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VC GROUP
滙盈集團

Value Convergence Holdings Limited

(Incorporated in Hong Kong with limited liability)
website: http://www.vcgroup.com.hk
(Stock Code: 821)

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

The board of directors (the "**Board**") submits the consolidated results of Value Convergence Holdings Limited ("**Value Convergence**" or the "**Company**") and its subsidiaries (collectively "**VC Group**" or the "**Group**") for the year ended 31 December 2011.

FINANCIAL HIGHLIGHTS

The Group's consolidated revenue for the year ended 31 December 2011 amounted to approximately HK$92.9 million, which had decreased by about 20% as compared with the same period in 2010.

The Group recorded a consolidated loss attributable to shareholders amounting to approximately HK$26.7 million for the year ended 31 December 2011 against a consolidated loss of approximately HK$88 million for the same period in 2010.

CHAIRMAN'S STATEMENT

Year 2011 was full of challenges to the global financial markets, China and Hong Kong stock markets and our Group.

During the year, the world's major financial markets were facing a number of challenges and uncertainties. In early 2011, it seemed that the global markets had been gradually recovered from the aftershocks of the financial tsunami brunt in 2008. And there was indication that the European sovereign debt crisis would be solved. However, since the massive 9.0-magnitude earthquake happened in Japan in March 2011 and the subsequent tsunami and radiation leakage crisis, the global stock markets had been dragged down again. The poor market sentiment making the global initial public offering activities around the world were obstructed, particularly in the Asia Pacific region. Further, starting from mid 2011, given the political unrest happened in the Middle East and North Africa affecting the oil price, the European sovereign debt problems re-emerged and seriously spreading from Greece to other European countries, and even the credit ratings of the US, Greece, Italy and Spain, etc, were downgraded by some major credit rating agencies, the global capital markets were again dampened and the market sentiment certainly was impacted.

Hong Kong, as the international financial center, could not escape from being impacted. The local stock market was highly frustrating, particularly in the second half of the year, while the average daily trading turnover had even dropped to about HK$66 billion as compared to about HK$73.6 billion in the first half of the year.

Being one of the major financial services providers in Hong Kong, the business performance of VC Group was inevitably affected by the unfavourable local market sentiment. However, the Group had continuously striven to perform so as to minimize the negative impacts from different aspects and prepare ourselves for future business and development opportunities. For the year ended 31 December 2011, the Group's consolidated revenue amounted to approximately HK$92.9 million, which had decreased by about 20% as compared with the same period in 2010, and recorded a consolidated loss attributable to shareholders amounting to approximately HK$26.7 million against a consolidated loss of approximately HK$88 million for the same period in 2010.

Looking forward, the Group expects 2012 to be still challenging to the financial sector. Nevertheless, the Group will continue to focus on applying our excellent operational capabilities to serve customers, pursuing diversification and acquisition and pushing for innovation so as to make sure we will be able to reap benefits when the financial market rebounds fully in the near future.

On behalf of the Board, I would like to express my gratitude to our business partners, valued customers and shareholders for their steadfast support in the past year. Our intelligent, creative, dedicated and professional management team and staff are the most valuable asset in this extremely competitive and challenging global environment. I also take this opportunity to thank our collegues, for their hard work, loyal service and contributions during the year. I believe that with the Group's diversified financial services and the professionally knowledgeable management team and the solid and continuous backup of our business partners, we are able to seize any opportunities that promise to deliver greater returns for our shareholders.

Dr. Lee Jun Sing
Chairman

Hong Kong, 22 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

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

Significant Event and Development

On 9 June 2011 and 8 July 2011, the Company entered into a placing agreement and a supplemental agreement with a placing agent (the "**Placement**") respectively whereby the Company had conditionally agreed to place, through the placing agent on a best effort basis, a maximum of 79,900,000 warrants to not less than six independent placees at an issue price of HK$0.05 per warrant (the "**Warrant(s)**"). The Placement was completed on 14 July 2011 and a total of 79,900,000 Warrants was placed and issued on the same date. Each Warrant carries the right to subscribe for one ordinary share of the Company at the subscription price of HK$1.27 (the "**Subscription Share(s)**"), which can be exercised at any time during a period of 12 months commencing from the date of issue of the Warrants. The net proceeds from the placing and issue of the Warrants was approximately HK$3.7 million and the maximum net proceeds from the exercise of the subscription rights attaching to the Warrants will be approximately HK$101.1 million. The Company intends to use these net proceeds for general working capital of the Group and/or possible investment in the future when opportunities arise. The Directors of the Company are of the view that the Placement will broaden the shareholders' portfolio and also strengthen the financial position of the Group, which will therefore enhance the Group's flexibility in future business developments or investments when opportunities arise. Details of the Placement were set out in the Company's announcements dated 9 June 2011, 8 July 2011 and 14 July 2011 respectively.

Upon full exercise of the subscription rights attaching to the Warrants, the Company will issue 79,900,000 Subscription Shares which represented approximately 16.66% of the issued share capital of the Company as enlarged by the issue and allotment of the Subscription Shares as at 31 December 2011. There were 79,900,000 outstanding Warrants as at 31 December 2011.

Business Review

Since the financial tsunami happened in the fourth quarter of 2008, many countries had been emerged quickly after substantial rescue actions, such as massive influx of stimulus capital from rescue packages, financial guarantees and government share acquisitions, taken by many of the world's central banks, including China. These measures had helped stabilize the capital markets, stimulate domestic demand, and encourage sustainable economic growth globally. However, its significant aftershocks still rippled through 2011. The world's major financial markets were facing a number of challenges and uncertainties in 2011, and the global stock markets were highly volatile, making the market sentiment was deeply impacted, particularly in the second half of the year.

In March 2011, Japan was hit by a massive 9.0-magnitude earthquake and the subsequent tsunami and radiation leakage crisis, which not only affected the Japanese economy but also dragged down the world's stock markets. The poor market sentiment making the global initial public offering activities around the world were obstructed, particularly in the Asia Pacific region. Further, starting from mid 2011, the political unrest happened in the Middle East and North Africa affecting the oil price, also added more uncertainties to the investment markets. In addition, European sovereign debt problems re-emerged in the second half of 2011 and liked a virus seriously spreading from Greece to other European countries. Together with the US, the credit ratings of Greece, Italy and Spain, etc, one after another were downgraded by some major credit rating agencies and all with negative economic outlooks. Meanwhile, though the China economy remained strong and looked promising in 2011, China implemented a tight monetary policy with a series of measures, including increasing interest rate and reserve requirement ratio, to curb property prices so as to crack down on the overheated property market.

Being the international financial center, Hong Kong was inevitably affected by the negative global conditions. The Hong Kong economic environment was still full of challenges and uncertainties in 2011, particularly in the second half of the year. As aforementioned, affected by the negative factors including the European/US debt crisis and the Chinese central government tightening monetary policy, the local stock market in 2011 remained volatile and the market sentiment was even dampened. These were fully reflected through the Hong Kong daily trading turnover, market capitalization and other various market indexes. The Hong Kong stock market's average daily trading turnover had dropped continuously during the second half of 2011, particularly in November and December. In January 2011, the average daily trading turnover was approximately HK$75 billion while the figure in December 2011 was down to HK$46.5 billion, which represented a drop of about 38.1%. Meanwhile, the total market capitalization decreased by about 16.8% from approximately HK$21,077 billion as at 31 December 2010 to HK$17,537 billion as at 31 December 2011. Further, the Hang Seng Index ("HSI") closed at 18,434 as at 31 December 2011 and dropped by about 20% from 23,035 at the end of 2010. The Hang Seng China Enterprises Index closed at 9,936 as at 31 December 2011 and also dropped by about 21.7% from 12,692 as at 31 December 2010.

Nevertheless, during the first half of 2011, though volatile, the Hong Kong stock market witnessed a reasonable good investment sentiment, in which the average daily trading turnover was approximately HK$73.6 billion in the first half of 2011 and the HSI reached more than 24,000 early in the year. In the second half of 2011, the average daily trading turnover fell to approximately HK$66 billion and the HSI bottomed to around 16,000 in early October, dropping continuously from around 21,000 in August, revealing that the local investors' sentiment were suppressed by the market uncertainties. Given the better stock market performance in the first half of the year, the average daily trading turnover of the Hong Kong stock market for the year ended 31 December 2011 as a whole had slightly increased by about 1% from previous year to approximately HK$69.7 billion, but still greatly underperformed the level before the financial tsunami brunt in 2008.

Because of the nature of the Group's core business in financial services, our business performance in 2011 could not escape from being affected by the abovementioned negative global and local economic and market conditions. Even there were extension of trading hours of the Hong Kong securities and derivatives markets from early March 2011 aiming to link up with other major financial markets, and the launch of listing, trading and clearing services for Renminbi products from late April 2011 in the local stock market, these did not stimulate the investors' sentiment and benefit the transaction volume significantly to the Group. Meanwhile, many regulatory and operational changes in relation to the operation of securities, futures and options brokering business, one of the Group's major businesses, were implemented in 2011 and it is expected that more will be launched in 2012. The Group therefore has to adopt appropriate measures and incur more resources to cope with these changes and developments. Nevertheless, the Group had continuously striven to perform so as to minimize all these negative impacts and always prepare ourselves for future business and development opportunities.

Our core businesses and objectives remained focused on securities, futures and options brokering, and corporate finance services in relation to sponsoring and underwriting initial public offerings and mergers and acquisitions, as well as asset management. As one of the major financial service providers in the local financial sector, with our sound balance sheet, premium investment and wealth management services and products, we believe that we possess definite competitive advantages and can continue providing value for the investment of our shareholders. For details of the financial results analysis of the Group for the year ended 31 December 2011 please refer to the section "Financial Review" below.

Outlook

Looking ahead, the Group expects 2012 to be still challenging to the financial sector. The world's financial markets still face different uncertain factors. With the European sovereign debt problems unresolved, the slowdown in economic growth plus decreased import demand in Europe and the US are inevitably, which certainly will also affect the Asia markets which major in export. If the European debt crisis could not be handled properly, market conditions are expected to keep volatile, and the market sentiment will be difficult to improve.

Yet, China still achieved a 9.2% GDP growth in 2011 and has set its GDP growth target at 7.5% for 2012. Considering the strong economic ties between Hong Kong and the Mainland, and the 12th Five-year Plan delivered in March 2011 aiming to promote closer economic partnership arrangements and regional economic development, consolidate Hong Kong's position as the international financial center, and further strengthen collaboration among Hong Kong, Macau and the Mainland. Given the above, we expect Hong Kong could still benefit from China's coming policies and relatively optimistic economic prospects, though the global markets are still full of challenges and uncertainties in 2012.

The Group will continue to focus on applying our excellent operational capabilities to serve customers, pursuing diversification and acquisition, and pushing for innovation, to ensure we will be able to reap benefits when the financial market fully rebounds in the near future and capture the future business developments or investments in China as and when opportunities arise.

Financial Review

Affected by poor market sentiment, for the year ended 31 December 2011, the Group's consolidated revenue was approximately HK$92.9 million, which had decreased by about 20% as compared with the same period in 2010. The Group recorded a consolidated loss attributable to shareholders amounting to approximately HK$26.7 million for the year ended 31 December 2011 against a consolidated loss of approximately HK$88 million for the same period in 2010. For the year ended 31 December 2010, excluding the recognition of (1) the fair value change of approximately HK$34 million in relation to the HK$10 million convertible bonds and the option of the HK$10 million optional bonds issued in 2009 and 2010 respectively; (2) the loss of approximately HK$36.9 million arising from the disposal of the Macau land held by the Group's jointly controlled entities; and (3) the goodwill impairment of approximately HK$8.2 million in relation to the corporate finance business as well as the reversal of the deferred tax asset of HK$1.1 million, which were major non-cash and/or non-recurring nature items, the Group generated a consolidated loss of approximately HK$7.8 million.

To facilitate the review, the Group's segment information shown in note 4 to the consolidated financial statements is reproduced below after some re-arrangements:

	Year ended 31 December 2011	Year ended 31 December 2010
	HK$'000	*HK$'000*
Segmental results:		
Brokerage	**903**	16,765
Corporate Finance	**(6,903)**	(8,193)
Asset Management	**(1,611)**	(1,301)
Group operating (loss) profit	**(7,611)**	7,271
Share of loss of jointly controlled entities	**–**	(37,832)
Fair value changes on financial liabilities designated at fair value through profit or loss	**–**	(22,950)
Fair value changes on derivative financial liabilities	**–**	(11,033)
Impairment of goodwill	**–**	(8,151)
Impairment loss on available-for-sale investment	**(241)**	–
Unallocated costs	**(18,842)**	(12,575)
Loss before taxation	**(26,694)**	(85,270)
Income tax expense	**(550)**	(3,666)
Loss for the year	**(27,244)**	(88,936)
Non-controlling interests	**584**	951
Loss for the year attributable to shareholders of the Company	**(26,660)**	(87,985)

Brokerage

For the year ended 31 December 2011, the Group's brokerage business, through VC Brokerage Limited ("**VC Brokerage**") and VC Futures Limited (both are the indirect wholly owned subsidiaries of the Company), recorded revenue of approximately HK$81.7 million, representing a decrease of about 26% from HK$110.8 million for the same period last year. The significant drop in brokerage revenue was mainly due to the decrease in brokerage commission to approximately HK$44 million for the year ended 31 December 2011 from HK$65.9 million for the same period last year, representing a decrease of about 33%, which reflected the poor market sentiment. Net brokerage commission income was relatively decreased by about 32% to approximately HK$16.9 million from HK$25 million. As mentioned in the section "Business Review" above, the average daily trading turnover of the Hong Kong stock market had dropped continuously during the year, especially in the fourth quarter of 2011 which the average daily trading turnover had even dropped to approximately HK$59.3 billion.

Meanwhile, the Group's interest income from financing business had also decreased by about HK$3.3 million to approximately HK$31.7 million for the year ended 31 December 2011, representing a drop of about 9% as compared with the same period last year. This was attributable to the decrease of our average loan portfolio by about 7% to approximately HK$386.4 million for the year ended 31 December 2011 from HK$414.6 million for the same period last year, resulting in the decrease in revenue from interest income. In view of the uncertain market conditions, the Group will further strengthen our credit control policies and procedures including the review of our clients' creditworthiness and credit limits so as to minimize our credit risk exposure.

Further, the Group also offers placing and underwriting services to our customers, and acts as placing agents and underwriters for many Hong Kong listed companies' fund raising activities. During the year ended 31 December 2011, the same as other revenue streams, the Group's placing and underwriting commission generated had also decreased to approximately HK$5.9 million (2010: HK$9.8 million) due to the slowdown in the pace of both the primary and secondary market financing affected by the volatile global economy. Nevertheless, the Group will continue to put efforts to capture the opportunities towards initial public offerings and other fund raising exercises in Hong Kong once the market sentiments improved.

In addition, for the year ended 31 December 2011, the Group had made an additional impairment of HK$4.8 million (2010: Nil) for accounts receivable arising from the ordinary course of business of dealing in securities transactions in accordance with the Group's established credit policies and procedures which were principally based on the doubtful unsecured exposure having assessed the fair values of the clients' collaterals held, the evaluation of collectability and aging analysis of the client accounts.

As a result, the operating performance of the brokerage and related businesses in 2011 was significantly worse than that of last year, especially in the fourth quarter of 2011. For the year ended 31 December 2011, the operating profit before taxation generated from the brokerage business was approximately HK$0.9 million (2010: HK$16.8 million), and its operating profit after taxation was approximately HK$0.5 million (2010: HK$14.2 million).

Corporate Finance

During the year ended 31 December 2011, VC Capital Limited ("**VC Capital**"), an indirect non-wholly owned subsidiary of the Company, had been appointed as the financial advisers of several Hong Kong listed companies for a number of corporate transactions and had also successfully helped two companies to seek for listing on both the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and the Main Board of the Stock Exchange, in which VC Capital was appointed as the sole sponsor and joint sponsor respectively. Further, during the year ended 31 December 2011, the Group had put more efforts and resources in developing and extending our China network with an aim to explore more business opportunities and developments in China.

For the year ended 31 December 2011, the Group's corporate financial advisory and related businesses recorded revenue totaling approximately HK$11.2 million (2010: HK$4.9 million), and generated an operating loss before taxation of approximately HK$6.9 million (2010: HK$8.2 million) and operating loss after taxation of approximately HK$7.1 million (2010: HK$9.3 million). Its performance in 2011 was improved as compared to that of the same period in 2010 and even in 2009. This demonstrated that the Group had successfully captured the growing business opportunities since the resumption of the capital market activities in Hong Kong from last quarter of 2009 after the financial tsunami and achieved the economic benefits from the growth. However, as mentioned in the section "Business Review" above, due to the continuous poor market sentiment, many companies had delayed their initial public offerings plans and even some merger and acquisition transactions had also been on hold since the second half of 2011. As such, the operating performance of the corporate finance business had gone downward in the second half of 2011. Nevertheless, it is still expected that the Group can capture the growing business opportunities from the more favourable market conditions after the return of a bullish market.

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

Asset Management

In 2008, VC Financial Group Limited, the Company's direct wholly owned subsidiary, had established a 50:50 jointly controlled entity with a third party, which had acquired a Macau land and intended to bring in third party investors and transform this asset into a private equity real estate fund or a syndicated property management project in Macau. However, with the hit of the financial tsunami, fund raising had become more challenging. Meanwhile, in order to focus the management time and resources in our core business, the Group selected an alternative exit plan for this project last year, in which the Macau land had been disposed in November 2010. From the disposal, the Group recognised a loss of approximately HK$36.9 million for the year ended 31 December 2010, which was separately included in the share of loss of jointly controlled entities as mentioned in the section "Share of loss of jointly controlled entities" below.

Nevertheless, given the prevalently strong Mainland China economy and the solid foundation of the financial service market in Hong Kong, the Group is still pursuing new business opportunities to grow its asset management business so as to enhance our product and service offerings to cater for the diverse and growing needs of our customers.

For the year ended 31 December 2011, the Group's asset management business, mainly through VC Asset Management Limited (an indirect non-wholly owned subsidiary of the Company) recorded an operating loss before and after taxation of approximately HK$1.6 million (2010: HK$1.3 million), which mainly representing the general operating expenses incurred for such business.

Share of loss of jointly controlled entities

For the year ended 31 December 2011, the Group did not recognise any gain or loss from the jointly controlled entities. In 2010, the Group recognised a loss of approximately HK$37.8 million from the jointly controlled entities, which included the loss of approximately HK$36.9 million from the disposal of the Macau land as abovementioned and the share of the jointly controlled entities' general operating expenses of approximately HK$0.9 million incurred in 2010.

Fair value changes on financial liabilities designated at fair value through profit or loss and derivative financial liabilities

The Company had issued the convertible bonds in a principal amount of HK$10 million (the "**Convertible Bonds**") on 30 November 2009, which were classified as financial liabilities designated at fair value through profit or loss and were measured at fair value. As at 31 December 2009, the carrying amount of the Convertible Bonds was approximately HK$11.2 million in accordance with a valuation report prepared by an independent valuer. Upon the conversion of the Convertible Bonds into 10,000,000 ordinary shares of HK$0.1 each of the Company on 9 April 2010, an option to subscribe for additional HK$10,000,000 convertible bonds (the "**HK$10M Optional Bonds**") with a conversion price of HK$1 each per ordinary share of the Company was also issued to the bondholder in accordance with the terms of Convertible Bonds, which were classified as derivative financial liabilities and were measured at fair value. On 21 April 2010, the bondholder had exercised the option for the HK$10M Optional Bonds and converted the convertible bonds into 10,000,000 ordinary shares of HK$0.1 each of the Company on the same date. For the year ended 31 December 2010, the Group recognised the increase in fair value of the Convertible Bonds of approximately HK$23 million as at 9 April 2010 and also the increase in fair value of the option for the HK$10M Optional Bonds of approximately HK$11 million as at 21 April 2010 to the profit or loss in accordance with a valuation report prepared by an independent valuer as at each of the conversion dates.

As at 31 December 2011 and 2010, the Group did not have any outstanding convertible bonds and optional bonds. Details had been given in note 20 to the consolidated financial statements.

Impairment of goodwill

For the year ended 31 December 2011, the Group did not recognise any impairment of goodwill. For the year ended 31 December 2010, the goodwill attributable to the corporate finance business of approximately HK$8.2 million was fully impaired to the profit or loss as there was impairment indication after consideration of its cash flow projections. Details had been given in note 11 to the consolidated financial statements.

Unallocated costs

For the year ended 31 December 2011, the unallocated costs of the Group was approximately HK$18.8 million as compared to approximately HK$12.6 million for the same period in 2010, which mainly included the unallocated corporate rental and utility expenses, staff costs and related expenses, and professional costs, etc. The increase in unallocated costs for the current year was primarily due to the increase of the staff costs.

Finance costs

During the year ended 31 December 2011, the finance costs of the Group was approximately HK$0.9 million (2010: HK$1.1 million), in which all were incurred in relation to the short-term bank loans utilised for the brokerage business.

Income tax expense

During the year ended 31 December 2011, the estimated income tax expense of the Group amounted to approximately HK$0.6 million (2010: HK$3.7 million). The income tax expense for the current year was mainly the provision of income tax charge in relation to the profitability generated from the brokerage business. The income tax expense for the previous year was derived from the provision of income tax charge of approximately HK$2.6 million in relation to the profitability generated from the brokerage business and the reversal of the deferred tax asset of HK$1.1 million in relation to the goodwill impaired for the corporate finance business.

Liquidity and financial resources/capital structure

The Group finances its business operations and investments with internal resources, cash revenues generated from operating activities, short-term bank loans and bank overdrafts.

The Group adopts a prudent treasury policy. As at 31 December 2011, 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 2011.

The Group held banking facilities of HK$130 million granted from a bank to a subsidiary, VC Brokerage, as at 31 December 2011 (2010: HK$130 million), in which HK$80 million (2010: HK$80 million) was general short-term money market loan and current account overdraft and was currently required to be secured by bank deposits of HK$40 million (2010: HK$40 million), and the other HK$50 million (2010: HK$50 million) was short-term money market loan for margin financing business and was required to be secured by VC Brokerage's margin clients' listed securities when utilised. As at 31 December 2011, the Group had utilised the general short-term money market loan of HK$40 million (2010: HK$40 million), which bore an interest rate at HIBOR plus 2% per annum, by pledge of bank deposits of HK$40 million (2010: HK$40 million).

As at 31 December 2011, the Group's net current assets, bank balances and cash, and shareholders' equity (other than clients' segregated accounts) amounted to approximately HK$559.1 million (2010: HK$580.4 million), HK$321 million (2010: HK$115.5 million) and HK$568.7 million (2010: HK$588.1 million) respectively. Current ratio, expressed as current assets over current liabilities, was maintained at a very satisfactory level of 9.5 as at 31 December 2011 (2010: 5.8).

As at 31 December 2011, the total number of issued ordinary shares of the Company was 399,736,829 of HK$0.10 each (2010: 399,736,829 shares of HK$0.10 each). There was no movement in share capital of the Company during the year ended 31 December 2011.

As mentioned in the section "Significant Event and Development" above, the placing and issue of 79,900,000 Warrants at an issue price of HK$0.05 each was completed on 14 July 2011 and each Warrant carries the right to subscribe for one Subscription Share. The net proceed from the placing and issue of the Warrants was approximately HK$3.7 million. These Warrants can be exercised at any time during a period of 12 months commencing from the date of issue of the Warrants. Upon full exercise of the subscription rights attaching to the Warrants, the Company will issue 79,900,000 Subscription Shares which represented approximately 16.66% of the issued share capital of the Company as enlarged by the issue and allotment of these Subscription Shares as at 31 December 2011. The maximum net proceeds from the exercise of the subscription rights attaching to the Warrants will be approximately HK$101.1 million.

Besides, the Company entered into a placing agreement (the "**Share Placing Agreement**") with a placing agent on 28 January 2011 to place, on a best effort basis, a minimum of 20,000,000 new shares and up to a maximum of 79,000,000 new shares at a price of HK$1.5 per placing share. However, due to certain conditions precedent to the Share Placing Agreement had not been fulfilled on 31 May 2011, the long-stop date of the Share Placing Agreement, the Share Placing Agreement was expired and lapsed. Details were set out in the Company's announcements dated 28 January 2011 and 31 May 2011.

Charges on group assets

As aforementioned, the Group had made a HK$40 million charge over its bank deposits to a bank (2010: HK$40 million) for securing banking facilities of HK$80 million granted to VC Brokerage in short-term money market loan and current account overdraft as at 31 December 2011 (2010: HK$80 million).

Gearing ratio

As at 31 December 2011, the Group's gearing ratio, expressed as total borrowings (solely the bank borrowings) over shareholders' equity, was still at a satisfactory level of 0.07 times (2010: 0.07 times).

Foreign exchange exposure

It is the Group's policy for all operating entities to use corresponding local currency as much as possible so as to minimize exchange related risks. Although there was launch of listing, trading and clearing services for Renminbi products in the local stock market in April 2011, the Renminbi currency exposure to the Group is still minimal at the early stage. During the year ended 31 December 2011, 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 exchange related risks.

Headcount and employees information

As at 31 December 2011, the Group had a total of 119 employees (2010:118), of whom 108 (2010: 114) were stationed in Hong Kong and 11 (2010: 4) in China.

Staff costs (including the Directors' emoluments) and staff sales commission amounted to approximately HK$56.2 million and HK$24.3 million respectively for the year ended 31 December 2011 (2010: HK$46.7 million and HK$36.5 million respectively). The former one included equity-settled share-based payments of approximately HK$3.8 million for the year ended 31 December 2011 (2010: HK$4.4 million), in which part of these were included in the segment results and part thereof in the unallocated costs. Details had been given in notes 4 to 5 to the consolidated financial statements.

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

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

During the year ended 31 December 2011, the Group did not make any material acquisitions and disposal of subsidiaries, significant investments nor capital commitment.

Future plans for material investments or capital assets

As at 31 December 2011, the Group had no known plans with regard to material investments or capital assets. Material capital expenditure will be incurred when the Group begins to pursue different investments or projects in the coming years. The Group will finance the respective investments or projects using its internal resources and/or different financing options available, whichever should be deemed appropriate.

Further, as at 31 December 2011, the Group did not have any significant commitments contracted but not provided for in the consolidated financial statements in respect of purchase of property, plant and equipment.

Contingent liabilities

As at 31 December 2011, the Company had given financial guarantees of HK$130 million (2010: HK$130 million) to a bank in respect of the banking facilities of HK$130 million provided to VC Brokerage as mentioned in the section "Liquidity and Financial Resources/Capital Structure" above. As at 31 December 2011, banking facilities of an amount of HK$40 million was utilised by VC Brokerage (2010: HK$40 million).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Revenue	4	**92,865**	115,629
Other income	4	**642**	598
Staff costs	5	**(80,466)**	(83,156)
Depreciation of property, plant and equipment	12	**(1,960)**	(2,063)
Amortisation of trading rights		**–**	(252)
Commission expenses		**(3,668)**	(6,257)
Finance costs	6	**(856)**	(1,107)
Other operating expenses		**(33,010)**	(28,696)
Share of loss of jointly controlled entities	13	**–**	(37,832)
Fair value changes on financial liabilities designated at fair value through profit or loss	20	**–**	(22,950)
Fair value changes on derivatives financial liabilities	20	**–**	(11,033)
Impairment of goodwill	11	**–**	(8,151)
Impairment loss on available-for-sale investment	14	**(241)**	–
Loss before taxation		**(26,694)**	(85,270)
Income tax expense	8	**(550)**	(3,666)
Loss for the year	7	**(27,244)**	(88,936)
Other comprehensive income			
Exchange differences arising on translation of foreign operations		**13**	(88)
Total comprehensive income for the year		**(27,231)**	(89,024)
Loss for the year attributable to:			
Owners of the Company		**(26,660)**	(87,985)
Non-controlling interests		**(584)**	(951)
		(27,244)	(88,936)
Total comprehensive income for the year attributable to:			
Owners of the Company		**(26,647)**	(88,073)
Non-controlling interests		**(584)**	(951)
		(27,231)	(89,024)
Loss per share (HK cents)			
Basic	10	**(6.67)**	(22.47)
Diluted	10	**(6.67)**	(22.47)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Goodwill	11	**–**	–
Trading rights		**–**	–
Property, plant and equipment	12	**3,563**	3,504
Statutory deposits		**2,988**	3,059
Other intangible assets		**1,547**	547
Investments in jointly controlled entities	13	**–**	–
Available-for-sale investment	14	**259**	–
Rental and utility deposits		**2,432**	2,163
		10,789	9,273
Current assets			
Accounts receivable	15	**258,283**	542,409
Prepayments, deposits and other receivables		**3,658**	2,855
Loan to a jointly controlled entity		**–**	219
Tax recoverable		**2,165**	–
Pledged bank deposits		**40,000**	40,000
Bank balances and cash	16	**321,018**	115,478
		625,124	700,961
Current liabilities			
Accounts payable	17	**19,365**	65,346
Accrued liabilities and other payables		**6,526**	13,425
Amounts due to jointly controlled entities		**–**	1,378
Taxation payable		**114**	443
Short-term bank borrowings	18	**40,000**	40,000
		66,005	120,592
Net current assets		**559,119**	580,369
Total assets less current liabilities		**569,908**	589,642
Capital and reserves			
Share capital	19	**39,974**	39,974
Reserves		**528,755**	548,126
Equity attributable to owners of the Company		**568,729**	588,100
Non-controlling interests		**1,179**	1,542
Total equity		**569,908**	589,642

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Attributable to owners of the Company												
	Share capital *HK$'000*	Shares held for share purchase scheme *HK$'000*	Share premium *HK$'000*	Capital reserve *HK$'000* *(Note 1)*	Exchange reserve *HK$'000*	Retained profits (Accumulated losses) *HK$'000*	Share option reserve *HK$'000*	Awarded shares compensation reserve *HK$'000*	Other reserve *HK$'000* *(Note 2)*	Warrant reserve *HK$'000* *(Note 3)*	Sub-total *HK$'000*	Attributable to non-controlling interests *HK$'000*	Total *HK$'000*
At 1 January 2010	37,459	(2,029)	363,534	123,758	(854)	70,596	15,053	919	–	–	608,436	–	608,436
Loss for the year	–	–	–	–	–	(87,985)	–	–	–	–	(87,985)	(951)	(88,936)
Other comprehensive income for the year	–	–	–	–	(88)	–	–	–	–	–	(88)	–	(88)
Total comprehensive income for the year	–	–	–	–	(88)	(87,985)	–	–	–	–	(88,073)	(951)	(89,024)
Non-controlling interests arising on partial disposal of interests in subsidiaries	–	–	–	–	–	–	–	–	202	–	202	1,998	2,200
Additional non-controlling interests arising on issue of new equity shares	–	–	–	–	–	–	–	–	–	–	–	495	495
Exercise of share options	515	–	7,470	–	–	–	–	–	–	–	7,985	–	7,985
Transfer of share option reserve upon exercise of share options	–	–	2,953	–	–	–	(2,953)	–	–	–	–	–	–
Reversal of share option reserve upon forfeiture of share options	–	–	–	–	–	54	(54)	–	–	–	–	–	–
Recognition of equity-settled share-based payment	–	–	–	–	–	–	2,591	1,852	–	–	4,443	–	4,443
Share issue expenses	–	–	(25)	–	–	–	–	–	–	–	(25)	–	(25)
Transfer of shares held for share purchase scheme upon vesting of shares	–	2,029	–	–	–	742	–	(2,771)	–	–	–	–	–
Shares issue upon conversion of convertible bonds	2,000	–	53,132	–	–	–	–	–	–	–	55,132	–	55,132
At 31 December 2010	39,974	–	427,064	123,758	(942)	(16,593)	14,637	–	202	–	588,100	1,542	589,642
Loss for the year	–	–	–	–	–	(26,660)	–	–	–	–	(26,660)	(584)	(27,244)
Other comprehensive income for the year	–	–	–	–	13	–	–	–	–	–	13	–	13
Total comprehensive income for the year	–	–	–	–	13	(26,660)	–	–	–	–	(26,647)	(584)	(27,231)
Difference arising on change in interest in a subsidiary	–	–	–	–	–	–	–	–	(221)	–	(221)	221	–
Reversal of share option reserve upon forfeiture of share options	–	–	–	–	–	47	(47)	–	–	–	–	–	–
Recognition of equity-settled share-based payment	–	–	–	–	–	–	3,813	–	–	–	3,813	–	3,813
Issue of warrants	–	–	–	–	–	–	–	–	–	3,995	3,995	–	3,995
Warrants issue expenses	–	–	–	–	–	–	–	–	–	(311)	(311)	–	(311)
At 31 December 2011	39,974	–	427,064	123,758	(929)	(43,206)	18,403	–	(19)	3,684	568,729	1,179	569,908

Notes:

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

(2) Pursuant to the disposal of 9.9% of the interest in each of the two wholly-owned subsidiaries, VC Capital Limited and VC Asset Management Limited, at a consideration of HK$1,600,000 and HK$600,000 respectively completed on 10 February 2010, the difference of approximately HK$283,000 and negative HK$81,000 between the disposal proceeds and the amounts transferred to non-controlling interests of VC Capital Limited and VC Asset Management Limited of approximately HK$1,317,000 and HK$681,000 respectively had been recognised in Other Reserve.

On 30 December 2011, VC Asset Management Limited had issued 3,000,000 new shares of HK$1 each, which had been fully subscribed and paid by VC Financial Group Limited, the Company's direct wholly-owned subsidiary. As such, the Group's interest in VC Asset management Limited had increased from 90.1% to 91.16%. The negative difference of approximately HK$221,000 arising on the change in such interest in VC Asset Management Limited had been recognised in Other Reserve.

(3) On 9 June 2011 and 8 July 2011, the Company entered into a placing agreement and a supplemental agreement with a placing agent respectively whereby the Company had conditionally agreed to place, through the placing agent on a best effort basis, a maximum of 79,900,000 warrants at an issue price of HK$0.05 per warrant. Each warrant carries the right to subscribe for one ordinary share of the Company at the subscription price of HK$1.27, which can be exercised at any time during a period of 12 months commencing from the date of issue of the warrants. The placing and issue of 79,900,000 warrants had been completed on 14 July 2011. Amount received on the issue of warrants and issue expenses of approximately HK$3,995,000 and HK$311,000 respectively had been recognised in Warrant Reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

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

In the current year, the Group has applied a number of new and revised standards, amendments and interpretation ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are mandatorily effective for the 2011 financial year.

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

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

Amendments to HKFRS 7	Disclosures – Transfers of financial assets[1]
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities[4]
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures[6]
HKFRS 9 (Amendments)	Financial instruments[6]
HKFRS 10	Consolidated financial statements[4]
HKFRS 11	Joint arrangements[4]
HKFRS 12	Disclosure of interests in other entities[4]
HKFRS 13	Fair value measurement[4]
Amendments to HKAS 1	Presentation of items of other comprehensive income[3]
Amendments to HKAS 12	Deferred tax: Recovery of underlying assets[2]
HKAS 19 (as revised 2011)	Employee benefits[4]
HKAS 27 (as revised 2011)	Separate financial statements[4]
HKAS 28 (as revised 2011)	Investments in associates and joint ventures[4]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[5]
HK(IFRIC) – INT 20	Stripping costs in the production phase of a surface mine[4]

[1] Effective for annual periods beginning on or after 1 July 2011.
[2] Effective for annual periods beginning on or after 1 January 2012.
[3] Effective for annual periods beginning on or after 1 July 2012.
[4] Effective for annual periods beginning on or after 1 January 2013.
[5] Effective for annual periods beginning on or after 1 January 2014.
[6] Effective for annual periods beginning on or after 1 January 2015.

HKFRS 9 Financial instruments

HKFRS 9 "Financial instruments" issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognitions.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

Based on the Group's financial assets and financial liabilities as at 31 December 2011, the Directors of the Company anticipate that the adoption of HKFRS 9 is not expected to have a significant impact on the consolidated financial statements of the Group.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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 Stock Exchange and by the Hong Kong Companies Ordinance.

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

4. REVENUE AND SEGMENT INFORMATION

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

	2011	2010
	HK$'000	HK$'000
Revenue		
– Brokerage commission and other related fee from dealing in securities and futures and options contracts	**44,040**	65,883
– Underwriting, sub-underwriting, placing and sub-placing commission	**5,857**	9,848
– Arrangement, management, advisory and other fee income	**11,250**	4,868
– Interest income from clients	**31,718**	35,030
	92,865	115,629
Other income		
Interest income	**597**	437
Sundry income	**45**	161
	642	598
Total income	**93,507**	116,227

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

(i) the brokerage segment engages in securities, futures and options brokering and dealing, provision of margin financing and commercial loans to corporate customers and placing and underwriting services;

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

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

The following tables represent revenue and results information of these segments for the years ended 31 December 2011 and 2010.

Year ended 31 December 2011

	Brokerage	Corporate finance	Asset management	Segment total	Eliminations	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue	81,715	11,150	–	92,865	–	92,865
Inter-segment sales	–	20	–	20	(20)	–
	81,715	11,170	–	92,885	(20)	92,865
Segment profit (loss)	903	(6,903)	(1,611)	(7,611)	–	(7,611)
Elimination of intra-group costs						14,068
Central administrative costs						(32,910)
Impairment loss on available-for-sale investment						(241)
Loss before taxation for the year						(26,694)

Other segment information

	Brokerage	Corporate finance	Asset management	Segment total	Adjustments	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Note)	
Amounts included in the measure of segment profit or loss:						
Interest income	(589)	(2)	(1)	(592)	(5)	(597)
Staff costs	43,221	10,778	1,101	55,100	25,366	80,466
Commission expenses	3,668	–	–	3,668	–	3,668
Depreciation of property, plant and equipment	1,310	161	5	1,476	484	1,960
Allowance for doubtful receivables, net	4,800	389	–	5,189	–	5,189
Finance costs	2,303	89	–	2,392	(1,536)	856
Amounts regularly provided to the Group's Executive Committee but not included in the measure of segment profit or loss:						
Income tax expense	402	148	–	550	–	550

Year ended 31 December 2010

	Brokerage *HK$'000*	Corporate finance *HK$'000*	Asset management *HK$'000*	Segment total *HK$'000*	Eliminations *HK$'000*	Total *HK$'000*
Segment revenue	110,811	4,818	–	115,629	–	115,629
Inter-segment sales	–	80	–	80	(80)	–
	110,811	4,898	–	115,709	(80)	115,629
Segment profit (loss)	16,765	(8,193)	(1,301)	7,271	–	7,271
Elimination of intra-group costs						13,521
Central administrative costs						(26,096)
Share of loss of jointly controlled entities						(37,832)
Fair value changes on financial liabilities designated at FVTPL						(22,950)
Fair value changes on derivative financial liabilities						(11,033)
Impairment of goodwill						(8,151)
Loss before taxation for the year						(85,270)

Other segment information

	Brokerage *HK$'000*	Corporate finance *HK$'000*	Asset management *HK$'000*	Segment total *HK$'000*	Adjustments *HK$'000* *(Note)*	Total *HK$'000*
Amounts included in the measure of segment profit or loss:						
Interest income	(433)	(2)	(1)	(436)	(1)	(437)
Staff costs	55,042	7,571	671	63,284	19,872	83,156
Commission expenses	6,257	–	–	6,257	–	6,257
Depreciation of property, plant and equipment	1,567	43	14	1,624	439	2,063
Amortisation of trading rights	252	–	–	252	–	252
Finance costs	2,607	–	–	2,607	(1,500)	1,107
Amounts regularly provided to the Group's Executive Committee but not included in the measure of segment profit or loss:						
Share of loss of jointly controlled entities	–	–	37,832	37,832	–	37,832
Income tax expense	2,566	1,100	–	3,666	–	3,666

Note: Adjustments represent the administrative costs which are excluded from both the three operating segments and the measure of segment profit or loss. Intra-group finance costs are included in the three operating segments and eliminated at consolidation.

Segment profit or loss represents the profit earned by/loss from each segment. This is the measure reported to the Group's Executive Committee for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

In 2011 and 2010, no single customer amounts to 10% or more of the Group's revenue. The Group's operations are located in Hong Kong (country of domicile) and the People's Republic of China (the "PRC"). The Group's revenue from external customers are mainly derived from Hong Kong for both 2011 and 2010. Almost all of its non-current assets, excluding investments in jointly controlled entities and loan to a jointly controlled entity, are attributed to the operations in Hong Kong.

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

5. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2011	2010
	HK$'000	*HK$'000*
Staff commission	**24,263**	36,495
Salaries and wages	**39,398**	34,502
Staff welfare	**1,799**	1,435
Recruitment costs	**419**	213
Provision of long service payment/annual leave benefits	**82**	76
Retirement benefits scheme contributions	**1,173**	1,133
Recognition of equity-settled share-based payment	**3,813**	4,443
Discretionary and performance related incentive payments	**9,519**	4,859
	80,466	83,156

6. FINANCE COSTS

	2011	2010
	HK$'000	HK$'000
Interests on:		
Bank loans and overdrafts wholly repayable within five years	**856**	1,107

7. LOSS FOR THE YEAR

	2011	2010
	HK$'000	*HK$'000*
Loss for the year has been arrived at after charging (crediting):		
Included in other operating expenses:		
Auditors' remuneration	**954**	1,007
Operating leases in respect of land and buildings	**9,239**	8,121
Allowance for doubtful receivable, net	**5,189**	–
Loss on disposal of property, plant & equipment	**33**	3
Included in other income:		
Net exchange gain	**(34)**	(135)

8. INCOME TAX EXPENSE

The amount of tax charged to the consolidated statement of comprehensive income represents:

	2011	2010
	HK$'000	*HK$'000*
Current tax		
– Hong Kong Profits Tax	**402**	2,567
– PRC Enterprise Income Tax	**148**	–
Overprovision in prior year		
– Hong Kong Profits Tax	**–**	(1)
	550	2,566
Deferred tax		
Current year	**–**	1,100
	550	3,666

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. PRC subsidiary is subject to PRC Enterprise Income Tax at 25% for 2011.

9. DIVIDENDS

No dividends have been paid or declared or proposed by the Company during the year ended 31 December 2011 (2010: Nil).

10. 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:

	2011	2010
	HK$'000	*HK$'000*
Loss		
Loss for the purposes of basic and diluted loss per share (Loss for the year attributable to the owners of the Company)	**(26,660)**	(87,985)
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**399,737**	391,617

The diluted loss per share for 2011 and 2010 is computed excluding the effects of share options and warrants as the exercise of the Company's share options and warrants are anti-dilutive.

11. GOODWILL

Goodwill amount is solely relating to a cash-generating unit ("CGU"), VC Capital Limited, a subsidiary of the Company, which is included as corporate finance operating segment. As at 31 December 2010, an impairment loss of goodwill amounting to HK$8,151,000, representing the entire amount, had been recognised to the consolidated statement of comprehensive income after the impairment test was performed. For the purpose of the impairment test, the recoverable amount of the CGU had been determined on the basis of value in use calculation. The calculation used cash flow projections based on financial budget approved by management as at 31 December 2010, covering a 5-year period and using a discount rate of 12.5%. Another key assumption in the financial budget was the budgeted revenue, which was determined based on the CGU's past performance and management's expectations for the market development.

12. PROPERTY, PLANT AND EQUIPMENT

	2011	2010
	HK$'000	*HK$'000*
Carrying value, beginning of year	**3,504**	3,813
Additions	**2,049**	1,757
Depreciation	**(1,960)**	(2,063)
Written off	**(35)**	(3)
Exchange difference	**5**	–
	3,563	3,504

13. INTERESTS IN JOINTLY CONTROLLED ENTITIES (THE "JCE")

As at 31 December 2011 and 2010, the Group has interests in the following jointly controlled entities:

Name of entity	Form of business structure	Place/ country of incorporation/ registration	Principal activity and place of operations	Class share held	Proportion of nominal value of issued capital/ registered capital held by the Group		Proportion of voting power held	
					2011	2010	**2011**	2010
MVC Macau Property Development Fund Limited	Incorporated	Bermuda	Property investment holding in Macau	Ordinary	**50%**	50%	**50%**	50%
VC Property Asset Management Limited	Incorporated	British Virgin Island	Provision of property investment management in Macau	Ordinary	**50%**	50%	**50%**	50%

Since the sale of investment property in Macau, the business plan of the JCE has been abandoned. On 5 August 2010, Guia Hill (BVI) Holdings No. 1 Limited and Guia Hill (BVI) Holdings No. 2 Limited, being direct wholly owned subsidiaries of MVC Macau Property Development Fund Limited, entered into a sale and purchase agreement as supplemented by the supplemental agreement with two independent third parties to dispose of the entire issued share capital of Guia Hill (Macau) Investments Limited, which held the investment property in Macau directly. The transaction has been completed during the year ended 31 December 2010. The net proceed from the disposal is approximately HK$241.9 million. After the repayment of bank loan of the JCE, the Company has received a net receipt of approximately HK$41.3 million for settlement of the shareholder's loan and recognised a further share of loss of approximately HK$37.8 million for the year ended 31 December 2010.

14. AVAILABLE-FOR-SALE INVESTMENT

	HK$'000
Cost	
At 1 January 2010 and 1 January 2011	–
Addition	500
At 31 December 2011	500
Accumulated impairment	
At 1 January 2010 and 1 January 2011	–
Impairment loss recognised for the year	241
At 31 December 2011	241
Carrying value	
At 31 December 2011	259
At 31 December 2010	–
Analysed for reporting purpose as non-current assets	
At 31 December 2011	259
At 31 December 2010	–

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

15. ACCOUNTS RECEIVABLE

	2011	2010
	HK$'000	*HK$'000*
Accounts receivable arising from the ordinary course of business of dealing in *(Note a)*:		
– Securities transactions:		
Clearing houses and brokers	**17,960**	6,627
Cash clients	**9,823**	62,807
Margin clients	**230,036**	471,246
– Futures and options contracts transactions:		
HKFE Clearing Corporation Limited ("HKCC")	**–**	1
Accounts receivable arising from the ordinary course of business of provision of corporate financial advisory, placing and underwriting services *(Note b)*	**464**	1,728
	258,283	542,409

The Group has established policies and procedures to assess the potential clients' credit quality and define credit limits for each client. All client acceptances and credit limits are approved by designated approvers according to the clients' credit worthiness.

The credit quality of accounts receivable are summarised as follows:

	2011	2010
	HK$'000	*HK$'000*
Neither past due nor impaired	**246,545**	532,367
Past due but not impaired *(Note c)*	**2,263**	4,536
Impaired *(Note d)*	**14,939**	6,781
	263,747	543,684
Less: Allowance for impairment *(Note d)*	**(5,464)**	(1,275)
	258,283	542,409

The accounts receivable with a carrying amount of approximately HK$246,545,000 are neither past due nor impaired as at 31 December 2011 (2010: HK$532,367,000). The management is satisfied with the credit quality of the clients, and the fair value of the securities collateral held by the Group for these balances are generally over the relevant carrying amounts.

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 due from brokers bear interest at commercial rates.

Accounts receivable due from cash clients are secured by clients' pledged listed securities which included a fair value of approximately HK$299,456,000 in relation to the receivables being not impaired and a fair value of approximately HK$74,000 in relation to the receivables being impaired as at 31 December 2011 (2010: HK$435,391,000 and HK$371,000 respectively). No collateral held can be repledged by the Group and the corresponding collateral held can be sold at the Group's discretion to settle any past due outstanding amounts of the cash clients. Cash clients receivable which are past due bear interest at commercial rates.

In general, accounts receivable due from margin clients are included in "Neither past due nor impaired" category as these accounts have no specific maturity date. As at 31 December 2011, accounts receivable due from margin clients of approximately HK$14,403,000 (2010: HK$6,368,000) which are impaired, are included in "Impaired" category. These accounts receivable are secured by clients' pledged listed securities which included a fair value of approximately HK$593,685,000 in relation to the receivables being not impaired and a fair value of approximately HK$9,361,000 in relation to the receivables being impaired as at 31 December 2011 (2010: HK$1,317,914,000 and HK$5,902,000 respectively). Securities are assigned with specific margin ratios for calculating their margin values. Additional funds or collateral are required if the amount of accounts receivable outstanding exceeds the eligible margin value of securities deposited. The collateral held can be repledged up to 140% of the margin receivable amounts and the corresponding collateral held can be sold at the Group's discretion to settle any outstanding amounts owed by the margin clients. Margin clients receivable are repayable on demand and bear interest at commercial rates.

As at 31 December 2011, accounts receivable of approximately HK$96,000 (2010: HK$1,250,000) was due from key management personnel and directors of the Group, and close family members of these directors, in respect of transactions in securities undertaken for their accounts.

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

	2011 ***HK$'000***	2010 *HK$'000*
Within 30 days	**25,722**	66,050
31 – 90 days	**563**	3,268
Over 90 days	**1,498**	117
	27,783	69,435

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

	2011	2010
	HK$'000	*HK$'000*
Within 30 days	**261**	1,228
31 – 90 days	**103**	500
Over 90 days	**100**	–
	464	1,728

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

	2011	2010
	HK$'000	*HK$'000*
31 – 90 days	**666**	3,728
Over 90 days	**1,597**	808
	2,263	4,536

Cash clients receivable which are past due but not impaired amounted to approximately HK$2,060,000 as at 31 December 2011 (2010: HK$4,036,000). No impairment loss has been provided as the fair values of the securities collateral held by the Group for these balances are generally over the relevant carrying amounts.

The remaining balance of accounts receivable which are past due but not impaired amounting to approximately HK$203,000 as at 31 December 2011 (2010: HK$500,000) are those amounts arising from provision of corporate financial advisory services. The Group has not provided for any impairment loss as the clients are with good credit quality or there is on-going project with the Group. The extent of delay of these repayments is considered normal in the corporate financial advisory industry.

(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 collection history of each client.

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

	2011	2010
	HK$'000	*HK$'000*
Balance at beginning of the year	**1,275**	8,211
Impairment loss recognised	**5,189**	–
Amounts written off as uncollectible	**(1,000)**	(6,936)
Balance at end of the year	**5,464**	1,275

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

16. BANK BALANCES AND CASH

The amounts comprise cash and short-term bank deposits held by the Group at market interest rates ranging from 0.001% to 2.25% (2010: 0.001% to 0.43%) 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 Future 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 2011, the Group maintained segregated accounts with HKCC of approximately HK$3,260,000 (2010: HK$3,244,000) and the authorised institutions of approximately HK$245,154,000 (2010: HK$289,667,000) in conjunction with its securities, futures and options brokering and dealing business, and corporate financial advisory business as a result of the normal business transactions, which are not otherwise dealt with in the consolidated financial statements.

17. ACCOUNTS PAYABLE

	2011	2010
	HK$'000	*HK$'000*
Accounts payable arising from the ordinary course of business of dealing in securities transactions *(Notes a and b)*:		
– Clearing house and brokers	**–**	7,643
– Cash clients	**17,302**	32,991
– Margin clients	**2,046**	24,712
Accounts payable arising from the ordinary course of business of provision of corporate financial advisory services	**17**	–
	19,365	65,346

Notes:

(a) The settlement terms of accounts payable arising from the ordinary course of business of dealing in securities transactions are usually two trading days after the trade date. In the opinion of the Directors of the Company, no aging analysis is disclosed as it is not meaningful in view of all these accounts payable are promptly settled two trading days after the trade date.

(b) As at 31 December 2011, accounts payable of approximately HK$204,000 (2010: HK$901,000) was due to key management personnel and directors of the Group, and close family members of these directors, in respect of transactions in securities undertaken for their accounts.

18. SHORT-TERM BANK BORROWINGS

	2011	2010
	HK$'000	*HK$'000*
Secured	**40,000**	40,000

The short-term bank borrowings were secured by the pledged bank deposits and bore an interest rate at HIBOR plus 2% per annum as at 31 December 2011 and 31 December 2010. The weighted average effective interest rate for the year ended 31 December 2011 is 2.5% (2010: 2.39%) per annum.

19. SHARE CAPITAL

	Issued and fully paid Ordinary shares of HK$0.1 each	
	Number of shares	Amount
		HK$'000
At 1 January 2010	374,590,829	37,459
Issue of new shares upon conversion of the convertible bonds	20,000,000	2,000
Exercise of share options	5,146,000	515
At 31 December 2010 and 31 December 2011	399,736,829	39,974

20. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS AND DERIVATIVE FINANCIAL LIABILITIES

On 30 November 2009, the Company issued Hong Kong dollar denominated convertible bonds in a principal amount of HK$10,000,000 maturing on 30 November 2011 (the "Convertible Bonds"), which were classified as financial liabilities designated at fair value through profit or loss and were measured at fair value using Binomial pricing model in accordance with a valuation report prepared by an independent valuer.

Under the terms of the Convertible Bonds, the Company may redeem in whole or in part of the Convertible Bonds within three months from the issue date at 100.25% of the principal amount and entitle the bondholders to convert to ordinary shares at a conversion price of HK$1 per ordinary share thereafter. The bondholders who convert the Convertible Bonds within one year from the date of issue will be granted options which will entitle them to subscribe for further convertible bonds (the "Optional Bonds") equal to the principal amount of the Convertible Bonds converted by that converting bondholder. The Optional Bonds would be issued under the same terms and conditions as the Convertible Bonds, except that no option to subscribe for further convertible bonds will be granted to the bondholder and the right to redeem the Optional Bonds within the first three months from the date of issue by the Company will not be applicable.

On 9 April 2010, the Company had received a conversion notice from the bondholder requesting the conversion of the Convertible Bonds in full into 10,000,000 ordinary shares of HK$0.1 each of the Company. As such, the option to subscribe for additional HK$10,000,000 convertible bonds (the "HK$10M Optional Bonds") with a conversion price of HK$1 each per ordinary share of the Company was issued to the bondholder. The bondholder has to exercise the option to subscribe for the HK$10M Optional Bonds no later than 30 November 2010 and the maturity date of the HK$10M Optional Bonds will be on 30 November 2011. The option to subscribe for the HK$10M Optional Bonds was recognised as derivative financial liabilities and the change in fair value was recognised in profit or loss.

On 21 April 2010, the bondholder had exercised the option for the HK$10M Optional Bonds and subscribed for the HK$10M Optional Bonds with cash proceeds of HK$10,000,000. On the same date, the bondholder had converted this in full into 10,000,000 ordinary shares of HK$0.1 each of the Company.

The movements of the Convertible Bonds and the HK$10M Optional Bonds in accordance with a valuation report prepared by an independent valuer using Binomial pricing model as at 9 April 2010 and 21 April 2010 are summarised as below:

Financial liabilities designated at fair value through profit or loss

	HK$'000
Balance at 1 January 2010	11,184
Fair value change recognised to profit or loss upon shares conversion of the Convertible Bonds	22,950
Conversion of the Convertible Bonds into shares recognised to equity	(22,038)
Option for the HK$10M Optional Bonds recognised as derivative financial liabilities	(12,061)
Interest paid on the Convertible Bonds	(35)
Balance at 31 December 2010 and 31 December 2011	–

Derivative financial liabilities

	HK$'000
Option for the HK$10M Optional Bonds recognised as derivative financial liabilities at 9 April 2010	12,061
Fair value change recognised to profit or loss upon exercise of the option for the HK$10M Optional Bonds	11,033
Conversion of the HK$10M Optional Bonds into shares recognised to equity	(23,094)
Balance at 31 December 2010 and 31 December 2011	–

Optional bonds

	HK$'000
Subscription at 21 April 2010	10,000
Conversion of the HK$10M Optional Bonds into shares recognised to equity	(10,000)
Balance at 31 December 2010 and 31 December 2011	–

21. FINANCIAL GUARANTEE

As at 31 December 2011, the Company had given financial guarantees to a bank in respect of banking facilities provided to a subsidiary, VC Brokerage Limited, amounting to HK$130 million (2010: HK$130 million). At 31 December 2011, HK$40 million banking facilities was utilised by VC Brokerage Limited (2010: HK$40 million). The fair value of the financial guarantee contracts is immaterial.

DIVIDEND

The Directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2011 (2010: Nil).

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

During the year ended 31 December 2011, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has promulgated a set of Code on Corporate Governance (the "**Company Code**"), which sets out the corporate standards and practices used by the Company in directing and managing its business affairs. The Company Code was prepared with reference to the principles, Code Provisions and Recommended Best Practices stipulated in the Code on Corporate Governance Practices issued by the Stock Exchange (the "**HKSE Code**") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange, which came into effect on 1 January 2005. The Company Code not only formalizes the Company's existing corporate governance principles and practices, but has also served to assimilate the Company's existing practices with benchmarks prescribed by the HKSE Code, and ultimately ensuring that the Company runs a highly transparent operation and is accountable to the Company's shareholders.

The Company has complied with all provisions in the Company Code and the HKSE Code throughout the financial year ended 31 December 2011 with one deviation mentioned below:

Under the code provision A.4.1 of the HKSE Code, non-executive directors should be appointed for a 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. However, under the article 92 of the Articles of Association of the Company, all Directors, including non-executive directors, of the Company are subject to retirement by rotation and re-election in the annual general meeting of the Company and each Director is effectively appointed under an average term of three years. The reasons for the deviation are 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.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity and the related notes thereto for the year ended 31 December 2011 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs.

Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's consolidated financial statements and results for the year ended 31 December 2011, including the accounting principles and practices adopted by the Group. The Audit Committee is satisfied that the consolidated financial statements 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 2011.

ANNUAL GENERAL MEETING

The annual general meeting of the Company for the year 2012 will be held on 24 May 2012. A notice convening this annual general meeting will be issued to the shareholders of the Company together with the 2011 Annual Report in due course, which will also be available on the Stock Exchange's website at www.hkexnews.hk and the website of the Company at www.vcgroup.com.hk.

PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the Stock Exchange's website at www.hkexnews.hk and the website of the Company at www.vcgroup.com.hk. The Company's 2011 Annual Report will be available at the same websites and will be dispatched to the Company's shareholders in due course.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises seven Executive Directors, namely, Mr. Ha Shu Tong (Chief Executive Officer), Mr. Chau King Fai, Philip, Mr. Cheng Tze Kit, Larry (Chief Investment Officer), Ms. So Wai Yee, Betty (Chief Financial Officer), Ms. Lam Yuk Ying, Elsa, Mr. Zhou Wentao and Mr. Tin Ka Pak, Timmy; two Non-executive Directors, namely, Dr. Lee Jun Sing (Chairman) and Ms. Wang Ying; and four Independent Non-executive Directors, namely, Mr. Lam Kwok Hing, Wilfred, Mr. Lam Ka Wai, Graham, Mr. Ip Chun Chung, Robert and Mr. Wong Chung Kin, Quentin.

By Order of the Board of
Value Convergence Holdings Limited
Ha Shu Tong
Chief Executive Officer & Executive Director

Hong Kong, 22 March 2012