



VALUE CONVERGENCE HOLDINGS LIMITED

匯 盈 控 股 有 限 公 司

(Incorporated in Hong Kong with limited liability)

Website: <http://www.valueconvergence.com>

(Stock Code: 8101)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER 2006

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

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

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

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

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

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

FINANCIAL HIGHLIGHTS

- The Group's revenue in 2006 amounted to approximately HK\$182.6 million, representing an increase of HK\$66.6 million or 57% as compared with 2005's HK\$116.0 million.
- The Group recorded a consolidated net profit of HK\$26.3 million for 2006, which has increased by approximately 416% for an amount of HK\$21.2 million as compared with the restated profit figure in 2005.

PRESIDENT'S STATEMENT

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

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

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

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

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

Ho, Lawrence Yau Lung

President and Vice Chairman

Hong Kong, 14 March 2007

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS/FINANCIAL REVIEW

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

The Group

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

The Market

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

Brokerage

In light of positive market sentiment, brokerage commission arising from dealing in securities and futures and option contracts improved noticeably for the year ended 31st December 2006. Gross commission income increased by about HK\$47.8 million during the year under review, showing a growth of 83% compared with that in 2005, while net brokerage commission income climbed by 95%. Revenue and operating profit from this business area were approximately HK\$105.2 million (2005: HK\$60.3 million) and HK\$6.7 million (2005: loss of HK\$ 9.3 million) respectively for the year under review.

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

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

Corporate Finance and Others

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

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

Asset Management

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

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

Liquidity and financial resources/capital structure

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

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

As at 31st December 2006, the Group had borrowed HK\$241.9 million (2005: HK\$211.9 million) from its ultimate holding company. The loans bear interest at prime rate minus 2% per annum or HIBOR plus 1.25% – 2% per annum and are repayable upon written notice from the ultimate holding company. The fund was used to finance the expansion of the Group's investment banking and financial services business, to meet related regulatory capital requirements and strengthen relevant business capabilities.

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

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

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

Corporate governance

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

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

During the year ended 31st December 2006, the Group did not make any material acquisitions, disposal, significant investments or capital commitments.

Headcount/Employees' information

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

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

Charges on group assets

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

Gearing ratio

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

Foreign exchange exposure

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

Future plans for material investments or capital assets

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

Contingent liabilities

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

OUTLOOK

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

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

AUDITED CONSOLIDATED RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2006

The board (the “Board”) of Directors (the “Directors”) of Value Convergence Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31st December 2006, together with the audited comparative figures for the year ended 31st December 2005.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER 2006

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

CONSOLIDATED BALANCE SHEET

AS AT 31ST DECEMBER 2006

	NOTES	2006 HK\$'000	2005 HK\$'000 (Restated)
Non-current assets			
Goodwill		8,151	9,622
Trading rights		1,773	2,279
Property, plant and equipment	11	2,463	1,841
Deferred tax assets	14	2,781	1,495
Available-for-sale investments		–	680
Statutory deposits for investment banking and financial services business		3,236	3,216
Other intangible assets		547	547
		<u>18,951</u>	<u>19,680</u>
Current assets			
Accounts receivable	12	588,236	319,499
Prepayments, deposits and other receivables		5,621	4,845
Trading investments	13	14,441	44,956
Investment in convertible bonds		–	4,000
Amounts due from fellow subsidiaries		62	194
Bank balances and cash		67,916	69,275
		<u>676,276</u>	<u>442,769</u>
Current liabilities			
Accounts payable	15	157,260	33,381
Accrued liabilities and other payables		18,192	11,262
Short-term bank borrowings	16	49,000	28,000
Amount due to ultimate holding company		18,679	5,356
Amount due to an investee company		–	6
Amounts due to fellow subsidiaries		15,243	8,579
Loans from ultimate holding company		241,900	211,900
Taxation payable		1,400	–
		<u>501,674</u>	<u>298,484</u>
Net current assets		<u>174,602</u>	<u>144,285</u>
Total assets less current liabilities		<u>193,553</u>	<u>163,965</u>
Capital and reserves			
Share capital	17	25,374	24,964
Reserves		168,179	139,001
Total equity		<u>193,553</u>	<u>163,965</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST DECEMBER 2006

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2006

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. Its parent is Melco Financial Group Limited (incorporated in the British Virgin Islands) and its ultimate holding company is Melco International Development Limited (incorporated in Hong Kong) and listed on The Stock Exchange of Hong Kong Limited. The addresses of the registered office and principal place of business of the Company are at 28/F, The Centrium, 60 Wyndham Street, Central, Hong Kong.

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

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

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

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

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

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

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

¹ Effective for annual periods beginning on or after 1st January 2007.

² Effective for annual periods beginning on or after 1st March 2006.

³ Effective for annual periods beginning on or after 1st May 2006.

⁴ Effective for annual periods beginning on or after 1st June 2006.

⁵ Effective for annual periods beginning on or after 1st November 2006.

⁶ Effective for annual periods beginning on or after 1st March 2007.

3. RESTATEMENT OF COMPARATIVES

Under Statement of Standard Accounting Practice 12 (Revised) "Income Taxes" ("SSAP 12") and Hong Kong Financial Reporting Standards 3 "Business Combination" ("HKFRS3"), if the potential benefit of the acquired subsidiaries' income tax loss carry-forwards did not satisfy the recognition criteria when a business combination is initially accounted for but is subsequently realised, the benefit is recognised as income. In addition, the carrying amount of goodwill is reduced to the amount that would have been recognised if the deferred tax asset had been recognised as an identifiable asset from the acquisition date. The amount for the reduction in the carrying amount of the goodwill is recognised as an expense.

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

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

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

	2005 <i>HK\$'000</i>
Adjustment to goodwill and decrease in profit for the year	<u>5,135</u>
	<i>HK cents</i>
Decrease in basic earning per share	2.09
Decrease in diluted earning per share	<u>2.07</u>

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

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

5. REVENUES AND SEGMENT INFORMATION

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

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

Primary reporting format – business segments

The Group has been engaged in investment banking and financial services business and classified the business segments into broking, margin and other financing, and corporate advisory and others. The details of these three business segments are summarised as follows:

- (i) the broking segment engages in securities, futures and options broking and dealing;

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

Year ended 31st December 2006

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

Year ended 31st December 2005 (Restated)

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

Inter-segment sales are charged at prevailing market rate.

Secondary reporting format – geographical segments

Year ended 31st December 2006 and 2005

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

6. PROFIT BEFORE TAXATION

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

7. FINANCE COSTS

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

8. TAXATION

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

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

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Current taxation		
– Hong Kong Profits Tax	1,400	–
Deferred taxation	(1,286)	(1,495)
	<u>114</u>	<u>(1,495)</u>

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the Hong Kong taxation rate as follows:

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

9. DIVIDENDS

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

10. EARNINGS PER SHARE

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

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> (Restated)
Earnings		
Earnings for the purposes of basic and diluted earnings per share	<u>26,332</u>	<u>5,108</u>
	2006 '000	2005 '000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	252,064	245,864
Effect of dilutive potential ordinary shares:		
Share options	<u>5,519</u>	<u>2,767</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>257,583</u>	<u>248,631</u>

11. PROPERTY, PLANT AND EQUIPMENT

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

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

Leasehold improvements	Over the lease term not exceeding three years
Furniture, fixtures and equipment	20-25%
Computer equipment and software	25-33 $\frac{1}{3}$ %

12. ACCOUNTS RECEIVABLE

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

Notes:

- (a) Credit limit is approved for each client by designated approvers according to the clients' credit worthiness. The settlement terms of accounts receivable arising from the ordinary course of business of dealing in securities transactions are usually two trading days after the trade date. The settlement terms of accounts receivable arising from the ordinary course of business of dealing in futures and options contracts transactions are generally due on demand. Loans to margin clients are secured by clients' pledged securities, repayable on demand and bear interest at commercial rates. The decision for rate changes is on management's discretion subject to notification to clients. Securities are assigned with specific margin ratios for calculating their margin values. Loans granted to securities margin clients are further subject to the discounted value of securities deposited with reference to these specific margin ratios. Additional funds or collateral are required if the loan outstanding exceeds the eligible margin value of securities deposited. As at 31st December 2006, the total market value of securities pledged as collateral in respect of the loans to margin clients was HK\$2,435,797,000 (2005: HK\$5,266,133,000). No aging analysis on margin clients' receivables is disclosed as, in the opinion of the Directors, an aging analysis is not meaningful in view of the nature of the business of securities margin financing. Except for the loans to margin clients, all accounts receivable arising from the business of dealing in securities transactions are aged as follows:

	2006	2005
	HK\$'000	HK\$'000
THE GROUP		
Within 30 days	270,365	115,847
31 – 90 days	6,853	12,852
Over 90 days	4,212	12,058
	281,430	140,757

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

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Within 30 days	741	409
31 – 90 days	90	64
Over 90 days	285	155
	<u>1,116</u>	<u>628</u>

13. TRADING INVESTMENTS

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
--	--------------------------------	-------------------------

THE GROUP

Trading investments

Listed equity securities, at market value

	<u>14,441</u>	<u>44,956</u>
--	---------------	---------------

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

14. DEFERRED TAX ASSETS

	Estimated tax losses <i>HK\$'000</i>
At 1st January 2005	–
Credited to consolidated income statement for the year (<i>note 8</i>)	<u>1,495</u>
At 31st December 2005 and 1st January 2006	1,495
Credited to consolidated income statement for the year (<i>note 8</i>)	<u>1,286</u>
At 31st December 2006	<u>2,781</u>

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

15. ACCOUNTS PAYABLE

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

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Cash clients (<i>Note b</i>)	150,489	28,899
Margin clients	6,771	4,482
	157,260	33,381

Notes:

- (a) The settlement terms of accounts payable arising from the ordinary course of business of dealing in securities transactions are usually two trading days after trade date. These accounts payable are repayable on demand. Therefore, no aging analysis is disclosed as, in the opinion of Directors, an aging analysis is not meaningful in view of all these accounts payable are promptly settled two trading days after trade date.
- (b) Included in accounts payable to cash clients was approximately HK\$7,442,000 as at 31st December 2006 (2005: Nil) due to companies with common directors and HK\$345,000 (2005: HK\$1,000) due to key management personnel, directors and close member of director, in respect of transactions in securities undertaken for their accounts.

16. SHORT-TERM BANK BORROWINGS

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

17. SHARE CAPITAL

	Authorised	
	Ordinary shares of HK\$0.1 each	
	No. of shares	Amount <i>HK\$'000</i>
At 31st December 2005 and 31st December 2006	10,000,000,000	1,000,000
	Issued and full paid	
	Ordinary shares of HK\$0.1 each	
	No. of shares	Amount <i>HK\$'000</i>
At 1st January 2005	238,154,999	23,815
Exercise of share options	11,486,227	1,149
At 31st December 2005	249,641,226	24,964
Exercise of share options	4,098,953	410
At 31st December 2006	253,740,179	25,374

CODE OF CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with all the code provisions set out in the Code on Corporate Governance Practices (“CG Code”) contained in Appendix 15 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”), with certain deviation mentioned below.

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

AUDIT COMMITTEE

An Audit Committee has been established by the Company to review and supervise the financial reporting process and internal control procedures of the Group. The Audit Committee comprises the three independent non-executive Directors and a non-executive Director of the Company. The Audit Committee has reviewed the Group’s results of the year 2006.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

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

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

Hong Kong, 14th March, 2007

As at the date hereof, the Board comprises two Executive Directors, namely, Mr. Ho, Lawrence Yau Lung (President and Vice Chairman) and Mr. Patrick Sun (Chief Executive Officer); three Non-executive Directors, namely, Dr. Ho Hung Sun, Stanley (Chairman), Dr. Lee Jun Sing and Attorney Lorna Patajo-Kapunan; and three Independent Non-executive Directors, namely, Mr. Sham Sui Leung, Daniel, Dr. Tyen Kanhee, Anthony and Mrs. Chu Ho Miu Hing.

This announcement will remain on the GEM Website at www.hkgem.com on the “Latest Company Announcement” page for at least 7 days from the date of its posting and on the website of the Company at www.valueconvergence.com.