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Value Convergence Holdings Limited

(Incorporated in Hong Kong with limited liability)

website: <http://www.vcgroup.com.hk>

(Stock Code: 821)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2014

The board (the “**Board**”) of directors (the “**Directors**”) of Value Convergence Holdings Limited (the “**Company**”) submits the unaudited condensed consolidated results of the Company and its subsidiaries (collectively “**VC Group**” or the “**Group**”) for the six months ended 30 June 2014, together with the unaudited comparative figures of the corresponding period in 2013.

FINANCIAL HIGHLIGHTS

The Group’s consolidated revenue for the six months ended 30 June 2014 amounted to approximately HK\$40.8 million, which had increased by about 25% as compared with the same period in 2013.

The Group recorded a consolidated net profit attributable to shareholders amounted to approximately HK\$3.3 million for the six months ended 30 June 2014 against a consolidated net loss of approximately HK\$13.2 million for the same period in 2013. Excluding the recognition of the net gain of approximately HK\$7.7 million on fair value changes in relation to the 80 million non-listed warrants issued by the Company and the investment of HK\$20 million in a non-listed convertible bond held by the Company, the Group generated a consolidated operating loss of approximately HK\$4.4 million for the six months ended 30 June 2014, which was about 67% less than that of the same period in 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Business Review

As an international financial center, Hong Kong was inevitably affected by different challenges and uncertainties under the macro environment. The global economy still lacked significant growth momentum to sustain recovery. The global capital market continued to be sluggish and sometimes even suffered some setbacks, which made the investors remained very cautious. During the first half of 2014, the operating environment for Hong Kong's financial industry was still characterized by the sluggish global economy, stringent regulatory requirements and considerable uncertainty in the Mainland China's financial market.

The local stock market in the first half of 2014 was still volatile, however, it was considered to be more steadily as compared to the previous years after the financial tsunami that erupted in late 2008. Continued the growth momentum in the fourth quarter of 2013, especially in the initial public offerings market, the local stock market was still strong in the first quarter of 2014, in which there has been a steady inflow of hot money into the Hong Kong market and the new listings and public offerings continued to boost. However, the market had gone some downhill in the face of flagging global financial conditions in the late second quarter of 2014. This was echoed by the local stock market's average daily trading turnover, market capitalization and other various key market indices.

The average daily trading turnover was approximately HK\$68.3 billion for the first quarter of 2014 and even recorded approximately HK\$71.4 billion in March 2014. However, it was then dropped to approximately HK\$57.5 billion in the second quarter of 2014 and recorded a 22-month lowest of approximately HK\$51.4 billion in June 2014. Overall, the local stock market's average daily trading turnover for the first half of 2014 was slightly higher than that throughout the whole year of 2013, however, the average daily trading turnover had decreased by about 8% to approximately HK\$62.9 billion as compared to approximately HK\$68.3 billion for the same period in 2013.

The growth of the local stock market was also reflected in the total fund raised in Hong Kong of approximately HK\$215.8 billion in the first half of 2014, which represented a significant increase of about 58% as compared with approximately HK\$137 billion for the same period in 2013, in which the fund raised from the initial public offerings was approximately HK\$81.1 billion in the first half of 2014, representing a sharp increase of about 104% as compared with approximately HK\$39.7 billion for the same period in 2013. This revealed that there were more new listings and public offerings completed in the Hong Kong stock market in the first half of 2014.

As at 30 June 2014, the HSI closed at 23,190, which was only slightly lower as compared with 23,306 as at 31 December 2013. The total market capitalization had also maintained at a steady level of approximately HK\$23,944 billion as at 30 June 2014 as compared to approximately HK\$24,043 billion as at 31 December 2013.

VC Group, being a financial services provider, the business performance in the first half of 2014 was definitely affected by both the global and local economic and market conditions. Fortunately, our sound balance sheet, together with the premium investment and wealth management products and services, enabled us to possess clear competitive advantages against our peers. We believe that solid financial capability and a pragmatic operating strategy are crucial to the balanced growth and those are critical elements to enhance our shareholders' value. In particular, the Group has adhered to a professional attitude in delivering financial services and products favorably to our clients. The Group will endeavor to strive for better performance and prepare ourselves to capture any precious business development opportunities that may arise.

Further, although the nature of VC Group's financial business makes it particularly sensitive to changes in economic conditions and investors' sentiments, its fundamental strategy is unchanged and its core focus remains on sticking to its core businesses including (i) securities, futures and options brokering and dealing (including local and overseas securities dealing, securities borrowing and lending and short selling, futures and options trading, derivatives and other structured products trading, margin financing, placement and underwriting, etc.); (ii) provision of financing services and (iii) corporate finance services in relation to sponsoring and underwriting initial public offerings, and mergers and acquisitions; capitalizing on the significant growth opportunities and thereon delivering shareholder value from its strength.

Apart from the core businesses, the Group always seeks opportunity to expand its geographical coverage in the PRC. In November 2013, the Company announced to acquire the new lines of businesses including the provision of management consultancy services for small loans companies, currency exchange services and other related services in the PRC by entering into the sale and purchase agreements (the "**Agreements**") with the vendors. Despite the long stop date of the Agreements had been extended from end of March to end of May 2014, certain conditions of the Agreements had not been fulfilled. As such, the Company decided not to further extend the Agreements and the Agreements therefore lapsed on 31 May 2014. All the relevant parties' obligations given in the Agreements had ceased and determined and none of the parties shall have any claim against any other party save in respect of any rights already accrued. The Board considered that the lapse of the Agreements did not have any material adverse impact on the existing businesses of the Group. On the other hand, the Board will continue to explore other new potential investments which can allow the Group to expand its geographical coverage in the PRC and also complement its existing businesses. Details of the transactions were set out in the Company's announcements dated 24 November 2013, 28 March 2014 and 31 May 2014.

For details of the financial results analysis of the Group for the six months ended 30 June 2014, please refer to the section "Financial Review" below.

Outlook

Looking ahead, the Group expects the second half of 2014 will still be challenging for the financial sector. The global economic conditions are expected to stay volatile, which will continue to cast a gloom over investment market to different extents unless those situations are resolved and handled properly. In addition, various adverse signs are still pointing to a slowing down economy across the Mainland China, which in turn may pose a significant impact on our core businesses.

Our countering strategies will include strengthening our quality services with a view to boarding our revenue base and capturing the emerging new markets. The Group will continue to apply our excellent operational capabilities to serve our clients, to pursue business diversification and acquisition, to strive for innovation and to ensure that we will be able to reap benefits when the market rebounds. Meanwhile, the Group always seeks opportunity to leverage its expertise in financial services industry and expand its business in the PRC market.

Financial Review

For the six months ended 30 June 2014, the Group's consolidated revenue was approximately HK\$40.8 million which had increased by about 25% as compared with the same period in 2013. The Group recorded a consolidated net profit attributable to shareholders amounted to approximately HK\$3.3 million for the six months ended 30 June 2014 against a consolidated net loss of approximately HK\$13.2 million for the same period in 2013. Excluding the recognition of the net gain of approximately HK\$7.7 million on fair value changes in relation to the 80 million non-listed warrants issued by the Company and the investment of HK\$20 million in a non-listed convertible bond held by the Company, the major non-recurring and non-operating nature item, the Group generated a consolidated operating loss of approximately HK\$4.4 million for the six months ended 30 June 2014, which was about 67% less than that of the same period in 2013.

To facilitate the review, the Group's segment information shown in Note 3 to the unaudited condensed consolidated financial statements is reproduced below after some re-arrangements:

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Segmental results:		
Brokerage and Financing	1,945	(1,681)
Corporate Finance	(3,552)	(2,762)
Asset Management	(128)	(1,235)
Group segment loss	(1,735)	(5,678)
Unallocated costs, net	(2,592)	(7,513)
Fair value change on derivative financial asset	(2,254)	–
Fair value change on financial liability at fair value through profit or loss	9,933	–
Impairment loss on available-for-sale investment	–	(44)
Profit (loss) before taxation	3,352	(13,235)
Income tax expense	(76)	–
Profit (loss) for the period attributable to shareholders of the Company	3,276	(13,235)

Brokerage and Financing

For the six months ended 30 June 2014, the Company provides securities, futures and options brokering and dealing, margin financing, and placing and underwriting services through its indirect wholly owned subsidiaries, VC Brokerage Limited and VC Futures Limited and the money lending services through another indirect wholly owned subsidiary, VC Finance Limited, which recorded total revenue of approximately HK\$39.8 million as compared to approximately HK\$30 million for the same period last year, representing an increase of about 33%. All the various revenue streams generated from the brokerage and financing businesses, including the brokerage commission income, interest income from financing, and placing and underwriting commission had significantly increased during the six months ended 30 June 2014 as compared to the same period last year.

For the six months ended 30 June 2014, the Group's brokerage commission and other related fee from dealing in securities and futures and options contracts had increased to approximately HK\$21.6 million from approximately HK\$19.9 million for the same period last year, representing an increase of about 9%, which reflected that the Group's brokerage business keeps growing at the same pace, and even at a greater extent, with the Hong Kong stock market as mentioned in the section "Business Review" above.

For the six months ended 30 June 2014, the Group's interest income from financing had significantly increased to approximately HK\$15.8 million from approximately HK\$10 million for the same period last year, representing an increase of about 59%. Among these, the Group's interest income from our brokerage clients maintained a constant growth, in which an amount of approximately HK\$11.5 million was recorded for the six months ended 30 June 2014, representing about 19% higher than that of the same period last year. This was mainly contributed by the increase of our net interest rate spread. Meanwhile, the average loan portfolio to our brokerage clients was approximately HK\$253 million during the six months ended 30 June 2014, which was closely same as that of the same period last year. Indeed, the sharp increase in the Group's interest income during the past six months was mainly attributable to the interest income generated from the provision of money lending services to our new clients, in which an amount of approximately HK\$4.3 million was recorded for the six months ended 30 June 2014 as compared to HK\$0.2 million for the same period last year. By end of the first half in previous year, the Group started to devote more resources into the provision of financing services which included the expansion of our money lending business. This helps broaden our revenue base by taking the advantage of the huge growth potential from the loan market and also offering our clients with more financial flexibility to meet their personal and business needs.

Nevertheless, in view of the uncertain market conditions, the Group had continued to strengthen its credit control policies and procedures, same as the past few years, including the review of our clients' creditworthiness and credit limits, so as to minimize the credit risk exposure. For the six months ended 30 June 2014, there was no movement in impairment (2013: an impairment write-back of approximately HK\$2 million) for accounts receivable arising from the ordinary course of business of dealing in securities transactions in accordance with the Group's established credit policies and procedures which were principally based on the doubtful unsecured exposure having assessed the fair values of the clients' collaterals held, the evaluation of collectability and aging analysis of the client accounts. The significant impairment write-back for the six months ended 30 June 2013 was resulted from the recovery of some irrecoverable debts from the brokerage business recognised in previous years.

Further, the Group also offers placing and underwriting services to our clients, and acts as placing agents and underwriters for many Hong Kong listed companies' fund raising activities. For the six months ended 30 June 2014, the Group's placing and underwriting commission had significantly increased to approximately HK\$1.9 million (2013: HK\$0.2 million). This revealed that the Group had continued put our best efforts to capture the opportunities towards initial public offerings and other fund raising exercises in Hong Kong.

Overall, the operating performance of the brokerage and financing businesses for the six months ended 30 June 2014 had improved and even achieved a turnaround as a result of the revenue growth and the new revenue streams. For the six months ended 30 June 2014, the operating profit before and after tax generated from the brokerage and financing businesses was approximately HK\$1.9 million (2013: loss of HK\$1.7 million).

Corporate Finance

For the six months ended 30 June 2014, VC Capital Limited, an indirect wholly owned subsidiary of the Company, had been appointed as the financial adviser of several Hong Kong listed companies for a number of corporate transactions and actively involved in helping some clients as sponsor to seek for new listings on both the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Growth Enterprise Market of the Stock Exchange.

For the six months ended 30 June 2014, the Group's corporate financial advisory and related services recorded a revenue totaling approximately HK\$1.5 million (2013: HK\$2.8 million) and generated an operating loss before and after tax of approximately HK\$3.6 million (2013: HK\$2.8 million). As mentioned in the section “Business Review” above, though there were more companies to complete their new listings and other public offerings plans and even some merger and acquisition transactions in the Hong Kong stock market, it still takes a longer time for the Group to capture the growing business opportunities from the more favourable and stable market conditions after the full return of a bullish market.

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

Asset Management

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 clients. In the past few years, it is confirmed that the economic recovery continues to gain some momentum after the financial tsunami, however, it is still in the early stage of recovery and the global economic growth remains fragile, which make the development of our asset management business more difficult and competitive.

For the six months ended 30 June 2014, the Company's asset management business, through its indirect wholly owned subsidiary, VC Asset Management Limited recorded an operating loss before and after tax of approximately HK\$128,000 (2013: HK\$1.2 million) which mainly comprising the general operating expenses incurred for such business.

Fair value change on derivative financial asset

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

The Convertible Bond was split into two components, including (i) derivative financial asset, which was measured at fair value; and (ii) convertible bond receivable, which was carried at amortised cost, in the unaudited condensed consolidated financial statements. As at 30 June 2014, the carrying amounts of the derivative financial asset and the convertible bond receivable were approximately HK\$0.3 million and HK\$17.7 million respectively in accordance with a valuation report prepared by an independent professional valuer as at 30 June 2014 as compared to approximately HK\$2.6 million and HK\$16.7 million respectively as at 31 December 2013. As such, the Group had recognised a loss of approximately HK\$2.3 million on fair value change of the derivative financial asset to the unaudited condensed consolidated statement of profit or loss for the six months ended 30 June 2014. Details had been given in Notes 11 and 12 to the unaudited condensed consolidated financial statements.

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

In August 2013, the Company had placed and issued 80 million non-listed warrants at an issue price of HK\$0.02 each (the “**Warrant(s)**”). Each Warrant carries the right to subscribe for one ordinary share of the Company at the subscription price of HK\$1.20 during a period of 24 months commencing from the issue date of the Warrants. As at 30 June 2014, the 80 million Warrants are outstanding. The maximum net proceeds from the exercise of the subscription rights attaching to the Warrants will be approximately HK\$96 million. The Company intends to use these net proceeds for general working capital of the Group and/or possible investment in the future when opportunities arise.

These Warrants were classified as financial liability at fair value through profit or loss and were measured at fair value. As at 30 June 2014, the carrying amount of these Warrants was approximately HK\$9.7 million in accordance with a valuation report prepared by an independent professional valuer as at 30 June 2014 as compared to approximately HK\$19.6 million as at 31 December 2013. As such, the Group had recognised a gain of approximately HK\$9.9 million on fair value change of the Warrants to the unaudited condensed consolidated statement of profit or loss for the six months ended 30 June 2014. Details had been given in Note 17 to the unaudited condensed consolidated financial statements

Unallocated costs, net

For the six months ended 30 June 2014, the net unallocated costs of the Group amounted to approximately HK\$2.6 million as compared to approximately HK\$7.5 million for the same period in 2013, which mainly included the unallocated staff costs and related expenses, corporate rental and utility expenses, and professional costs, etc. The decrease in unallocated costs for the six months ended 30 June 2014 was mainly attributable to the decrease in corporate staff costs incurred.

Finance costs

For the six months ended 30 June 2014, the finance costs of the Group amounted to approximately HK\$329,000 (2013: HK\$514,000), in which all were incurred in relation to the short-term bank loans utilised for the Group's brokerage and financing businesses.

Income tax expense

For the six months ended 30 June 2014, the income tax expense of the Group amounted to approximately HK\$76,000 (2013: Nil), which represented the provision of Hong Kong Profits Tax charge in relation to the profitability generated from the brokerage and financing businesses.

Liquidity and financial resources/capital structure

For the six months ended 30 June 2014, the Group finances its business operations and investments with internal resources, cash revenues generated from operating activities and short-term bank loans.

The Group adopts a prudent treasury policy. As at 30 June 2014, all borrowings and almost all 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 30 June 2014.

The Group held banking facilities of HK\$130 million granted from a bank to VC Brokerage Limited as at 30 June 2014 (31 December 2013: HK\$130 million), in which HK\$80 million (31 December 2013: HK\$80 million) was general short-term money market loan and current account overdraft and was currently required to be secured by bank deposits of HK\$40 million (31 December 2013: HK\$40 million), and the other HK\$50 million (31 December 2013: HK\$50 million) was short-term money market loan for margin financing business and was required to be secured by VC Brokerage Limited's margin clients' listed securities when utilised. As at 30 June 2014, the Group had utilised the general short-term money market loan of HK\$40 million (31 December 2013: Nil), which bore an interest rate at HIBOR plus 2% per annum, by pledge of bank deposits of HK\$40 million (31 December 2013: HK\$40 million).

As at 30 June 2014, the Group's net current assets, bank balances and cash and shareholders' equity (other than clients' segregated accounts) amounted to approximately HK\$479.3 million (31 December 2013: HK\$471.6 million), HK\$209.2 million (31 December 2013: HK\$152.9 million) and HK\$507.9 million (31 December 2013: HK\$503.4 million) respectively. Current ratio, expressed as current assets over current liabilities, was maintained at a very satisfactory level of 5.3 as at 30 June 2014 (31 December 2013: 6.4).

As at 30 June 2014, the total number of issued ordinary shares of the Company was 413,166,829 (31 December 2013: 411,806,829 shares). The increase of 1,360,000 shares during the six months ended 30 June 2014 was attributable to the exercise of share options by the Directors of the Company and the employees of the Group.

As aforementioned, the Company had placed and issued 80 million Warrants in August 2013 and these Warrants can be exercised until 1 August 2015. Upon full exercise of the subscription rights attaching to the Warrants, the Company will issue 80 million subscription shares, representing (i) approximately 19.36% of the total number of issued shares of the Company as at the date of this announcement; and (ii) approximately 16.22% of the total number of issued shares of the Company as enlarged by the issue and allotment of the subscription shares upon the full exercise of the subscription rights attaching to the Warrants.

Charges on group assets

As aforementioned, the Group had made a HK\$40 million charge over its bank deposits to a bank (31 December 2013: HK\$40 million) for securing banking facilities of HK\$80 million granted to VC Brokerage Limited in general short-term money market loan and current account overdraft as at 30 June 2014 (31 December 2013: HK\$80 million).

Gearing ratio

As at 30 June 2014, the Group's gearing ratio, expressed as total borrowings (solely the short-term bank borrowings) over shareholders' equity, was 0.079 times (31 December 2013: Nil).

Foreign exchange exposure

It is the Group's policy for all operating entities to use corresponding local currency as much as possible so as to minimize exchange related risks. During the six months ended 30 June 2014, almost all of the Group's principal businesses were conducted and recorded in Hong Kong dollars. Impact from foreign exchange exposure was thus minimal and no hedging against foreign currency exposure had been necessary. In view of the operational needs, the Group will continue to monitor the foreign currency exposure from time to time and take necessary actions to minimize the exchange related risks.

Headcount and employees information

As at 30 June 2014, the Group had employed a total of 93 employees (31 December 2013: 95), of whom all are located in Hong Kong.

Staff costs (including the Directors' emoluments) and staff sales commission amounted to approximately HK\$18.3 million and HK\$11.2 million respectively for the six months ended 30 June 2014 (2013: HK\$22.7 million and HK\$10.8 million respectively). Details had been given in Note 4 to the unaudited condensed consolidated financial statements.

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

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

For the six months ended 30 June 2014, the Group did not make any material acquisitions and disposal of subsidiaries, significant investments nor capital commitment except those given in Note 20 to the unaudited condensed consolidated financial statements.

Future plans for material investments or capital assets

As at 30 June 2014, 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.

As at 30 June 2014, the Group did not have any significant contracted but not provided for in respect of purchase of property and equipment in the unaudited condensed consolidated financial statements (31 December 2013: Nil).

Contingent liabilities

As at 30 June 2014, the Company had given financial guarantees of HK\$130 million (31 December 2013: HK\$130 million) to a bank in respect of banking facilities of HK\$130 million provided to VC Brokerage Limited as mentioned in the section “Liquidity and financial resources/capital structure” above. As at 30 June 2014, banking facilities of an amount of HK\$40 million was utilised by VC Brokerage Limited (31 December 2013: Nil).

By Order of the Board of
Value Convergence Holdings Limited
Tin Ka Pak, Timmy
Chief Executive Officer & Executive Director

Hong Kong, 21 August 2014

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

		Six months ended 30 June	
		2014	2013
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	3	40,833	32,727
Other income	3	1,942	580
Staff costs	4	(29,505)	(33,517)
Commission expenses		(2,288)	(1,414)
Depreciation of property and equipment	10	(848)	(594)
Finance costs		(329)	(514)
Other operating expenses		(14,108)	(12,471)
Other gains and losses	5	7,655	1,968
Profit (loss) before taxation		3,352	(13,235)
Income tax expense	6	(76)	—
Profit (loss) for the period attributable to owners of the Company	7	3,276	(13,235)
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss			
Exchange differences on translation of financial statements of foreign operations		(2)	(18)
Total comprehensive income for the period attributable to owners of the Company		3,274	(13,253)
Earnings (loss) per share (HK cents)			
Basic	9	0.79	(3.26)
Diluted	9	0.79	(3.26)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

		30 June 2014	31 December 2013
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
Non-current assets			
Trading rights		–	–
Property and equipment	10	3,251	4,028
Statutory deposits		3,443	4,651
Other intangible assets		1,246	1,246
Available-for-sale investment		50	–
Convertible bond receivable	11	17,662	16,717
Derivative financial asset	12	316	2,570
Rental and utility deposits		2,629	2,564
		28,597	31,776
Current assets			
Accounts receivable	13	334,092	361,582
Prepayments, deposits and other receivables		6,722	4,167
Pledged bank deposits		40,000	40,000
Bank balances and cash	14	209,186	152,898
		590,000	558,647
Current liabilities			
Accounts payable	15	54,518	56,908
Accrued liabilities and other payables		6,417	10,538
Taxation payable		76	–
Short-term bank borrowings	16	40,000	–
Financial liability at fair value through profit or loss (“FVTPL”)	17	9,690	19,623
		110,701	87,069
Net current assets		479,299	471,578
Total assets less current liabilities		507,896	503,354
Capital and reserves			
Share capital	18	481,650	41,181
Reserves		26,246	462,173
Total equity		507,896	503,354

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Attributable to owners of the Company							Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000 (Note 1)	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Share option reserve HK\$'000	Other reserve HK\$'000 (Note 2)	
At 1 January 2013 (Audited)	40,592	432,827	123,758	(931)	(64,653)	8,094	(767)	538,920
Loss for the period	–	–	–	–	(13,235)	–	–	(13,235)
Other comprehensive income for the period	–	–	–	(18)	–	–	–	(18)
Total comprehensive income for the period	–	–	–	(18)	(13,235)	–	–	(13,253)
Exercise of share options	251	1,984	–	–	–	–	–	2,235
Transfer of share option reserve upon exercise of share options	–	617	–	–	–	(617)	–	–
Reversal of share option reserve upon forfeiture/lapse of share options	–	–	–	–	2,592	(2,592)	–	–
At 30 June 2013 (Unaudited)	40,843	435,428	123,758	(949)	(75,296)	4,885	(767)	527,902

	Attributable to owners of the Company							
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000 (Note 1)	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Share option reserve HK\$'000	Other reserve HK\$'000 (Note 2)	Total HK\$'000
At 1 January 2014 (Audited)	41,181	438,855	123,758	(955)	(101,690)	2,972	(767)	503,354
Profit for the period	-	-	-	-	3,276	-	-	3,276
Other comprehensive income for the period	-	-	-	(2)	-	-	-	(2)
Total comprehensive income for the period	-	-	-	(2)	3,276	-	-	3,274
Exercise of share options	1,268	-	-	-	-	-	-	1,268
Transfer of share option reserve upon exercise of share options	346	-	-	-	-	(346)	-	-
Transfer upon abolition of par value under the new Hong Kong Companies Ordinance (Note 3)	438,855	(438,855)	-	-	-	-	-	-
At 30 June 2014 (Unaudited)	481,650	-	123,758	(957)	(98,414)	2,626	(767)	507,896

Notes:

- (1) Pursuant to a scheme of capital reorganisation, which became effective on 28 May 2003, the High Court of Hong Kong had approved the reduction of the Company's capital and the cancellation of the Company's share premium account. The credit arising from the reduction of the share capital account and cancellation of the share premium account, after eliminated against the accumulated loss, in the aggregate amount of HK\$123,758,200 was transferred to a capital reserve account of the Company. Such capital reserve account will not be treated as realised profits, and shall be treated as an undistributable reserve of the Company until and unless the creditors of the Company as at the date of the sanction are fully settled. In view of the fact that the Company had already fully settled the relevant debts due to the creditors, the Company is of the view that the reserve is distributable to the Company's shareholders.
- (2) Other reserve represented the negative differences between the purchase considerations and the amounts acquired from non-controlling interests arising from acquisitions of the remaining equity interests of 9.9% and 8.84% in VC Capital Limited and VC Asset Management Limited respectively completed in 2012.
- (3) The Company has no authorised share capital and its shares have no par value from the commencement date of the new Hong Kong Companies Ordinance (i.e. 3 March 2014).

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash generated from (used in) operating activities	13,725	(51,446)
Cash flows from investing activities		
Payment of statutory deposits	(1,371)	(1,905)
Refund of statutory deposits	2,579	749
Other investing cash flows	89	(44)
Net cash generated from (used in) investing activities	1,297	(1,200)
Cash flows from financing activities		
Drawdown of short-term bank borrowings	40,000	–
Proceeds from exercise of share options	1,268	2,235
Net cash generated from financing activities	41,268	2,235
Net increase (decrease) in cash and cash equivalents	56,290	(50,411)
Cash and cash equivalents at the beginning of period	152,898	263,387
Effect of foreign exchange rate changes	(2)	1
Cash and cash equivalents at the end of period, represented by bank balances and cash	209,186	212,977

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

2. SIGNIFICANT ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group’s annual audited financial statements for the year ended 31 December 2013.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) and interpretation issued by the HKICPA that are relevant for the preparation of the Group’s unaudited condensed consolidated financial statements:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities
Amendments to HKAS 32	Offsetting financial assets and financial liabilities
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting
HK(IFRIC) – INT 21	Levies

The application of the amendments to HKFRSs and interpretation in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these unaudited condensed consolidated financial statements.

The Group has not early applied the following new HKFRSs and amendments to HKFRSs that have been issued after the date the audited consolidated financial statements for the year ended 31 December 2013 were authorised for issuance but are not yet effective:

Amendments to HKFRS11	Accounting for acquisitions of interests in joint operations ¹
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation ¹
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants ¹
HKFRS 15	Revenue from contracts with customers ²

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

² Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

The Directors of the Company anticipate that the adoption of these new HKFRSs and amendments to HKFRSs will have no material impact on the Group's unaudited condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

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

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue		
Brokerage commission and other related fee from dealing in securities and futures and options contracts	21,623	19,871
Underwriting, sub-underwriting, placing and sub-placing commission	1,910	158
Arrangement, management, advisory and other fee income	1,451	2,727
Interest income from clients	15,849	9,971
	40,833	32,727
Other income		
Interest income from authorised institutions	203	579
Interest income from convertible bond receivable	1,738	–
Sundry income	1	1
	1,942	580
Total income	42,775	33,307

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

- (i) the brokerage and financing segment engages in securities, futures and options brokering and dealing, provision of margin financing and money lending, and placing and underwriting services;
- (ii) the corporate finance segment engages in the provision of corporate financial advisory services; and
- (iii) the asset management segment engages in the provision of asset management services.

The following tables represent revenue and results information of these operating segments for the six months ended 30 June 2014 and 2013.

Six months ended 30 June 2014 (Unaudited)

	Brokerage and financing HK\$'000	Corporate finance HK\$'000	Asset management HK\$'000	Segment total HK\$'000	Eliminations HK\$'000	Total HK\$'000
Segment revenue	39,782	1,051	–	40,833	–	40,833
Inter-segment sales	–	420	–	420	(420)	–
	<u>39,782</u>	<u>1,471</u>	<u>–</u>	<u>41,253</u>	<u>(420)</u>	<u>40,833</u>
Segment profit (loss)	<u>1,945</u>	<u>(3,552)</u>	<u>(128)</u>	<u>(1,735)</u>	<u>–</u>	<u>(1,735)</u>
Elimination of intra-group costs						8,125
Central administrative costs						(10,717)
Fair value change on derivative financial asset						(2,254)
Fair value change on financial liability at FVTPL						<u>9,933</u>
Profit before taxation for the period						<u>3,352</u>

Six months ended 30 June 2013 (Unaudited)

	Brokerage and financing HK\$'000	Corporate finance HK\$'000	Asset management HK\$'000	Segment total HK\$'000	Eliminations HK\$'000	Total HK\$'000
Segment revenue	30,000	2,727	–	32,727	–	32,727
Inter-segment sales	–	40	–	40	(40)	–
	<u>30,000</u>	<u>2,767</u>	<u>–</u>	<u>32,767</u>	<u>(40)</u>	<u>32,727</u>
Segment loss	<u>(1,681)</u>	<u>(2,762)</u>	<u>(1,235)</u>	<u>(5,678)</u>	<u>–</u>	<u>(5,678)</u>
Elimination of intra-group costs						6,519
Central administrative costs						(14,032)
Impairment loss on available-for-sale investment						(44)
Loss before taxation for the period						<u>(13,235)</u>

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

For the six months ended 30 June 2014 and 2013, no single customer amounts to 10% or more of the Group's revenue. The Group's operations are mainly located in Hong Kong (place of domicile). The Group's revenue from external customers are mainly derived from Hong Kong for the six months ended 30 June 2014 and 2013. All of its non-current assets are attributed to the operations in Hong Kong as at 30 June 2014 and 31 December 2013.

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

4. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Staff commission	11,213	10,850
Salaries and wages	16,420	20,493
Staff welfare	860	814
Recruitment costs	30	30
Termination benefits	–	532
Provision of long service payment/annual leave benefits	387	268
Retirement benefits scheme contributions	595	589
Reversal of discretionary and performance related incentive payments	–	(59)
	<u>29,505</u>	<u>33,517</u>

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Fair value change on derivative financial asset (Note 12)	2,254	–
Fair value change on financial liability at FVTPL (Note 17)	(9,933)	–
Reversal of impairment loss on doubtful receivables, net	–	(1,993)
Net exchange loss (gain)	30	(20)
(Gain) loss on disposal of property and equipment	(6)	1
Impairment loss on available-for-sale investment	–	44
	<u>(7,655)</u>	<u>(1,968)</u>

6. INCOME TAX EXPENSE

The tax charge of HK\$76,000 to the unaudited condensed consolidated statement of profit or loss for the six months ended 30 June 2014 represents the provision of Hong Kong Profits Tax (2013: Nil). Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

At 30 June 2014, the Group has taxable temporary differences and estimated unused tax losses of approximately HK\$716,000 and HK\$227,919,000 respectively (31 December 2013: HK\$1,105,000 and HK\$223,273,000 respectively). No deferred tax asset has been recognised as at 30 June 2014 and 31 December 2013 in respect of the estimated unused tax losses as it is uncertain whether sufficient future taxable profits including those that will arise from the reversal of existing taxable temporary differences will be available in the future to offset the amount. These taxable temporary differences and estimated unused tax losses have no expiry date but are subject to further approval of the Hong Kong Inland Revenue Department.

7. PROFIT (LOSS) FOR THE PERIOD

Profit (loss) for the period has been arrived at after charging the following items:

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Included in other operating expenses:		
Auditors' remuneration	500	479
Operating leases in respect of land and buildings	3,843	4,529

8. DIVIDENDS

No dividends have been paid or declared or proposed by the Company during the six months ended 30 June 2014 (2013: Nil). The directors of the Company have determined that no dividend will be paid in respect of this interim period.

9. EARNINGS (LOSS) PER SHARE

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

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings (loss)		
Earnings (loss) for the purposes of basic and diluted earnings (loss) per share (Profit (loss) for the period attributable to owners of the Company)	3,276	(13,235)
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	412,365	406,526
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	2,074	—
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	414,439	406,526

The diluted earnings per share for the six months ended 30 June 2014 is computed excluding the effects of warrants as the exercise of the Company's warrants are anti-dilutive. The diluted loss per share for the six months ended 30 June 2013 is computed excluding the effects of share options as the exercise of the Company's share options are anti-dilutive.

10. PROPERTY AND EQUIPMENT

	As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
Carrying value, at beginning of the period/year	4,028	1,778
Additions	71	3,594
Depreciation	(848)	(1,326)
Written off/disposal	—	(18)
Carrying value, at end of the period/year	3,251	4,028

11. CONVERTIBLE BOND RECEIVABLE

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

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

	As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
Loan portion		
Carrying amount at end of the period/year	17,662	16,717

12. DERIVATIVE FINANCIAL ASSET

The convertible bond as disclosed in Note 11 includes embedded equity conversion option. The embedded derivative is separated from the convertible bond and accounted for as derivative financial asset in the unaudited condensed consolidated statement of financial position. The derivative financial asset is measured at fair value with changes in fair value recognised in profit or loss.

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

	As at 30 June 2014 (Unaudited)	As at 31 December 2013 (Audited)
Spot price of the underlying share	HK\$0.42	HK\$0.61
Conversion price	HK\$0.79	HK\$0.79
Risk free rate	0.123%	0.263%
Expected volatility	57.55%	48.68%

Risk free rate was determined with reference to the yield of 1.01 years and 1.51 years Hong Kong Exchange Fund Notes as at 30 June 2014 and 31 December 2013 respectively. Expected volatility was determined with reference to the historical volatility of the share price of the comparable companies over the previous 1.01 years and 1.51 years respectively.

The movements of the fair value of the embedded derivative in the reporting periods are as follows:

	As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
Balance at beginning of the period/date of subscription	2,570	4,233
Fair value change recognised in profit or loss	(2,254)	(1,663)
Balance at end of the period/year	316	2,570

13. ACCOUNTS RECEIVABLE

	As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
Accounts receivable arising from the ordinary course of business of dealing in		
– Securities transactions:		
Clearing house and brokers (<i>Note a</i>)	44	5,392
Cash clients (<i>Note b</i>)	77,386	61,547
Margin clients (<i>Note c</i>)	208,521	233,550
– Futures and options contracts transactions:		
Clearing house	11	–
Accounts receivable arising from the ordinary course of business of provision of corporate financial advisory services (<i>Note d</i>)	200	524
Accounts receivable arising from the ordinary course of business of money lending services (<i>Note e</i>)	47,930	60,569
	334,092	361,582

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

The credit quality of these accounts receivable are summarised as follows:

	As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
Neither past due nor impaired	330,998	349,250
Past due but not impaired (<i>Note f</i>)	2,277	12,245
Impaired	875	145
	334,150	361,640
Less: Allowance for impairment (<i>Note g</i>)	(58)	(58)
	334,092	361,582

The management is satisfied with the credit quality of the accounts receivable that are neither past due nor impaired, and the fair values of the securities collateral held by the Group for these balances are generally in excess to the relevant carrying amounts. In general, accounts receivable due from margin clients are included in “Neither past due nor impaired” category as these accounts have no specific due date.

The settlement terms of accounts receivable arising from the ordinary course of business of dealing in securities transactions, and futures and options contracts transactions are two trading days and one trading day after the trade date respectively.

In respect of the 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:

	As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
Within 30 days	75,336	54,611
31-90 days	263	10,492
Over 90 days	1,842	1,836
	77,441	66,939

As at 30 June 2014, accounts receivable of approximately HK\$85,000 (31 December 2013: HK\$255,000) was due from directors of the Group and close family members of these directors in respect of securities transactions undertaken for their accounts.

Notes:

- (a) Accounts receivable due from brokers bear interest at commercial rates.
- (b) As at 30 June 2014, accounts receivable due from cash clients are secured by clients' pledged listed securities which carry a fair value of approximately HK\$838,812,000 (31 December 2013: HK\$487,703,000) in relation to the receivables of approximately HK\$77,358,000 (31 December 2013: HK\$61,461,000) that are not impaired; and a fair value of approximately HK\$57,000 (31 December 2013: HK\$78,000) in relation to the receivables of approximately HK\$70,000 (31 December 2013: HK\$116,000) that are impaired.

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

- (c) As at 30 June 2014, accounts receivable due from margin clients are secured by the clients' pledged listed securities which carry a fair value of approximately HK\$918,272,000 (31 December 2013: HK\$1,118,082,000) in relation to the receivables of approximately HK\$207,732,000 (31 December 2013: HK\$233,549,000) that are not impaired; and a fair value of approximately HK\$789,000 (31 December 2013: HK\$1,000) in relation to the receivables of approximately HK\$805,000 (31 December 2013: HK\$29,000) that are impaired.

Securities are assigned with specific margin ratios for calculating their margin values. Additional funds or collaterals 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' receivables are repayable on demand and bear interest at commercial rates.

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

	As at 30 June 2014 <i>HK\$'000</i> (Unaudited)	As at 31 December 2013 <i>HK\$'000</i> (Audited)
Within 30 days	–	524
31-90 days	–	–
Over 90 days	200	–
	200	524

- (e) As at 30 June 2014, accounts receivable arising from the ordinary course of business of money lending services are secured and bear fixed-rate interest at a range of 1.25%-1.7% per month. The accounts receivable have remaining contractual maturity date falling within one year and are secured by the clients' pledged listed equity securities and/or the corporate/personal guarantees provided by the clients' holding company/shareholder as at 30 June 2014. The management is satisfied with the credit quality of these accounts receivable and the securities collateral held by the Group for these balances.

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

	As at 30 June 2014 <i>HK\$'000</i> (Unaudited)	As at 31 December 2013 <i>HK\$'000</i> (Audited)
31-90 days	263	10,495
Over 90 days	2,014	1,750
	2,277	12,245

As at 30 June 2014, these receivables include cash clients’ receivables of approximately HK\$2,077,000 (31 December 2013: HK\$12,242,000). No impairment loss has been provided as the fair values of the securities collateral held by the Group for these balances are generally in excess to the relevant carrying amounts. The remaining balances of accounts receivable of approximately HK\$200,000 and HK\$3,000 as at 30 June 2014 and 31 December 2013 respectively are receivables arising from the corporate financial advisory services, and the money lending services respectively. The Group has not provided for any impairment loss on these receivables as the management is satisfied with the credit quality of these clients.

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

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

	As at 30 June 2014 <i>HK\$'000</i> (Unaudited)	As at 31 December 2013 <i>HK\$'000</i> (Audited)
Balance at beginning of the period/year	58	4,643
Reversal of impairment loss, net	–	(2,016)
Amounts written off as uncollectible	–	(2,569)
Balance at end of the period/year	58	58

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

14. BANK BALANCES AND CASH

In the course of the conduct of the regulated activities of its ordinary business, VC Brokerage Limited, VC Futures Limited and VC Capital Limited act as trustees that result in the holding of clients' monies on behalf of clients and other institutions. These assets are not assets of the Group and, therefore, are not included in its unaudited condensed consolidated statement of financial position. As at 30 June 2014, the Group maintained segregated accounts at one clearing house of approximately HK\$1,890,000 (31 December 2013: HK\$1,299,000) and at other authorised institutions of approximately HK\$304,694,000 (31 December 2013: HK\$213,833,000) in conjunction with its securities, futures and options brokering and dealing business, and corporate financial advisory business as a result of the normal business transactions, which are not otherwise dealt with in the unaudited condensed consolidated financial statements.

15. ACCOUNTS PAYABLE

	As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
Accounts payable arising from the ordinary course of business of dealing in securities transactions (<i>Notes a and b</i>):		
Clearing house	34,464	33,675
Cash clients	17,827	21,223
Margin clients	2,227	2,010
	54,518	56,908

Notes:

- (a) The settlement terms of accounts payable arising from the ordinary course of business of dealing in securities transactions are usually two trading days after the trade date. In the opinion of the Directors of the Company, no aging analysis is disclosed as it is not meaningful in view of all these accounts payable are promptly settled two trading days after the trade date.
- (b) As at 30 June 2014, accounts payable of approximately HK\$188,000 (31 December 2013: HK\$2,045,000) was due to directors of the Group, and close family members of these directors in respect of securities transactions undertaken for their accounts.

16. SHORT-TERM BANK BORROWINGS

	As at 30 June 2014 <i>HK\$'000</i> (Unaudited)	As at 31 December 2013 <i>HK\$'000</i> (Audited)
Secured	40,000	—

As at 30 June 2014, the short-term bank borrowings were secured by the pledged bank deposits of HK\$40 million and bore an interest rate at HIBOR plus 2% per annum.

17. FINANCIAL LIABILITY AT FAIR VALUE THROUGH PROFIT OR LOSS

In August 2013, the Company had placed and issued 80,000,000 non-listed warrants at an issue price of HK\$0.02 each. Each warrant carries the right to subscribe for one ordinary share of the Company at the subscription price of HK\$1.20 during a period of 24 months commencing from the issue date of the warrants. As at 30 June 2014, the 80,000,000 warrants are outstanding.

The warrants are classified as financial liability at fair value through profit or loss and are measured at fair value with change in fair value recognised in profit or loss. The fair value of the warrants is determined using Binomial pricing model in accordance with a valuation report prepared by an independent professional valuer. The inputs into the model were as follows:

	As at 30 June 2014 (Unaudited)	As at 31 December 2013 (Audited)
Spot price of the underlying share	HK\$0.98	HK\$1.15
Risk free rate	0.142%	0.273%
Expected volatility	47.545%	46.018%
Dividend yield	0%	0%
Warrant life	1.08 years	1.58 years

Risk free rate was determined with reference to the yield of 1.08 years and 1.58 years Hong Kong Exchange Fund Notes as at 30 June 2014 and 31 December 2013 respectively. Expected volatility was determined by using the historical volatility of the Company's share price over the previous 1.08 years and 1.58 years respectively.

The movements of the fair value of the warrants in the reporting periods are as follows:

	As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
Balance at beginning of the period/date of issue	19,623	1,600
Fair value change recognised in profit or loss	(9,933)	18,023
Balance at end of the period/year	9,690	19,623

18. SHARE CAPITAL

	Authorised Ordinary shares Number of shares	Amount HK\$'000
At 1 January 2013 and 31 December 2013	10,000,000,000	1,000,000
At 30 June 2014	N/A (Note)	N/A (Note)
	Issued and fully paid Ordinary shares Number of shares	Amount HK\$'000
At 1 January 2013 (Audited)	405,924,829	40,592
Exercise of share options	5,882,000	589
At 31 December 2013 (Audited)	411,806,829	41,181
Transfer from share premium upon abolition of par value under the new Hong Kong Companies Ordinance (Note)	–	438,855
Exercise of share options	1,360,000	1,614
At 30 June 2014 (Unaudited)	413,166,829	481,650

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

19. FINANCIAL GUARANTEE

As at 30 June 2014, the Company had given financial guarantee to a bank in respect of banking facilities provided to a subsidiary, VC Brokerage Limited, amounting to HK\$130 million (31 December 2013: HK\$130 million). As at 30 June 2014, banking facilities of an amount of HK\$40 million was utilised by VC Brokerage Limited (31 December 2013: Nil). The fair value of the financial guarantee contract is immaterial.

20. COMMITMENTS

(a) Capital commitments

As at 30 June 2014 and 31 December 2013, the Group did not have any material commitments contracted but not provided for in respect of purchase of property and equipment.

(b) Commitments under operating leases

As at 30 June 2014 and 31 December 2013, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
Within one year	7,791	7,547
In the second to fifth years inclusive	5,893	9,391
	<u>13,684</u>	<u>16,938</u>

Operating lease payments represent rental payable by the Group for its office and apartment premises. Rentals are fixed for lease terms of 2 to 3 years as at 30 June 2014 (31 December 2013: 0.5 to 3 years).

21. RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2014 and 2013, the Group entered into the following transactions with related parties:

	Six months ended 30 June 2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Brokerage commission income/interest income earned from certain directors of the Group or close family members of the directors	<u>116</u>	<u>189</u>

The balances with related parties are set out in Notes 13 and 15.

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The Group's derivative financial asset and financial liability at FVTPL are measured at fair value at the end of each reporting period, which are determined in accordance with Binomial pricing model using prices or rates from observable current market transactions as inputs. Details of these financial asset and liability are disclosed in Notes 12 and 17 respectively.

Fair value hierarchy

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
At 30 June 2014 (Unaudited)				
Derivative financial asset (<i>Note</i>)	–	–	316	316
Financial liability at FVTPL	–	9,690	–	9,690
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
At 31 December 2013 (Audited)				
Derivative financial asset (<i>Note</i>)	–	–	2,570	2,570
Financial liability at FVTPL	–	19,623	–	19,623

Note: The significant unobservable input is expected volatility. The relationship of this unobservable input to fair value is the higher the expected volatility, the higher the fair value of the derivative financial asset, and vice versa. If the expected volatility to the valuation model is 5% higher/lower, while all other variables were held constant, the fair value of the derivative financial asset would increase/decrease by approximately HK\$186,000/HK\$166,000 (31 December 2013: HK\$471,000/HK\$311,000).

There were no transfers between Level 2 and Level 3 in the current and prior periods.

Reconciliation of Level 3 fair value measurements

	Derivative financial asset HK\$'000
At 1 January 2014 (Audited)	2,570
Loss on fair value change	(2,254)
At 30 June 2014 (Unaudited)	316

The fair value loss on derivative financial asset recognised in profit or loss for the six months ended 30 June 2014 is approximately HK\$2,254,000 (2013: Nil).

OTHER INFORMATION

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: Nil).

CORPORATE GOVERNANCE

The Company is committed to achieving and maintaining a high standard of corporate governance so as to ensure better transparency and protection of shareholders' interests. The Company has applied the principles and complied with all code provisions as set out in the Corporate Governance Code ("**CG Code**") during the six months ended 30 June 2014, which were contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange, with the deviations mentioned below:

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

Under the code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term and subject to re-election. All the Non-executive Directors of the Company are not appointed for specific term. However, under the article 92 of the Articles of Association of the Company, all Directors, including Non-executive Directors, of the Company are subject to retirement by rotation and re-election in the annual general meeting of the Company and each Director is effectively appointed under an average term of three years. The Company does not believe that arbitrary term limits on directors' service are appropriate given that directors ought to be committed to representing the long term interests of the Company's shareholders and the retirement and re-election requirements of non-executive directors have given the Company's shareholders the right to approve continuation of non-executive directors' offices.

The Company has set up the following board committees to ensure maintenance of a high corporate governance standard:

- a. Executive Committee;
- b. Audit Committee;
- c. Remuneration Committee;
- d. Nomination Committee;
- e. Finance Committee; and
- f. Regulatory Compliance Committee.

The terms of reference of all the aforesaid board committees have been posted on the Company's website under the section "Corporate Governance".

AUDIT COMMITTEE

The Company's Audit Committee was formed on 14 March 2001 and is currently composed of three Independent Non-executive Directors of the Company, namely, Mr. Wong Chung Kin, Quentin (Chairman), Mr. Ip Chun Chung, Robert and Mr. Wong Kam Choi, Kerry. The primary duties of the Audit Committee are to (i) review the Group's annual reports, financial statements, interim reports and to provide advice and comments thereon to the board of directors of the Company; and (ii) review and supervise the financial reporting process and internal control procedures of the Group. The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements and results for the six months ended 30 June 2014 and is satisfied that these have been prepared in accordance with the applicable accounting standards and fairly present the Group's financial positions and results for the six months ended 30 June 2014.

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

During the six months ended 30 June 2014, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.vcgroup.com.hk. The Company's interim report for the six months ended 30 June 2014 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 four Executive Directors, namely, Mr. Tin Ka Pak, Timmy (Chief Executive Officer), Mr. Chau King Fai, Philip, Mr. Cheng Tze Kit, Larry (Chief Investment Officer), Ms. So Wai Yee, Betty (Chief Financial Officer); and three Independent Non-executive Directors, namely, Mr. Ip Chun Chung, Robert, Mr. Wong Chung Kin, Quentin and Mr. Wong Kam Choi, Kerry, MH.