 31 December 2016.

On 28 December 2017, IBO Tech has been listed on the Main Board of the Stock Exchange and Century Race’s shareholding in IBO Tech was then diluted to 7.875% of the entire listed share of IBO Tech as at 31 December 2017. According to the Second S&P Agreement, all the rights granted by the Holder and the Acquired Company to Century Race have been terminated and ceased to be effective upon the listing of IBO Tech, including the abovementioned profit guarantee for the year ending 31 March 2018 and the Buy-back Option. Further, Century Race has undertaken not to dispose of or otherwise encumber any of its interest in IBO Tech up to the date falling on the expiration of 6 months of the listing (both days inclusive). The fair value of Century Race’s interest in IBO Tech as at 31 December 2017 was approximately HK\$63,315,000 based on its quoted market price available on the Stock Exchange. As such, there was an increase in the fair value of approximately HK\$14,855,000 for the year ended 31 December 2017.

As abovementioned, Century Race was guaranteed that IBO Tech’s net profit after tax for the year ended 31 March 2017 shall not be less than RMB37.5 million. Based on the audited financial information of IBO Tech for the year ended 31 March 2017, Century Race recognised a gain of approximately RMB846,000 (equivalent to approximately HK\$978,000) which was included in other gains and losses as set out in Note 6.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

18. AVAILABLE-FOR-SALE INVESTMENTS

HK\$'000

| | |
|----------------------------------------------------------|-----|
| Cost | |
| At 1 January 2016, 31 December 2016 and 31 December 2017 | 550 |
| Accumulated impairment | |
| At 1 January 2016, 31 December 2016 and 31 December 2017 | 550 |
| Carrying value | |
| At 31 December 2016 and 31 December 2017 | – |
| Analysed for reporting purpose as non-current assets | |
| At 31 December 2016 and 31 December 2017 | – |

The above investments represent investments 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.

19. ACCOUNTS RECEIVABLE

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Accounts receivable arising from the ordinary course of business of dealing in: | | |
| Securities transactions (<i>Note a</i>): | | |
| Clearing house | 14,909 | 124 |
| Cash clients | 30,419 | 15,197 |
| Margin clients | 88,252 | 154,209 |
| Futures and options contracts transactions (<i>Note a</i>): | | |
| Clearing house | 4 | 4 |
| Accounts receivable arising from the ordinary course of business of provision of corporate finance and other advisory services (<i>Note b</i>) | 1,284 | 311 |
| Accounts receivable arising from the ordinary course of business of money lending services (<i>Note c</i>) | 115,272 | 36,620 |
| | 250,140 | 206,465 |
| Less: Allowance for impairment (<i>Note d</i>) | (33,243) | (32,745) |
| | 216,897 | 173,720 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

19. ACCOUNTS RECEIVABLE – continued

Notes:

- (a) 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 day after the trade date. Accounts receivable from clearing house and majority of accounts receivable from cash clients represent trades pending settlement arising from the business of dealing in securities transactions.

In respect of the accounts receivable arising from dealing in securities, futures and options contracts, except for those amounts due from margin clients, the aging analysis based on the trade date is as follows:

| | 2017 HK\$'000 | 2016 <i>HK\$'000</i> |
|----------------|--------------------------------|-------------------------|
| Within 30 days | 44,562 | 14,439 |
| 31 – 90 days | 288 | 170 |
| Over 90 days | 482 | 716 |
| | 45,332 | 15,325 |

Included in the amount of HK\$45,332,000 (2016: HK\$15,325,000), approximately HK\$5,201,000 (2016: HK\$885,000) is past due but not impaired from cash clients as at 31 December 2017, aging analysis of which is as follows:

| | 2017 HK\$'000 | 2016 <i>HK\$'000</i> |
|----------------|--------------------------------|-------------------------|
| Within 30 days | 4,431 | – |
| 31 – 90 days | 288 | 170 |
| Over 90 days | 482 | 715 |
| | 5,201 | 885 |

As at 31 December 2017, no impairment loss had been provided for the amounts that are past due as the fair value of the listed securities of approximately HK\$43,070,000 (2016: HK\$29,672,000) of these cash clients held by the Group were generally over the relevant carrying amounts of the receivable. No such listed securities held can be pledged by the Group and the corresponding listed securities held can be sold at the Group's discretion to settle any past due outstanding amounts of the cash clients. Accounts receivable due from cash clients bear interest at commercial rates when it becomes past due.

As at 31 December 2017, no accounts receivable due from cash clients were past due and impaired (2016: approximately HK\$1,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

19. ACCOUNTS RECEIVABLE – continued

Notes: – continued

(a) continued

As at 31 December 2017, accounts receivable due from margin clients were secured by the clients' pledged listed securities which carried a fair value of approximately HK\$480,307,000 (2016: HK\$623,475,000). The management of the Group has assessed the market value of pledged listed securities of each individual customer that has margin shortfall as at the end of each reporting period and considered that no impairment allowance is necessary.

Securities are assigned with specific margin ratios for calculating margin values. Additional funds or collateral are required if the amount of accounts receivable from margin clients outstanding exceeds the eligible margin value of the securities deposited. The collateral held can be re-pledged 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. Accounts receivable due from margin clients are repayable on demand and bear interest at commercial rates.

As at 31 December 2017, accounts receivable of approximately HK\$18,000 is due from a director of the Group in respect of transactions in securities undertaken for his accounts (2016: Nil).

(b) The settlement terms of accounts receivable arising from provision of corporate finance and other advisory services are normally due immediately from date of billing but the Group may grant a credit period of 30 days on average to its clients. The aging analysis of these receivables based on the invoice date is as follows:

| | 2017 HK\$'000 | 2016 <i>HK\$'000</i> |
|----------------|--------------------------------|-------------------------|
| Within 30 days | 515 | 311 |
| 31 – 90 days | 419 | – |
| Over 90 days | 350 | – |
| | 1,284 | 311 |

Included in the amount of HK\$1,284,000 (2016: HK\$311,000), approximately HK\$769,000 (2016: Nil), which are over 30 days based on the invoice date, are past due but not impaired as at 31 December 2017. The Group had not provided for any impairment loss as the management was satisfied with the credit quality of the clients and some of these clients had on-going projects with the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

19. ACCOUNTS RECEIVABLE – continued

Notes: – continued

- (c) As at 31 December 2017, accounts receivable arising from money lending services bear fixed-rate interest of 1.5% to 1.8% per month or 12% per annum (2016: 1.5% per month or 12% per annum). The accounts receivable had remaining contractual maturity date falling within one year as at the end of each reporting period. As at 31 December 2017, accounts receivable with net carrying amount of approximately HK\$58.6 million were secured by the clients' pledged listed securities, the client's pledged listed securities held by a discretionary trust in which the client is one of the beneficiaries and/or the corporate/personal guarantee provided by the clients' related parties. As at 31 December 2016, accounts receivable with net carrying amount of approximately HK\$2 million were secured by the personal guarantee provided by the client's related party.

The credit quality of the accounts receivable arising from money lending services is as follows:

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--------------------------------|------------------|------------------|
| Neither past due nor impaired | 81,861 | – |
| Not past due but impaired | – | 36,620 |
| Past due and impaired | 33,411 | – |
| | 115,272 | 36,620 |
| Less: Allowance for impairment | (33,243) | (32,744) |
| | 82,029 | 3,876 |

As at 31 December 2017, accounts receivable arising from money lending services of approximately HK\$33,411,000 were past due and an impairment amount of approximately of HK\$33,243,000 was provided. As at 31 December 2016, accounts receivable arising from money lending services of approximately HK\$36,620,000 were not past due but an impairment amount of approximately of HK\$32,744,000 was provided. The details are explained as follows:

During 2016, the accounts receivable from two margin clients were restructured into term loans based on the financial status of the clients and their financial needs. These term loans were not overdue as at 31 December 2016. However, subsequent to year end, the clients could not settle the outstanding principal according to the loan agreements and the term loans became overdue. Taking into account the specific facts and circumstances, the Group made an impairment loss of approximately HK\$13,989,000 in 2016 for the outstanding principal and accrued interest after deducting the fair value of the borrower's collateral pledged for the term loan and/or any subsequent cash repayments made by the borrowers. During the current year, the Group has taken all necessary legal actions to follow up the outstanding loans and considered that an additional impairment loss of approximately HK\$321,000 was required. As at 31 December 2017, the accounts receivable from these clients amounted to HK\$14,478,000 (2016: HK\$17,865,000) with impairment allowance of HK\$14,310,000 (2016: HK\$13,989,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

19. ACCOUNTS RECEIVABLE – continued

Notes: – continued

(c) – continued

During 2016, another loan was granted to a listed company which was due in January 2017 according to the loan agreement. The client failed to repay the outstanding principal of approximately HK\$18,755,000 on due date. The Group had served a statutory demand to the client but did not receive any positive response thereafter. Accordingly, the Group made a full impairment loss allowance of approximately HK\$18,755,000 in 2016 for the outstanding loan. Based on the published announcements of the listed company, in which provisional liquidators had been appointed, the management considered that the probability of the settlement of outstanding principal and/or accrued interests within a short period of time is highly uncertain. Taking into account the specific facts and circumstances, the Group made an additional impairment loss of approximately HK\$178,000 during the current year. As at 31 December 2017, the accounts receivable from the client amounted to HK\$18,933,000 (2016: HK\$18,755,000) with impairment allowance of HK\$18,933,000 (2016: HK\$18,755,000).

(d) 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 repayment history of each client with entities of the Group.

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

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---------------------------------------------------------------------------|------------------|------------------|
| At beginning of the year | 32,745 | – |
| Impairment loss recognised on amounts receivable arising from: | | |
| Securities transactions | 2 | 1 |
| Money lending services | 499 | 32,744 |
| Amounts written off as uncollectible arising from securities transactions | (3) | – |
| At end of the year | 33,243 | 32,745 |

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

20. FINANCIAL ASSETS HELD FOR TRADING

| | 2017 HK\$'000 | 2016 <i>HK\$'000</i> |
|--------------------------------------------------------|--------------------------------|-------------------------|
| Equity securities listed in Hong Kong, at market value | 272,728 | 257,418 |

21. PLEDGED BANK DEPOSITS

As at 31 December 2017, the Group has placed a bank deposit of HK\$40,000,000 (2016: HK\$40,000,000) at an interest rate of 0.83% (2016: 0.70%) per annum to a bank to secure banking facilities of HK\$100,000,000 (2016: HK\$100,000,000) which included the drawn bank borrowings of HK\$40,000,000 (2016: HK\$40,000,000). Details of the bank borrowings are set out in Note 24.

22. BANK BALANCES AND CASH

Bank balances and cash comprise of cash and short-term bank deposits held by the Group at market interest rates ranging from 0.001% to 1.090% (2016: 0.001% to 1.030%) 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 Brokerage"), 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 2017, the Group maintained segregated accounts at a clearing house of approximately HK\$2,033,000 (2016: HK\$2,026,000) and at other authorised institutions of approximately HK\$267,970,000 (2016: HK\$257,254,000) 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 these consolidated financial statements.

23. ACCOUNTS PAYABLE

| | 2017 HK\$'000 | 2016 <i>HK\$'000</i> |
|------------------------------------------------------|--------------------------------|-------------------------|
| Accounts payable arising from dealing in securities: | | |
| Clearing house | 15,762 | 19,874 |
| Cash clients | 20,245 | 6,827 |
| Margin clients | 884 | 180 |
| | 36,891 | 26,881 |

Accounts payable to clearing house represent trades pending settlement arising from dealing in securities which are usually due within two trading days after the trade date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

23. ACCOUNTS PAYABLE – continued

The accounts payable to cash clients and margin clients are repayable on demand except where certain balances represent trade pending settlement which are usually due within two trading days after the trade date or deposits received from clients for their securities dealing activities. Only the excessive amounts over the required deposits stipulated are repayable on demand.

No aging analysis is disclosed as in the opinion of the Directors of the Company, the aging analysis does not give additional value in view of the nature of this business.

As at 31 December 2017, accounts payable of approximately HK\$18,000 are due to the directors of the Group and the close family members of these directors in respect of transactions in securities undertaken for their accounts (2016: Nil).

24. SHORT-TERM BANK BORROWINGS

| | 2017 HK\$'000 | 2016 HK\$'000 |
|------------------------|------------------|------------------|
| Secured and guaranteed | 40,000 | 40,000 |

The short-term bank borrowings, which were secured by pledged bank deposits and the Company's corporate guarantee, bore an interest rate at the bank's cost of funding plus 2% per annum as at 31 December 2017 (2016: the bank's cost of funding plus 2% per annum). Details of the pledged bank deposits are disclosed in Note 21.

As at 31 December 2017, the Group has unused banking facilities of HK\$60,000,000 (2016: HK\$60,000,000), including an amount of HK\$50,000,000 (2016: HK\$50,000,000) for short-term money market loan for margin financing business and an amount of HK\$10,000,000 (2016: HK\$10,000,000) for drawings against uncleared cheques.

The repayment date of the short-term bank borrowings is 4 January 2018 (2016: 4 January 2017).

25. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | Bank borrowings HK\$'000 | Interest payable HK\$'000 |
|---------------------------|--------------------------------|---------------------------------|
| At 1 January 2017 | 40,000 | 12 |
| Financing cash flows | – | (450) |
| Interest expenses accrued | – | 452 |
| At 31 December 2017 | 40,000 | 14 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

26. SHARE CAPITAL

| | Issued and fully paid ordinary shares | |
|----------------------------------------------------------------|------------------------------------------|--------------------|
| | Number of shares | Amount HK\$'000 |
| At 1 January 2016 | 552,216,829 | 639,851 |
| Issue of shares by placement (<i>Note a</i>) | 110,000,000 | 95,700 |
| Transaction costs attributable to issue of shares by placement | – | (1,204) |
| Issue of shares upon exercise of share options | 400,000 | 905 |
| At 31 December 2016 | 662,616,829 | 735,252 |
| Issue of shares by placement (<i>Note b</i>) | 132,000,000 | 120,120 |
| Transaction costs attributable to issue of shares by placement | – | (9) |
| At 31 December 2017 | 794,616,829 | 855,363 |

Notes:

- (a) On 6 July 2016, the Company entered into a placing agreement with a placing agent regarding the placement of, on a best effort basis, up to an aggregate of 110,000,000 new shares of the Company to not less than six independent parties at a placing price of HK\$0.87 per new share. The placement was completed on 15 July 2016 and a total of 110,000,000 new shares were issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 2 June 2016. The net proceeds from the placement amounted to approximately HK\$94.5 million. The new shares rank *pari passu* with the existing shares in all respects.
- (b) On 28 July 2017, the Company entered into a placing agreement with a placing agent regarding the placement of, on a best effort basis, up to an aggregate of 132,000,000 new shares of the Company to not less than six independent parties at a placing price of HK\$0.91 per new share. The placement was completed on 18 August 2017 and a total of 132,000,000 new shares were issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 25 May 2017. The proceeds from the placement amounted to approximately HK\$120.1 million. The new shares rank *pari passu* with the existing shares in all respects.

27. SHARE OPTIONS AND SHARE AWARDS

Share option scheme

The Company offered the share option scheme 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

27. SHARE OPTIONS AND SHARE AWARDS – continued

Share option scheme – continued

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 8 June 2009, the Company adopted a share option scheme (the “Share Option Scheme”).

On 29 September 2016, directors and employees of the Group were granted share options to subscribe for 41,000,000 underlying shares under the Share Option Scheme. These share options were immediately vested on the grant date and have a duration of 3 years from the date of grant i.e. from 29 September 2016 to 28 September 2019. 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 Share Option Scheme. As at 31 December 2017, the number of shares in respect of which share options had been granted and remained outstanding under the Share Option Scheme was 40,600,000 (2016: 40,600,000), representing approximately 5.11% of the shares of the Company in issue as at 31 December 2017 (2016: 6.13%).

The estimated fair values of the options granted under Share Option Scheme on 29 September 2016 is approximately HK\$20,607,000, which was calculated using the binomial model with the key inputs into the model as disclosed below.

| | 2016 |
|----------------------------------|-------------|
| Share Price at the date of grant | HK\$1.76 |
| Exercise Price | HK\$1.76 |
| Risk-free rate | 0.50% |
| Expected volatility | 82.85% |
| Exercise multiples – directors | 1.37 |
| – employees | 1.55 |

There was no recognition of equity-settled share option expense for the year ended 31 December 2017. For the year ended 31 December 2016, the Group recognised total equity-settled share option expense of approximately HK\$20,607,000 in relation to the 41,000,000 share options granted under the Share Option Scheme in 2016.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

27. SHARE OPTIONS AND SHARE AWARDS – continued

Share option scheme – continued

Movements in the number of share options granted to the Directors of the Company and employees of the Group outstanding under the Share Option Scheme during the year are as follows:

Year ended 31 December 2017

| Categories of grantees | Grant date | Exercise price per share | Number of share options | | | | | Balance as at 31 December 2017 |
|------------------------------------|-------------------|--------------------------|------------------------------|-------------------------|----------------------------------|---------------------------|------------------------|--------------------------------|
| | | | Balance as at 1 January 2017 | Granted during the year | Reclassification during the year | Exercised during the year | Lapsed during the year | |
| | | | | | | | | |
| | | | (Note 1) | | | | | |
| Directors of the Company | 29 September 2016 | HK\$1.76 | 19,500,000 | - | (500,000) | - | - | 19,000,000 |
| Employees | 29 September 2016 | HK\$1.76 | 21,100,000 | - | (8,000,000) | - | - | 13,100,000 |
| Other eligible persons | 29 September 2016 | HK\$1.76 | - | - | 8,500,000 | - | - | 8,500,000 |
| Total | | | 40,600,000 | - | - | - | - | 40,600,000 |
| Exercisable as at 31 December 2017 | | | | | | | | 40,600,000 |
| Weighted average exercise price | | | HK\$1.76 | - | - | - | - | HK\$1.76 |

Year ended 31 December 2016

| Categories of grantees | Grant date | Exercise price per share | Number of share options | | | | | Balance as at 31 December 2016 |
|------------------------------------|-------------------|--------------------------|------------------------------|-------------------------|----------------------------------|---------------------------|------------------------|--------------------------------|
| | | | Balance as at 1 January 2016 | Granted during the year | Reclassification during the year | Exercised during the year | Lapsed during the year | |
| | | | | | | | | |
| | | | (Note 2) | | | | | |
| Directors of the Company | 29 September 2016 | HK\$1.76 | - | 20,200,000 | (700,000) | - | - | 19,500,000 |
| Employees | 29 September 2016 | HK\$1.76 | - | 20,800,000 | 500,000 | (200,000) | - | 21,100,000 |
| Other eligible persons | 29 September 2016 | HK\$1.76 | - | - | 200,000 | (200,000) | - | - |
| Total | | | - | 41,000,000 | - | (400,000) | - | 40,600,000 |
| Exercisable as at 31 December 2016 | | | | | | | | 40,600,000 |
| Weighted average exercise price | | | - | HK\$1.76 | - | HK\$1.76 | - | HK\$1.76 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

27. SHARE OPTIONS AND SHARE AWARDS – continued

Share option scheme – continued

Notes:

- (1) The reclassification represents the number of share options transferred between the different categories of grantees as a result of the retirement of one director and the resignation of certain employees during the year.
- (2) The reclassification represents the number of share options transferred between the different categories of grantees as a result of the resignation of two Directors of the Company during the year. One of the resigned directors remained as an employee of the Group.

In respect of the share options exercised during the year ended 31 December 2016, the weighted average share price of the Company when the share options were exercised was HK\$2.53.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

27. SHARE OPTIONS AND SHARE AWARDS – continued

Awarded share schemes – continued

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 2017 and 2016, there was no movement or outstanding awarded shares under the Share Purchase Scheme.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

28. COMMITMENTS

(a) Capital commitments

As at the end of the reporting period, the Group's commitments contracted but not provided for in respect of capital contribution to a joint venture and purchase of property and equipment are as follows:

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---------------------------------------------------------|------------------|------------------|
| Capital contribution to a joint venture (<i>Note</i>) | 525,056 | 534,000 |
| Purchase of property and equipment | 470 | – |
| | 525,526 | 534,000 |

Note:

On 21 July 2016, VC Brokerage entered into a joint venture agreement (the "Joint Venture Agreement") with three independent third parties to establish a joint venture in Guangxi, the PRC, in which the principal activity is securities broking (the "JV Company"). Pursuant to the Joint Venture Agreement, VC Brokerage will contribute RMB445 million (equivalent to approximately HK\$525 million), representing 44.5% shareholding in the JV Company.

On the same date, the Company entered into a placing agreement with a placing agent to procure on a best effort basis, to not less than six independent parties, to subscribe for the convertible bonds in the aggregate principal amount of up to HK\$850 million during the placing period, to finance the investment of the abovementioned JV Company.

The Joint Venture Agreement will become effective upon the Company and VC Brokerage having obtained the approval and authorisation from the relevant regulatory authorities in relation to the Joint Venture Agreement. As at 31 December 2017 and up to the date of authorising the consolidated financial statements, both the Company and VC Brokerage have not yet obtained the relevant approval and authorisation.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

28. COMMITMENTS – continued

(b) Commitments under operating leases

As at 31 December 2017 and 31 December 2016, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rental premises which fall due are as follows:

| | 2017 HK\$'000 | 2016 <i>HK\$'000</i> |
|---------------------------------------|--------------------------------|-------------------------|
| Within one year | 10,267 | 10,661 |
| In the second to fifth year inclusive | 1,233 | 11,165 |
| | 11,500 | 21,826 |

Operating lease payments represent rentals payable by the Group for its office premises and car parking spaces. As at 31 December 2017, rentals are fixed for lease terms of 1 to 3 years (2016: 1 to 3 years).

29. 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 debt (comprising short-term bank borrowings) and 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

30. FINANCIAL INSTRUMENTS

Categories of financial instruments

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|-----------------------------------------|-------------------------|-------------------------|
| Financial assets | | |
| Loans and receivables | 495,495 | 465,465 |
| Financial assets held for trading | 272,728 | 257,418 |
| Financial assets designated as at FVTPL | 63,315 | 48,460 |
| Available-for-sale investments | – | – |
| Financial liabilities | | |
| Amortised cost | 85,385 | 74,254 |

Financial risk management objectives and policies

The Group's major financial instruments include accounts receivable, deposits and other receivables, financial assets designated as at FVTPL, financial assets held for trading, pledged bank deposits, bank balances and cash, accounts payable, other payables and short-term bank borrowings. Details of these financial instruments are disclosed in their respective notes. 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 respective entities of the Group, with small amounts of bank deposits denominated in foreign currency. 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. Accordingly, no sensitivity analysis on currency risk was presented.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

30. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Market risk – continued

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate accounts receivable from money lending business (see Note 19) and pledged bank deposits (see Note 21). The management considered that the risk is insignificant. The Group is also exposed to cash flow interest rate risk in relation to variable-rate accounts receivable from brokerage and financing business such as cash clients, margin clients and short-term bank borrowings (see Notes 19 and 24). 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 risk is mainly relating to the fluctuation of prime rate or bank's cost of funding 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 driven by fluctuation of variable 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. In 2017, a 10 basis points (2016: 10 basis points) increase or decrease is used and represents the management's assessment of the reasonably possible change in interest rates.

| | 2017 | | 2016 | |
|---------------------------------------------|------------------------|----------|------------------------|----------|
| | Change in basis points | | Change in basis points | |
| | +10 | -10 | +10 | -10 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Decrease (increase) in loss for the year | 63 | (63) | 98 | (98) |

Other price risk

The Group is exposed to equity price risk through the Group's investment in listed equity securities which are classified as financial assets held for trading (see Note 20) and financial assets designated as at fair value through profit or loss (see Note 17) as at 31 December 2017. If the market price of the listed equity securities is 5% higher/lower as at 31 December 2017 (2016: 5% higher/lower), the Group's loss would have decreased/increased by approximately HK\$14,030,000 for the year ended 31 December 2017 (2016: HK\$12,871,000) as a result of the change in fair value of the listed equity securities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

30. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Credit risk

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

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts and receivables from margin clients with shortfalls in relation to the business of VC Brokerage, the indirect 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 money lending business of VC Finance Limited ("VC Finance"), the indirect wholly owned subsidiary of the Company, the Group closely evaluates the borrowers' credit rating, financial background and repayment abilities so as to minimise the Group's exposure to credit risk. The assessment is based on a close monitoring and evaluation of the collectability of individual account and on the management's judgment, including the current creditworthiness of the borrowers, collateral value and the past collection history of each individual borrower with VC Finance and other entities of the Group. The Group will take necessary action to follow up the overdue loans and ensure that adequate impairment losses are made for individual loans. As at 31 December 2017, the Group made an impairment loss of approximately HK\$33,243,000 (2016: HK\$32,744,000) for the loans with impairment indications (see Note 19(c)).

The Group's concentration of credit risk by geographical locations is mainly in Hong Kong as at 31 December 2017 and 31 December 2016. As at 31 December 2017, the Group has concentration of credit risk on the accounts receivable as the aggregate balances with the five largest clients represent approximately 60% (2016: 64%) of total accounts receivable. However, the fair values of the securities collateral held by the Group for these balances are either in excess to the relevant carrying amounts or has no overdue amounts as at the end of each reporting period. Accordingly, the Directors of the Company consider that the Group's credit risk is closely monitored. 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

30. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Liquidity risk

Internally generated cash flows 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 regularly reviews the major funding positions to ensure adequate financial resources are available to meet their respective financial obligations.

At 31 December 2017, the Group has available unutilised banking facilities of HK\$60,000,000 (2016: HK\$60,000,000) as disclosed in Note 24.

Liquidity table

The following tables detail the Group'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 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.

| | 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 flows HK\$'000 | Total carrying amount HK\$'000 |
|--------------------------------------|-----------------------------------------------------|--------------------------------------------------|---------------------------|--------------------------------------|-------------------------------------------------|-----------------------------------------|
| At 31 December 2017 | | | | | | |
| Non-derivative financial liabilities | | | | | | |
| Accounts payable | - | 36,891 | - | - | 36,891 | 36,891 |
| Other payables | - | 6,898 | 1,355 | 241 | 8,494 | 8,494 |
| Short-term bank borrowings | 3.22 | 40,011 | - | - | 40,011 | 40,000 |
| | | 83,800 | 1,355 | 241 | 85,396 | 85,385 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

30. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Liquidity risk – continued

Liquidity table – continued

| | 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 flows HK\$'000 | Total carrying amount HK\$'000 |
|--------------------------------------|-----------------------------------------------------|--------------------------------------------------|---------------------------|--------------------------------------|-------------------------------------------------|-----------------------------------------|
| At 31 December 2016 | | | | | | |
| Non-derivative financial liabilities | | | | | | |
| Accounts payable | – | 26,881 | – | – | 26,881 | 26,881 |
| Other payables | – | 6,130 | 1,120 | 123 | 7,373 | 7,373 |
| Short-term bank borrowings | 2.78 | 40,009 | – | – | 40,009 | 40,000 |
| | | 73,020 | 1,120 | 123 | 74,263 | 74,254 |

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 that are measured at fair value on a recurring basis

The Group's financial assets designated as at FVTPL and financial assets held for trading are measured at fair value at the end of each reporting period. The fair value of financial assets designated as at FVTPL as at 31 December 2017 is determined based on the quoted market price available on the Stock Exchange and its fair value as at 31 December 2016 is based on a recent and similar transaction executed close to 31 December 2016. The fair value of financial assets held for trading as at 31 December 2017 and 31 December 2016 are determined based on the quoted market price available on the Stock Exchange. Details of these financial assets are disclosed in Notes 17 and 20 respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

30. FINANCIAL INSTRUMENTS – continued

Fair value measurements of financial instruments

Fair value hierarchy

| | Level 1 HK\$'000 | Level 2 HK\$'000 | Level 3 HK\$'000 | Total HK\$'000 |
|-----------------------------------------|---------------------|---------------------|---------------------|-------------------|
| At 31 December 2017 | | | | |
| Financial assets designated as at FVTPL | 63,615 | – | – | 63,615 |
| Financial assets held for trading | 272,728 | – | – | 272,728 |

| | Level 1 HK\$'000 | Level 2 HK\$'000 | Level 3 HK\$'000 | Total HK\$'000 |
|-----------------------------------------|---------------------|---------------------|---------------------|-------------------|
| At 31 December 2016 | | | | |
| Financial assets designated as at FVTPL | – | 48,460 | – | 48,460 |
| Financial assets held for trading | 257,418 | – | – | 257,418 |

During the year ended 31 December 2017, the financial assets designated as at FVTPL was transferred from Level 2 to Level 1 of the fair value hierarchy upon the listing of the related financial assets on the Stock Exchange and the fair value of the listed shares are thereafter determined based on the quoted market price available on the Stock Exchange. Details of the financial assets are disclosed in Note 17.

During the year ended 31 December 2016, there were no transfers between levels of the fair value hierarchy.

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's consolidated statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the Group's consolidated statement of financial position.

Under the agreement of continuous net settlement made between the Group and HKSCC and brokers, the Group has a legally enforceable right to set off the money obligation receivable and payable with HKSCC and brokers on the same settlement date and the Group intends to set off on a net basis.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

30. FINANCIAL INSTRUMENTS – continued

Offsetting financial assets and financial liabilities – continued

In addition, the Group has a legally enforceable right to set off the accounts receivable and payable with brokerage clients that are due to be settled on the same date and the Group intends to settle these balances on a net basis.

Except for balances which are due to be settled on the same date which are being offset, amounts due from/to brokerage clients that are due to be settled on delivery versus payment basis, amounts due from/to HKSCC, brokers and brokerage clients that are not to be settled on the same date, financial collateral including cash and securities received by the Group, deposit placed with HKSCC and brokers do not meet the criteria for offsetting in the statement of financial position since the right of set-off of the recognised amounts is only enforceable following an event of default.

As at 31 December 2017

| | Gross amounts of accounts payable set off in the consolidated statement of financial position HK\$'000 | Net amounts of accounts receivable in the consolidated statement of financial position HK\$'000 | Related amounts not set off in the consolidated statement of financial position Financial instruments HK\$'000 | Collateral received HK\$'000 | Net amount HK\$'000 | |
|--------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|------------------------|--------|
| Accounts receivable arising from the ordinary course of business of dealing in securities transactions | 178,668 | (45,088) | 133,580 | (16,493) | (102,036) | 15,051 |
| Accounts payable arising from the ordinary course of business of dealing in securities transactions | 81,979 | (45,088) | 36,891 | (16,493) | (817) | 19,581 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

30. FINANCIAL INSTRUMENTS – continued

Offsetting financial assets and financial liabilities – continued

As at 31 December 2016

| | Gross amounts of accounts payable set off in the consolidated statement of financial position <i>HK\$'000</i> | Gross amounts of accounts receivable in the consolidated statement of financial position <i>HK\$'000</i> | Net amounts of accounts receivable in the consolidated statement of financial position <i>HK\$'000</i> | Related amounts not set off in the consolidated statement of financial position Financial instruments <i>HK\$'000</i> | Collateral received <i>HK\$'000</i> | Net amount <i>HK\$'000</i> |
|--|------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|-------------------------------|
|--|------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|-------------------------------|

Accounts receivable arising from the
ordinary course of business of
dealing in securities transactions

| | | | | | |
|---------|----------|---------|---------|-----------|-----|
| 222,543 | (53,014) | 169,529 | (1,943) | (167,268) | 318 |
|---------|----------|---------|---------|-----------|-----|

| | Gross amounts of accounts payable set off in the consolidated statement of financial position <i>HK\$'000</i> | Gross amounts of accounts receivable in the consolidated statement of financial position <i>HK\$'000</i> | Net amounts of accounts receivable in the consolidated statement of financial position <i>HK\$'000</i> | Related amounts not set off in the consolidated statement of financial position Financial instruments <i>HK\$'000</i> | Collateral received <i>HK\$'000</i> | Net amount <i>HK\$'000</i> |
|--|------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|-------------------------------|
|--|------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|-------------------------------|

Accounts payable arising from the
ordinary course of business of
dealing in securities transactions

| | | | | | |
|--------|----------|--------|---------|-------|--------|
| 79,895 | (53,014) | 26,881 | (1,943) | (612) | 24,326 |
|--------|----------|--------|---------|-------|--------|

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

31. RELATED PARTY TRANSACTIONS

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

| | 2017 HK\$'000 | 2016 <i>HK\$'000</i> |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|-------------------------|
| Brokerage commission income earned from certain directors of the Group or close family members of or entities controlled by these directors and key management personnel | 125 | 125 |

The balances with related parties are set out in Notes 19 and 23.

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:

| | 2017 HK\$'000 | 2016 <i>HK\$'000</i> |
|--------------------------|--------------------------------|-------------------------|
| Short term benefits | 17,140 | 22,651 |
| Share-based payments | – | 9,635 |
| Post employment benefits | 119 | 138 |
| Other long term benefits | 33 | – |
| | 17,292 | 32,424 |

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

32. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Statement of Financial Position of the Company

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---------------------------------------------|-------------------------|-------------------------|
| Non-current assets | | |
| Investments in subsidiaries | 2,668 | 10 |
| Amounts due from a subsidiary | 397,200 | 393,558 |
| | 399,868 | 393,568 |
| Current assets | | |
| Prepayments, deposits and other receivables | 395 | 212 |
| Financial assets held for trading | 250,152 | 241,836 |
| Amounts due from subsidiaries | 225,703 | 135,108 |
| Bank balances | 12,933 | 18,628 |
| | 489,183 | 395,784 |
| Current liabilities | | |
| Accounts payable | – | 10,872 |
| Accrued liabilities and other payables | 2,039 | 856 |
| Amounts due to subsidiaries | 173,543 | 86,330 |
| | 175,582 | 98,058 |
| Net current assets | 313,601 | 297,726 |
| Net assets | 713,469 | 691,294 |
| Capital and reserves | | |
| Share capital | 849,937 | 732,829 |
| Reserves | (136,468) | (41,535) |
| Total equity | 713,469 | 691,294 |

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 27 March 2018 and is signed on its behalf by:

Fu Yiu Man
DIRECTOR

Tin Ka Pak, Timmy
DIRECTOR

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

32. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY – continued

Movement in the Company's capital and reserves

| | Share capital <i>HK\$'000</i> | Capital reserve <i>HK\$'000</i> | Accumulated losses <i>HK\$'000</i> | Share option reserve <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|----------------------------------------------------------------------|-------------------------------------|---------------------------------------|------------------------------------------|-----------------------------------------------|--------------------------|
| | <i>(Note)</i> | | | | |
| At 1 January 2016 | 637,428 | 123,758 | (121,061) | – | 640,125 |
| Loss and total comprehensive expense for the year | – | – | (64,638) | – | (64,638) |
| Recognition of equity-settled share-based payment | – | – | – | 20,607 | 20,607 |
| Issue of shares upon exercise of share options | 905 | – | – | (201) | 704 |
| Issue of shares by placement | 95,700 | – | – | – | 95,700 |
| Transaction costs attributable to issue of shares by placement | (1,204) | – | – | – | (1,204) |
| At 31 December 2016 | 732,829 | 123,758 | (185,699) | 20,406 | 691,294 |
| Loss and total comprehensive expense for the year | – | – | (94,933) | – | (94,933) |
| Issue of shares by placement | 120,120 | – | – | – | 120,120 |
| Transaction costs attributable to issue of shares by placement | (3,012) | – | – | – | (3,012) |
| At 31 December 2017 | 849,937 | 123,758 | (280,632) | 20,406 | 713,469 |

Note: 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 losses, 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Group's principal subsidiaries as at the end of each reporting period are set out below:

| Name | Place of incorporation | Principal activities and place of operation | Class of shares held/ paid up issued share capital | Effective interest held | |
|-----------------------------------------------------------------------------------------------|------------------------|------------------------------------------------------------------------------|-------------------------------------------------------|-------------------------|------|
| | | | | 2017 | 2016 |
| 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\$68,000,000 | 100% | 100% |
| VC Asset Management Limited ² | Hong Kong | Provision of asset management services to clients in Hong Kong | Ordinary shares/ HK\$33,000,000 | 100% | 100% |
| VC Finance Limited ² | Hong Kong | Money lending in Hong Kong | Ordinary shares/ HK\$1,000,000 | 100% | 100% |
| VC Corporate Services Limited (Formerly known as VC Consulting Services Limited) ² | Hong Kong | Corporate services in Hong Kong | Ordinary shares/ HK\$100 | 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% |
| Easy Task Holdings Limited ² | British Virgin Islands | Investment holding in Hong Kong | Ordinary shares/ US\$1 | 100% | 100% |
| Century Race Investment Limited ² | British Virgin Islands | Investment holding in Hong Kong | Ordinary shares/ US\$1 | 100% | 100% |

¹ Shares held directly by the Company.

² Shares held indirectly by the Company.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY – continued

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 as at the end of each reporting period.

As at 31 December 2017, the Company has other subsidiaries that are not material to the Group. Among which, six subsidiaries are incorporated in Hong Kong and six subsidiaries are incorporated in British Virgin Islands. These subsidiaries were either inactive or investment holding companies during the year.

34. EVENTS AFTER THE REPORTING PERIOD

The Group has the following events after the reporting period:

- (a) On 22 September 2017, the Company entered into a legally binding memorandum of understanding (the “MOU”) with an independent third party (the “Party”) in relation to the proposed formation of a joint venture company to act as a sponsor to a limited partnership fund (the “Fund”) which will focus on infrastructure projects (the “Proposed Joint Venture”). The MOU is subject to the parties entering into formal agreements to set out the definitive terms of the Proposed Joint Venture (the “Definitive Agreements”). The initial cost required for setting up of the joint venture company and the Fund shall be borne equally between the Company and the Party, provided that in any event, the Company’s provision of the initial cost shall be limited to HK\$7,500,000. As at 31 December 2017, the Company had paid an amount of HK\$5,000,000 for initial cost, which was included in current other deposits on the consolidated statement of financial position and shall be reimbursed if the Fund can be successfully closed.

The MOU was expired on 21 December 2017. As at 31 December 2017, the MOU was under negotiation for extension. On 5 January 2018, the Company and the Party entered into an extension letter to extend the exclusivity period of the MOU to 30 June 2018. As at the date of authorising the consolidated financial statements, the parties had not entered into the Definitive Agreements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

34. EVENTS AFTER THE REPORTING PERIOD – continued

- (b) On 18 October 2017, the Company entered into a sale and purchase agreement (the “Sale and Purchase Agreement”) with Pacific Alliance Limited (the “Vendor”), pursuant to which the Company agreed to purchase, and the Vendor agreed to sell, the 3-year two per cent. unsecured redeemable convertible bonds in the principal amount of HK\$153,585,000 issued by China Fortune Financial Group Limited (“China Fortune”) on 30 March 2017 (the “Convertible Bonds”) for an aggregate consideration of HK\$400,000,000 (the “Acquisition”). The consideration is satisfied by way of cash of HK\$40,000,000 and issue of the convertible bonds of HK\$360,000,000 by the Company (the “VC Convertible Bonds”) at the completion date of the Acquisition. The Convertible Bonds are convertible into 2,559,750,000 conversion shares at the initial conversion price of HK\$0.06 per conversion share (subject to adjustments). The VC Convertible Bonds is a 3-year zero interest unsecured redeemable convertible bonds in the principal amount of HK\$360,000,000, which are convertible into 288,000,000 conversion shares at the initial conversion price of HK\$1.25 per conversion share (subject to adjustments). It is the intention of the Group to hold the Convertible Bonds for trading purposes with a view to achieve capital gains through disposal of the Convertible Bonds or the conversion shares of the Convertible Bonds. The transaction had been approved by the shareholders of the Company during the extraordinary general meeting held on 27 December 2017. As at 31 December 2017, certain conditions for completion of the transaction were not fulfilled. The transaction was completed on 8 January 2018. Details of the potential proforma financial effects of the transaction to the Group’s consolidated financial statements was disclosed in the Company’s circular dated 7 December 2017.
- (c) On 8 March 2018, the Company entered into a sale and purchase agreement (the “Agreement”) with CVP Financial Group Limited (the “Vendor”) pursuant to which the Company intends to acquire and the Vendor intends to sell 18% of the entire issued share capital of Hackett Enterprises Limited (the “Target Company”) at a consideration of HK\$160,000,000 (the “Consideration”). The Target Company and its subsidiaries are principally engaged in the provision of loans financing and financial consultancy services in the PRC and the provision of money lending services in Hong Kong. The Consideration will be settled by issue of 3-year two per cent. unsecured convertible bonds by the Company in the principal amount of HK\$160,000,000, which are convertible into 123,076,923 conversion shares of the Company at the initial conversion price of HK\$1.3 per conversion share (subject to adjustments). The Agreement will become effective upon the approval from the shareholders of the Company and the fulfilment of other conditions. Details of the transaction was disclosed in the Company’s announcement dated 8 March 2018.

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.

| Consolidated results | For the year ended 31 December | | | | |
|---------------------------------------------------------------------------------------------|---------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> | 2013 <i>HK\$'000</i> |
| Revenue | 53,685 | 56,283 | 79,795 | 78,154 | 74,382 |
| Other income | 814 | 658 | 2,490 | 4,109 | 2,750 |
| Other gains and losses | 4,585 | 23,544 | 8,037 | 4,262 | (18,065) |
| Staff costs | (75,953) | (91,556) | (65,743) | (60,201) | (65,469) |
| Commission expenses | (3,039) | (3,348) | (5,915) | (4,665) | (4,605) |
| Depreciation of property and equipment | (2,026) | (1,839) | (1,694) | (1,634) | (1,326) |
| Finance costs | (452) | (76) | (752) | (726) | (921) |
| Other operating expenses | (44,392) | (40,401) | (28,761) | (27,379) | (28,736) |
| Loss before taxation | (66,778) | (56,735) | (12,543) | (8,080) | (41,990) |
| Income tax (expense) credit | (698) | 19 | (32) | (223) | 1,249 |
| Loss for the year attributable to owners of the Company | (67,476) | (56,716) | (12,575) | (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 attributable to owners of the Company | – | – | – | 955 | (24) |
| Total comprehensive income for the year attributable to owners of the Company | (67,476) | (56,716) | (12,575) | (7,348) | (40,765) |
| Loss per share (HK cents) | | | | | |
| Basic | (9.48) | (9.39) | (2.43) | (2.01) | (9.98) |
| Diluted | (9.48) | (9.39) | (2.43) | (2.01) | (9.98) |

Five Years' Financial Summary

| | 2017 | As at 31 December | | | |
|--------------------------------------------|-----------------|--------------------------|-----------------|-----------------|-----------------|
| | | 2016 | 2015 | 2014 | 2013 |
| Consolidated assets and liabilities | HK\$'000 | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Total assets | 846,132 | 785,840 | 734,486 | 631,858 | 590,423 |
| Total liabilities | (93,947) | (85,990) | (94,027) | (130,614) | (87,069) |
| Total equity | 752,185 | 699,850 | 640,459 | 501,244 | 503,354 |