# Value Convergence Holdings Limited

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

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

The board (the "**Board**") of directors (the "**Directors**") of Value Convergence Holdings Limited (the "**Company**") submits the audited consolidated results of the Company and its subsidiaries (collectively "**VC Group**" or the "**Group**") for the year ended 31 December 2016 together with the audited comparative figures of the corresponding period in 2015.

**FINANCIAL HIGHLIGHTS**

The Group's consolidated revenue for the year ended 31 December 2016 amounted to approximately HK$56.3 million, which decreased by about 29% as compared with the same period in 2015.

The Group recorded a consolidated loss attributable to shareholders amounted to approximately HK$56.7 million for the year ended 31 December 2016 against a loss of approximately HK$12.6 million for the same period in 2015, representing an increase of about 351%.

Excluding the recognition of the Group's major non-recurring and/or non-operating nature items, including the equity-settled share option expense of approximately HK$20.6 million on 41 million share options granted in 2016, the net gain of approximately HK$13.5 million on fair value change of the unlisted equity investment in 2016 and the net loss of approximately HK$0.7 million on fair value change of the non-listed warrants issued by the Company in 2015, the Group generated a consolidated operating loss after tax of approximately HK$49.6 million for the year ended 31 December 2016 against an operating loss of approximately HK$11.9 million for the same period in 2015, representing an increase of about 316%.

## CEO'S STATEMENT

Year 2016 remained full of challenges in the local capital market. The downturn in the local capital market had continued in 2016 and the overall market performance was unfortunately worse as compared to the same period in 2015. The global stock markets were influenced by various uncertain economic and political factors in 2016 such as the referendum for the Britain's exit from the European Union in June and the US presidential election held in November. As a financial services provider, the Group's business performance for 2016 was unavoidably impacted by this dull atmosphere. While the financial-oriented business makes the Group particularly sensitive to fluctuating economic conditions and investors' sentiments, our fundamental strategy is firmly anchored and our core focus remains on developing and fortifying the Group's core businesses including (i) brokerage and financing services; (ii) corporate finance advisory services; and (iii) asset management.

As mentioned, the Group's business strategies continue to include enlarging the Group's revenue base through fostering its core businesses, and tapping into new emerging markets with expanded business initiatives. During the second half of 2016, the Group started to devote more resources in proprietary trading business and considered it as one of the Group's core businesses. Indeed, the Group is committed to achieving long-term and balanced growth on the basis of solid financial capability and a pragmatic operating strategy, which help capitalizing on any growth opportunities and thereon enhance our shareholders' value.

Further, the Group continues to explore the business opportunities in the PRC market. In July, the Group announced that, subject to the approval and authorization from the relevant regulatory authorities, the Group would establish a joint venture securities company in Guangxi, the PRC (the "**JV Company**") with three independent third parties. The JV Company is expected to become a full-licensed securities company permitted to provide securities brokerage, trading and investment advisory, underwriting, sponsorship and asset management services in the PRC. The Board and I believe that the participation in the establishment and operation of the JV Company would offer a golden opportunity for us to embark on a new milestone in the Group's business development in financial services industry. The JV Company, when established and licensed, would offer a first-starter advantage to the Group to access to the huge and fast-growing financial markets in the PRC and would enable the Group to engage in a full spectrum of securities and financial business in the PRC.

Meanwhile, the Group's financial position had continuously been strengthened in 2016, in which a total net cash proceeds of approximately HK$94.5 million was received through the allotment of 110 million new shares of the Company to certain placees who are independent parties. The increase of financial resources definitely not only helps the Group to reinforce and expand the existing core businesses, but also broadens the Group's shareholders' portfolio and enhances the Group's flexibility in future business developments or investments as and when opportunities arise. I believe that with a sound financial base, the Group is in a better position to seize any opportunities that to deliver greater returns for our shareholders.

Looking ahead, the Group's operating environment is expected to remain challenging in 2017. It is expected that global stock markets will still be influenced by various uncertain economic and political factors, including the implementation of the Britain's exit from the European Union and the official change of the US president in 2017. Nevertheless, our strategies remain unchanged – enlarge our revenue base by strengthening the existing core businesses, tap into new emerging markets with expanded business initiatives and explore business opportunities in the PRC. The Group will devote increased resources to business diversification and acquisition when opportunities arise, with the view to strengthening our all-round business position in Hong Kong and beyond.

In closing, on behalf of my fellow Directors, I wish to express our sincere appreciation and wholehearted gratitude to the management team and all staff of the Group for their professional dedication, commitment and contributions which keep the Group competitive in the industry throughout the year. I am immensely proud of the hard work and commitment to achieve these goals shown by my colleagues across the Group. I would also like to extend our sincere thanks to our shareholders and stakeholders for their confidence and continuous support in this challenging year. As always, we strive for creating greater value for our shareholders and investors.

**Tin Ka Pak, Timmy**
*Chief Executive Officer and Executive Director*

Hong Kong
31 March 2017

## 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 provision of financial services comprising securities, futures and options brokering and dealing, financing services, corporate finance advisory services in relation to sponsoring and underwriting initial public offerings, and mergers and acquisitions and asset management, and proprietary trading.

### Business Review

Hong Kong as an international financial center was inevitably affected by the continual uncertainties and challenges in the global economy. The local capital market experienced a setback as global economic conditions started to wobble from the third quarter of 2015 when investors reacted to the negative development in Greece debt crisis and the equity rout happened in the PRC's capital markets. Investors' sentiment was strongly hit and never picked up since then. In 2016, the global stock markets were influenced by various uncertain economic and political factors such as the referendum for the Britain's exit from the European Union and the US presidential election. The downturn in the local capital market had continued in 2016 and the overall market performance was unfortunately worse as compared to the same period in 2015. This was fully reflected in the movements of the local stock market's average daily trading turnover, market capitalization and other various key market indices in 2016.

The local stock market's average daily trading turnover was approximately HK$66.9 billion for 2016 as compared to approximately HK$105.6 billion for the same period in 2015, representing a substantial decrease of about 37%. The average daily trading turnover was even down to approximately HK$62.6 billion in the second quarter of 2016. Meanwhile, the total market capitalization of local stock market reached the lowest of approximately HK$20,606.7 billion on 12 February 2016 and increased to approximately HK$24,761.3 billion at the end of December 2016, which recorded a mild increase of about 0.3% as compared with that of 31 December 2015. Further, the Hang Seng Index (the "**HSI**") also experienced a volatile year with a high-low range of over 6,000 index points in 2016, in which the HSI dropped to the year low of 18,278 on 12 February and reached the year high of 24,364 on 9 September. The HSI closed at 22,000 at the end of December 2016, which recorded a mild increase of about 0.4% as compared with that of 31 December 2015. The total fund raised in Hong Kong was only approximately HK$486.8 billion in 2016, which was about 56% lower than that of the same period in 2015.

As a financial services provider, the business performance of the Group for 2016 had been badly impacted by both the global and local economic and market conditions. Nevertheless, the Group always thrived on its solid financial standing and its various investment services and products offered to our clients. All of these consolidated the Group as a competitive player in the financial industry. While the financial-oriented business makes the Group particularly sensitive to fluctuating economic conditions and investors' sentiments, our fundamental strategy is firmly anchored and our core focus remains on developing and fortifying the Group's core businesses in financial services including (i) securities, futures and options brokering and dealing, and financing services (including local and overseas securities dealing, futures and options trading, derivatives and other structured products trading, placement and underwriting, margin financing and money lending, etc.); (ii) corporate finance advisory services in relation to sponsoring and underwriting initial public offerings, and mergers and acquisitions; and (iii) asset management. During the second half of 2016, the Company started to devote more resources in proprietary trading business and considered it as one of the Group's core businesses. Indeed, the Group is committed to achieving long-term and balanced growth on the basis of solid financial capability and a pragmatic operating strategy, which help capitalizing on any growth opportunities and thereon enhance our shareholders' value.

During the year ended 31 December 2016, the following corporate actions had been taken by the Company with the aim to strengthen the Group's financial position and prospects, hence, enhance the shareholders' value:

(i) On 4 January 2016, the Company announced that it was in preliminary discussions with a potential investor regarding possible subscription of new securities in the Company. However, on 29 March 2016, the Company further announced that the discussions between the potential investor and the Company had ceased. No formal or legally binding agreement had been entered into between the two parties and the transaction would not proceed. The Company will continue to explore any opportunity, including but not limited to seeking the potential investors, so as to uplift the shareholders' value.

(ii) On 21 June 2016, the Company entered into a placing agreement with a placing agent regarding the placement of, on a best effort basis, up to an aggregate of 110 million new shares of the Company to not less than six independent parties at a placing price of HK$0.83 per placing share. As certain conditions precedent had not been fulfilled upon expiry of the placing period, the placing agreement lapsed on 4 July 2016. The Directors are of the view that the lapse of the placing agreement had no material adverse impact on the business operation and financial position of the Company.

(iii) On 6 July 2016, the Company entered into a placing agreement with a placing agent regarding the placement of, on a best effort basis, up to an aggregate of 110 million new shares of the Company to not less than six independent parties at a placing price of HK$0.87 per placing Share. The placement was completed on 15 July 2016 and a total of 110 million placing shares were issued providing net proceeds of approximately HK$94.5 million to the Company. The Company intends to use the net proceeds from the placement for the (i) general working capital of the Group; (ii) expanding the margin financing and money lending businesses of the Group; and (iii) possible investment in the future when opportunities arise. The Directors are of the view that the placement not only broadens the shareholders' portfolio, but also strengthens the financial position of the Group.

(iv) On 24 July 2016, the Company announced that VC Brokerage Limited ("**VC Brokerage**"), an indirectly wholly owned subsidiary of the Company, entered into a joint venture agreement (the "**Joint Venture Agreement**") with three independent parties on 21 July 2016 to establish a joint venture securities company in Guangxi, the PRC (the "**JV Company**"). Subject to the approval by the China Securities Regulatory Commission, the JV Company is expected to become a full-licensed securities company permitted to provide securities brokerage, trading and investment advisory, underwriting, sponsorship and asset management services in the PRC. The total investment amount for the JV Company shall be RMB1,000 million (equivalent to approximately HK$1,200 million), in which VC Brokerage will contribute RMB445 million (equivalent to approximately HK$534 million), representing 44.5% shareholding in the JV Company.

The Company will finance the above investment by placing of convertible bonds. On 21 July 2016, the Company entered into a placing agreement (the "**Placing Agreement**") with a placing agent (the "**Placing Agent**") to procure on a best effort basis, to not less than six independent parties, to subscribe for the convertible bonds in the aggregate principal amount of up to HK$850 million (the "**Convertible Bonds**") during the placing period. The initial conversion price of the Convertible Bonds is HK$0.65 each, representing a discount of about 49.61% to the closing market price of the Company's shares on 21 July 2016. A maximum number of 1,307,692,307 conversion shares, which will rank pari passu with other shares of the Company in issue in all respects, will be issued pursuant to the specific mandate sought from the shareholders of the Company at the extraordinary general meeting of the Company held on 26 October 2016 (the "**EGM**"). The aggregate net proceeds from the placing of the Convertible Bonds will be approximately HK$829 million and the Company intends to use the net proceeds (i) as to approximately HK$534 million for the capital contribution to the JV Company; and (ii) as to approximately HK$295 million for the general working capital of the Group, expanding the margin financing and money lending business of the Group and other possible investment in the future when opportunities arise.

The Joint Venture Agreement and the Placing Agreement will become effective upon, inter alia, (i) the Company having obtained the approval and authorisation from the shareholders of the Company and the relevant regulatory authorities in relation to the Joint Venture Agreement; and (ii) VC Brokerage having obtained the approval and authorisation from the relevant regulatory authorities in relation to the Joint Venture Agreement. The Joint Venture Agreement and the Placing Agreement were approved by the shareholders of the Company during the EGM.

Subsequent to the EGM, the Company and the Placing Agent, after arm's length negotiation, entered into a second deed of variation for extension of the placing period of the Placing Agreement. On 17 January 2017, the Company and the Placing Agent had entered into a third deed of variation (the "**Third Deed of Variation**") for further extension of the placing period of the Placing Agreement. The entering into the Third Deed of Variation and the further extension of the placing period for another three months had been approved by the shareholders of the Company at the extraordinary general meeting held on 29 March 2017.

As at the date of this announcement, both the Company and VC Brokerage have not yet obtained the approval and authorisation from the relevant regulatory authorities in relation to the Joint Venture Agreement and the Placing Agreement. Details of the transaction please refer to the Company's announcements dated 24 July 2016, 20 September 2016, 26 October 2016, 18 November 2016, 17 January 2017 and 29 March 2017.

Details of the Group's business performance of each operating segment for the year ended 31 December 2016, together with the comparative figures of the corresponding period in 2015, are given in the section "Financial Review" below.

**Outlook**

Looking ahead, the Group's operating environment is expected to remain challenging in 2017. It is expected that global stock markets will still be influenced by various uncertain economic and political factors, including the implementation of Britain's exit from the European Union and the official change of the US president in 2017. Although global stock markets have somewhat recovered to a certain extent in the second half of 2016, the outlook is far from reassuring. Given Hong Kong economy is highly external-oriented, it certainly cannot escape the global economic volatility. Investors are reminded to watch the capital market closely and avoid taking excessive risks. It is unavoidable that the local economy will experience some difficulties before coming to a turnaround. We all hope that Hong Kong government can closely monitor the situation and introduce appropriate measures to help different sectors tide over the difficult period. Nevertheless, Hong Kong has a track record in coping with economic fluctuations and the ability to adapt to changing circumstances in a positive way.

The Shenzhen-Hong Kong Stock Connect (the "**Shenzhen Connect**"), a mutual market access programme of the Hong Kong and Shenzhen stock markets, had officially been launched on 5 December 2016. The Shenzhen Connect builds on the solid foundation of the Shanghai-Hong Kong Stock Connect programme launched in November 2014. The expanded list of eligible stocks offers international and Hong Kong investors direct access to most companies traded in Mainland China for the first time. There are also more choices for Mainland investors, with 100 small cap stocks listed in Hong Kong now available through the Shenzhen Connect. By broadening mutual market access, overseas investors can make use of Hong Kong as a convenient access point to Mainland China, while Mainland investors can use Hong Kong as their first stop as they begin to diversify their assets beyond Mainland China's borders. By playing this dual role, Hong Kong will grow as a wealth management centre alongside our traditional role as a global capital formation centre. It is an important part of Hong Kong's market infrastructure and strategy for the long term. The latest development will certainly bring positive impact and help to boost the growth of the local financial market in 2017 and beyond.

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

**Long-term Business Strategy**

The Group's core businesses remain competitive with a focus on brokerage and financing services, corporate finance advisory services, asset management and proprietary trading.

Throughout 2016, the Group did not make any significant changes to its business strategy except the increase of resources for the proprietary trading business. Despite market volatility, the Group safeguarded its competitive edge due to a number of factors: clients established over the years, diverse premium services that cater to clients' needs, competitive fees and a proactive and professional team that is dedicated to innovation and exploration of new markets to drive greater business returns for the investors and shareholders.

## Financial Review

For the year ended 31 December 2016, the Group's consolidated revenue was approximately HK$56.3 million which decreased by about 29% as compared with the same period in 2015. The Group recorded a consolidated loss attributable to shareholders amounted to approximately HK$56.7 million for the year ended 31 December 2016 against a loss of approximately HK$12.6 million for the same period in 2015, representing an increase of about 351%.

The significant increase in the Group's consolidated loss attributable to shareholders in 2016 was mainly attributable to (i) the Group's operating performance from the financial related businesses had been adversely affected by the deteriorated local stock market conditions throughout 2016; (ii) the increase in corporate operating expenses incurred for the Group's business development in 2016; (iii) the immediate recognition of the equity-settled share option expense of approximately HK$20.6 million on the 41 million share options granted by the Company in September 2016; and (iv) the recognition of impairment loss of approximately HK$32.7 million on the client receivables from the Group's money lending services. All these financial effects had been partially set-off by the net gains of approximately HK$42.9 million from the Group's financial assets held for trading and approximately HK$13.5 million on the fair value change of the Group's unlisted equity investment in 2016, as compared with the net gain of approximately HK$8.7 million from the Group's financial assets held for trading for the same period in 2015.

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

| | **2016** | | 2015 | | |
|---|---|---|---|---|---|
| | | **Proportion of total revenue** | | Proportion of total revenue | Increase (decrease) |
| | ***HK$'000*** | **%** | *HK$'000* | % | % |
| Revenue from: | | | | | |
| Brokerage and Financing | **49,333** | **87%** | 73,438 | 92% | (33%) |
| Brokerage commission and other related fees | **20,754** | **37%** | 43,677 | 55% | (52%) |
| Underwriting, sub-underwriting, placing and sub-placing commission | **4,654** | **8%** | 1,690 | 2% | 175% |
| Interest income from brokerage clients | **18,775** | **33%** | 24,542 | 31% | (23%) |
| Interest income from money lending clients | **3,650** | **6%** | 3,529 | 4% | 3% |
| Others | **1,500** | **3%** | – | – | 100% |
| Corporate Finance | **5,997** | **11%** | 6,357 | 8% | (6%) |
| Asset Management | **–** | **–** | – | – | – |
| Proprietary Trading | **953** | **2%** | – | – | 100% |
| Total revenue | **56,283** | **100%** | 79,795 | 100% | (29%) |

| | 2016 | 2015 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| | | (Restated) |
| Segment results: | | |
| Brokerage and Financing | **(32,933)** | 362 |
| Corporate Finance | **(5,011)** | (3,937) |
| Asset Management | **(2,150)** | (1,475) |
| Proprietary Trading | **40,257** | 8,667 |
| Group segment profit | **163** | 3,617 |
| Central administrative costs | **(70,358)** | (15,490) |
| Fair value change on financial asset designated as at fair value through profit or loss | **13,460** | – |
| Fair value change on financial liability at fair value through profit or loss | **–** | (670) |
| Loss before taxation | **(56,735)** | (12,543) |
| Income tax credit (expense) | **19** | (32) |
| Loss for the year attributable to shareholders of the Company | **(56,716)** | (12,575) |

***Brokerage and Financing***

During the year ended 31 December 2016, the Company, through its indirect wholly owned subsidiaries, namely, VC Brokerage and VC Futures Limited, provides securities, futures and options brokering and dealing, margin financing, and placing and underwriting services. It also through another indirect wholly owned subsidiary, VC Finance Limited ("**VC Finance**"), provides money lending services. For the year ended 31 December 2016, the brokerage and financing businesses recorded total revenue of approximately HK$49.3 million as compared with approximately HK$73.4 million for the same period last year, representing a decrease of about 33%, and accounted for about 87% of the Group's total revenue. The Group's major revenue stream, namely, brokerage commission and other related fees from dealing in securities, futures and options contracts for the year ended 31 December 2016 decreased to approximately HK$20.8 million from approximately HK$43.7 million for the same period last year, representing a decrease of about 52%, and accounted for about 37% of the Group's total revenue. These reflected that the Group's brokerage business was negatively impacted by the fluctuated local stock market as mentioned in the section "Business Review" above.

Meanwhile, the Group's total interest income from financing for the year ended 31 December 2016 decreased by about 20% to approximately HK$22.4 million from approximately HK$28.1 million for the same period last year and accounted for about 39% of the Group's total revenue. The revenue included the interest income derived from brokerage business and the interest income derived from money lending business. Among these, the Group's interest income from our brokerage clients recorded approximately HK$18.8 million for the year ended 31 December 2016, representing a drop of about 23% as compared with the same period last year. The drop was mainly contributed by the decrease of the average loan portfolio of our brokerage clients by about 36% for the year ended 31 December 2016 as compared with the same period last year.

As abovementioned, the Group has provided money lending services to our clients. This aims at broadening our revenue base and also offering our clients with more financial flexibility to meet their personal and business needs. The average loan portfolio of the money lending business for the year ended 31 December 2016 decreased slightly by about 4% as compared with the same period last year. The Group's interest income generated from the money lending services was approximately HK$3.7 million for the year ended 31 December 2016, representing a mild increase of about 3% as compared with the same period last year.

In July 2016, VC Finance granted an unsecured loan of HK$23 million to a Hong Kong listed company at an interest rate of 1.5% per month for a period of 180 days. On 17 January 2017, the expiry date of the loan, the borrower failed to repay the outstanding principal of approximately HK$18.9 million to VC Finance. After taking certain necessary steps to follow up the overdue loan, VC Finance did not receive any response from the borrower. In late February 2017, VC Finance served the statutory demand to the borrower requesting full settlement of the outstanding principal amount, all interests and default interests accrued within 21 days. Taking into account the specific facts and circumstances, VC Finance made a full impairment loss on the client receivables of approximately HK$18.8 million as at 31 December 2016.

Further, in 2016, VC Finance granted a secured loan of HK$7 million to an individual at an interest rate of 12% per annum, which will be repayable by monthly installments. The loan was not overdue as at 31 December 2016. However, the borrower failed to settle the principal installment and deposit sufficient listed shares as the collaterals pursuant to the related loan documents when both were due on 28 February 2017. Taking into account the specific facts and circumstances, VC Finance made an impairment loss on the client receivables of approximately HK$5.2 million as at 31 December 2016 after deducting the fair value of the borrower's collaterals pledged for the loan and the cash repayment made by the borrower.

In addition, in 2016, VC Finance granted a loan of HK$11.5 million to an individual at an interest rate of 12% per annum, which will be repayable by monthly installments. The loan was not overdue as at 31 December 2016. The borrower had settled a total of principal amount of HK$3 million on or before 28 February 2017 but failed to settle the principal installment due on 1 March 2017. The loan is secured by the personal guarantee of a related party. In early March 2017, VC Finance issued the demand letter to the borrower and the guarantor requesting full settlement of the outstanding installment. Taking into account the specific facts and circumstances, VC Finance made an impairment loss on the client receivables of approximately HK$8.8 million as at 31 December 2016 after deducting the cash repayment made by the borrower.

Nevertheless, the Group has put efforts on implementing our credit control policies and procedures to review our clients' creditworthiness and credit limits from time to time so as to minimize our credit risk exposure. The Group's credit control policies and procedures are principally based on the doubtful unsecured exposure having assessed the fair value of the clients' collaterals held, the evaluation of collectability and aging analysis of the client accounts. Due to the continuous downturn of the local economy, the Group will take a much more cautious approach in the provision of financing services. For the year ended 31 December 2016, there was a recognition of total impairment loss for client receivables of approximately HK$32.7 million (2015: Nil) in accordance with the Group's credit control policies and procedures, which mainly attributable to the three clients from the money lending services as abovementioned. As at the date of this announcement, the management is still negotiating with the borrowers about the arrangement for settlement of the outstanding principal and accrued interests. The Group will take proper legal actions against the borrowers, when necessary.

Meanwhile, the Group offers placing and underwriting services to our clients, and acts as placing agent and underwriter for Hong Kong listed companies' fund raising activities. For the year ended 31 December 2016, the Group's placing and underwriting commission was approximately HK$4.7 million as compared with approximately HK$1.7 million for the same period last year, representing a substantial increase of about 175%. The Group had put 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 year ended 31 December 2016 had been continuously affected by the deteriorated local stock market conditions and the recognition of the impairment loss for client receivables as abovementioned, which recorded an operating loss after tax of approximately HK$32.9 million against a profit of approximately HK$0.3 million for the same period last year.

### *Corporate Finance*

For the year ended 31 December 2016, VC Capital Limited, an indirect wholly owned subsidiary of the Company, was appointed as the financial adviser of several Hong Kong listed companies for a number of corporate transactions and actively involved in acting as sponsor for clients to seek for new listings on both the Main Board and the Growth Enterprise Market (the "**GEM**") of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). During the year ended 31 December 2016, it acted as a joint sponsor successfully helping a company to seek for listing on the Main Board of the Stock Exchange, in which VC Brokerage also acted as the joint bookrunner and joint lead manager in the share offer of the company.

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. Unfortunately, the local capital market experienced a significant decline in 2016. The total fund raised from the initial public offerings in Hong Kong was approximately HK$194.8 billion, which was about 26% below that of the same period in 2015. It is vital to the Group to capture the growing opportunities from the more favourable and stable local market conditions in the future.

Overall, the operating performance of the corporate finance business for the year ended 31 December 2016 was slightly worse than the same period last year, which recorded a revenue of approximately HK$6 million and an operating loss after tax of approximately HK$5 million as compared with approximately HK$6.4 million and HK$3.9 million respectively for the same period last year.

### *Asset Management*

For the year ended 31 December 2016, the Company's asset management business, through its indirect wholly owned subsidiary, VC Asset Management Limited, recorded an operating loss after tax of approximately HK$2.2 million as compared with an operating loss after tax of approximately HK$1.5 million for the same period last year, which mainly included the general operating expenses such as the staff costs and professional costs.

The Group is still pursuing new business opportunities and resources to develop its asset management business so as to enhance our product and service offerings to cater for the diverse and growing needs of our clients. In the past few years, the global economic recovery continued to gain some momentum after the financial tsunami, however, the growth remained fragile constantly, which made the development of our asset management business still difficult. Nevertheless, the Group has continued to put efforts in approaching the potential clients so as to gain understanding of their needs, establish long-term business relationship with them and finally provide the personalized investment and wealth management services which can create greater value to them.

*Proprietary Trading*

During the year ended 31 December 2016, especially in the second half, the Group started to devote more resources for proprietary trading business and considered it as one of the Group's core businesses. As at 31 December 2016, the Group held equity securities listed in Hong Kong of approximately HK$257.4 million as financial assets held for trading, which was stated at market value, as compared with approximately HK$25.8 million as at 31 December 2015. The fair value of these listed equity securities represents about 33% of the Group's total assets as at 31 December 2016.

The Group invests mainly through purchases in the secondary market. The management follows strictly the internal securities investment policy and seeks the approval from the Board, when necessary, so as to enhance the financial returns to the shareholders and limit the risk exposure associated therewith. For the year ended 31 December 2016, the Group recorded a revenue of approximately HK$1 million which was mainly the dividend income received on the trading investments (2015: Nil). Meanwhile, the Group recognised a net gain of approximately HK$42.9 million (including a realised gain of approximately HK$22.8 million and an unrealised gain of approximately HK$20.1 million) on the trading investments for the year ended 31 December 2016 as compared with a net gain of approximately HK$8.7 million (including a realised gain of approximately HK$2.4 million and an unrealised gain of approximately HK$6.3 million) for the same period in 2015.

Overall, the Group's proprietary trading business recorded an operating profit after tax of approximately HK$40.3 million for the year ended 31 December 2016 against a profit of approximately HK$8.7 million for the same period last year.

*Central administrative costs*

For the year ended 31 December 2016, the Group's central administrative costs amounted to approximately HK$70.4 million as compared with approximately HK$15.5 million for the same period last year, which mainly included the unallocated corporate operating expenses. The substantial increase in the central administrative costs of approximately HK$54.9 million in 2016 was mainly attributable to the recognition of the corporate portion of the equity-settled share option expense of approximately HK$20.1 million on the 41 million share options granted in September 2016 and the increase in corporate operating expenses of approximately HK$26.8 million, which mainly included staff costs, rental and utility expenses, legal and professional fees and entertainment and travel expenses incurred for the Group's business development in the PRC.

***Fair value change on financial asset designated as at fair value through profit or loss***

On 11 May 2016, Century Race Investments Limited ("**Century Race**"), an indirect wholly owned subsidiary of the Company, had acquired 6% equity interest of a private entity (the "**Acquired Company**") at a cash consideration of HK$20 million by entered into a sale and purchase agreement (the "**First S&P Agreement**") with the holder of the Acquired Company (the "**Holder**") (the "**First Acquisition**"). The First Acquisition was funded by the Group's internal resources and was completed on 11 May 2016.

On 7 July 2016, Century Race entered into another sale and purchase agreement (the "**Second S&P Agreement**") with the Holder and the Acquired Company whereby the Holder agreed to buy back the 6% equity interest of the Acquired Company from Century Race at a cash consideration of HK$20 million and Century Race agreed to acquire 6% equity interest of a Cayman Islands company (the "**Target Company**") held by the Acquired Company at a cash consideration of HK$20 million. Pursuant to the Second S&P Agreement, the Holder, the Acquired Company and Century Race mutually agreed to set-off against both of the cash consideration of HK$20 million by way of shares swap (the "**Shares Swap**"). The Shares Swap was completed on 7 July 2016.

Meanwhile, in accordance with the Second S&P Agreement, Century Race agreed to acquire additional 4.5% equity interest of the Target Company at a cash consideration of HK$15 million (the "**Second Acquisition**"). The Second Acquisition was funded by the Group's internal resources and was completed on 7 July 2016. Thereafter, all rights and obligations for all parties under the First S&P Agreement had ceased and terminated. Following the First Acquisition and the Second Acquisition, Century Race had acquired an aggregate of 10.5% equity interest in the Target Company at a total cash consideration of HK$35 million.

According to the Second S&P Agreement, the Holder and the Acquired Company jointly and severally guarantee that the Target Company's net profit after tax for the years ending 31 March 2017 and 31 March 2018 shall not be less than RMB37.5 million and RMB50 million (the "**Guaranteed Amounts**") respectively. In the event that the Target Company's net profit after tax falls below the Guaranteed Amounts in any of the two years, the Holder and the Acquired Company shall compensate Century Race by proportion to the percentage of shareholding interest in cash. Meanwhile, Century Race has the right to request the Holder and the Acquired Company to buy back its shareholding interest in the Target Company if the Target Company is not listed on the Stock Exchange on or before 31 December 2017. The buy-back consideration is calculated as Century Race's acquisition cost plus an annual return of 15% less any dividend, bonus and compensation for the Guaranteed Amounts it has received, if any, and shall be payable in cash. Details of the transaction had been disclosed in the Company's announcement dated 7 July 2016.

As at 31 December 2016, this unlisted equity securities was recognised as financial asset designated as at fair value through profit or loss and is measured at fair value with change in fair value recognised in profit or loss. Its fair value as at 31 December 2016 was approximately HK$48.5 million with reference to a recent and similar transaction executed close to the year end. As such, the Group recognised a net gain on the fair value change of approximately HK$13.5 million for the year ended 31 December 2016. The fair value of this unlisted equity securities represents about 6% of the Group's total assets as at 31 December 2016.

***Income tax credit (expense)***

No provision for Hong Kong Profits Tax had been made during the year ended 31 December 2016 as the assessable profit was wholly absorbed by the tax losses brought forward. For the year ended 31 December 2016, the Group recognised an income tax credit of approximately HK$19,000 which represented the over-provision of Hong Kong Profits Tax in prior year for the brokerage and financing businesses. For the year ended 31 December 2015, the Group recognised an income tax expense of approximately HK$32,000 which represented the provision of Hong Kong Profits Tax charge in relation to the profitability generated from the brokerage and financing businesses.

***Finance costs***

For the year ended 31 December 2016, the finance costs of the Group amounted to approximately HK$76,000 as compared with approximately HK$752,000 for the same period last year, in which all were incurred in relation to the short-term bank loans utilised for the Group's brokerage and financing businesses. The significant decrease in the finance costs in 2016 was mainly attributable to the decrease of bank borrowings for the daily operation of the brokerage and financing businesses.

***Headcount and employees information***

As at 31 December 2016, the Group employed a total of 109 employees (31 December 2015: 100), which excluded 8 self-employed account executives for brokerage services (31 December 2015: 11), and all were located in Hong Kong. Salaries and staff benefits costs (including the Directors' emoluments) and staff commission amounted to approximately HK$82 million and HK$9.6 million respectively for the year ended 31 December 2016 as compared with approximately HK$44.4 million and HK$21.3 million respectively for the same period last year. Details had been disclosed in Note 6 to the consolidated financial statements.

The substantial increase in the salaries and staff benefits costs of approximately HK$37.6 million in 2016 was mainly attributable to (i) the recognition of the equity-settled share option expense of approximately HK$20.6 million on the 41 million share options granted to the Directors of the Company and employees of the Group in September 2016; (ii) the increase in headcounts for the Group's business development in the PRC; and (iii) the discretionary performance bonuses payable to two former executive directors in recognition of their past contribution to the Group. The substantial decrease in the staff commission of approximately HK$11.7 million in 2016 was mainly attributable to the reduction of brokerage transactions.

The Group's employees are selected, remunerated and promoted based on their performance and qualifications. In addition to basic salaries and participation in Mandatory Provident Fund Scheme, the Group also provides medical coverage, sales commission, discretionary and performance related bonus, discretionary share options and share awards to its employees. Meanwhile, employees are provided or funded to attend training and development programs that are relevant to their works.

***Liquidity and financial resources/capital structure***

For the year ended 31 December 2016, the Group financed its business operations and investments with internal resources, cash revenues generated from operating activities, shares placement and short-term bank loans.

The Group adopts a prudent treasury policy. As at 31 December 2016, 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 2016.

As at 31 December 2016, the Group held banking facilities of HK$100 million granted from a bank to VC Brokerage (31 December 2015: HK$130 million), which is required to be secured by bank deposits of HK$40 million (31 December 2015: HK$40 million) and corporate guarantee of HK$100 million (31 December 2015: HK$130 million) provided by the Company. Among the available banking facilities, HK$40 million (31 December 2015: HK$80 million) is general short-term money market loan and current account overdraft. The other HK$50 million (31 December 2015: HK$50 million) is short-term money market loan for margin financing business, which is required to be secured by VC Brokerage's margin clients' listed securities when utilised. The balance of HK$10 million (31 December 2015: Nil) is used for drawings against uncleared cheques. As at 31 December 2016, the Group had utilised an amount of HK$40 million for the general short-term money market loan (31 December 2015: HK$40 million), which bore an interest rate at the bank's cost of funding plus 2% per annum (31 December 2015: HIBOR plus 2% per annum).

As at 31 December 2016, the Group's bank balances and cash, net current assets and shareholders' equity (other than clients' segregated accounts) amounted to approximately HK$247.7 million (31 December 2015: HK$350.8 million), HK$638.8 million (31 December 2015: HK$628.3 million) and HK$699.6 million (31 December 2015: HK$640.5 million) respectively, representing a decrease of about 29% and an increase of about 2% and 9% respectively as compared with that of 31 December 2015. Current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of about 8.4 times as at 31 December 2016 (31 December 2015: 7.7 times). These showed that the Group maintained a strong financial position as at 31 December 2016.

As at 31 December 2016 and 31 December 2015, the total numbers of issued ordinary shares of the Company were 662,616,829 and 552,216,829 respectively. The increase of share capital in 2016 was attributable to the completion of placement of 110 million new shares and exercise of 400,000 share options granted by the Company. The details of the shares placement and the usage of the net proceeds during the year ended 31 December 2016 were listed below:

On 6 July 2016, the Company entered into a placing agreement with a placing agent regarding the placement of, on a best effort basis, up to an aggregate of 110 million new shares of the Company (the "**Placing Share(s)**") to not less than six independent parties at a placing price of HK$0.87 per Placing Share. The placing price represented a discount of about 17.14% to the closing market price of the Company's shares on 6 July 2016. The placement was completed on 15 July 2016 and a total of 110 million Placing Shares were issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 2 June 2016. The net proceeds from the placement amounted to approximately HK$94.5 million and the net placing price per Placing Share was approximately HK$0.859. The 110 million Placing Shares rank pari passu with other shares of the Company in issue in all respects. The Company intends to use the net proceeds from the placement for the (i) general working capital of the Group; (ii) expanding the margin financing and money lending businesses of the Group; and (iii) possible investment in the future when opportunities arise. The Directors are of the view that the placement not only broadens the shareholders' portfolio, but also strengthens the financial position of the Group. As the Group has always been looking for new business opportunities, the funds from the placement will enhance the Group's flexibility in future business developments or investments as and when opportunities arise. Details of the transaction had been disclosed in the Company's announcements dated 6 July 2016 and 15 July 2016.

As at 31 December 2016, all aforesaid net proceeds of approximately HK$94.5 million had been utilised based on the intended usage, in which approximately HK$23 million, HK$64.5 million and HK$7 million were used for (i) expanding the money lending business; (ii) acquisition of additional financial assets held for trading; and (iii) settlement of the Group's corporate administrative expenses respectively.

Besides, in 2015, the Company had successfully placed out 82.6 million new shares of the Company and issued 47.2 million new shares to certain warrants holders of the Company providing net proceeds of approximately HK$79.7 million and HK$56.6 million respectively. The usages of the respective net proceeds during the year ended 31 December 2016 were summarised below.

*(i) Placement of new shares*

As at 31 December 2016, all net proceeds of approximately HK$79.7 million from placing of the 82.6 million new shares had been utilised based on the intended usage, in which approximately HK$33 million, HK$11 million, HK$20 million and HK$15.7 million were used for (i) providing additional working capital for securities and futures brokering and dealing and margin financing businesses; (ii) acquisition of additional financial assets held for trading; (iii) acquisition of the financial asset designated as at fair value through profit or loss; and (iv) settlement of the Group's corporate administrative expenses respectively. As at 31 December 2015, approximately HK$33 million and HK$8.7 million were used for providing additional working capital for securities and futures brokering and dealing and margin financing businesses and settlement of the Group's corporate administrative expenses respectively.

*(ii) Warrants exercise*

As at 31 December 2016, all net proceeds of approximately HK$56.6 million from exercise of the subscription rights attached to the 47.2 million warrants out of the 80 million warrants had been utilised based on the intended usage, in which approximately HK$36.6 million, HK$15 million and HK$5 million were used for (i) acquisition of additional financial assets held for trading; (ii) acquisition of additional equity interest in the financial asset designated as at fair value through profit or loss; and (iii) settlement of the Group's corporate administrative expenses respectively. As at 31 December 2015, the aforesaid net proceeds had not been used.

***Charges on group assets***

As mentioned in the section "*Liquidity and financial resources/capital structure*" above, the Group made a HK$40 million charge over its bank deposits to a bank as at 31 December 2016 (31 December 2015: HK$40 million) for securing the banking facilities granted to VC Brokerage.

***Foreign exchange exposure***

It is the Group's policy for all operating entities to use corresponding local currency as much as possible so as to minimize exchange related risks. For the year ended 31 December 2016, almost all of the Group's principal businesses were conducted and recorded in Hong Kong dollars. Impact from foreign exchange exposure was thus minimal and no hedging against foreign currency exposure had been necessary. In view of the operational needs, the Group will continue to monitor the foreign currency exposure from time to time and take necessary action to minimize the exchange related risks.

***Contingent liabilities***

As at 31 December 2016, the Company had given financial guarantees of HK$100 million (31 December 2015: HK$130 million) to a bank in respect of banking facilities of HK$100 million (31 December 2015: HK$130 million) provided to VC Brokerage as mentioned in the section "*Liquidity and financial resources/capital structure*" above. As at 31 December 2016, banking facilities of an amount of HK$40 million was utilised by VC Brokerage (31 December 2015: HK$40 million).

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

***Gearing ratio***

As at 31 December 2016, the Group's gearing ratio, expressed as total borrowings (solely the bank borrowings) over shareholders' equity, was approximately 0.06 time (31 December 2015: 0.06 time).

***Significant investments held, their performance and future prospects***

For the year ended 31 December 2016, details of the Group's significant investments held, their performance and future prospects are disclosed in the sections "*Proprietary Trading*" and "*Fair value change on financial asset designated as at fair value through profit or loss*" above.

***Material acquisitions and disposal of subsidiaries, associates and joint ventures***

For the year ended 31 December 2016, the Group did not make any material acquisitions and disposal of subsidiaries, associates and joint ventures.

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

As at 31 December 2016, the Group had no other known plans with regard to material investments or capital assets and their expected sources of funding in the coming year except the formation of the joint venture securities company in the PRC as mentioned in the section "Business Review" above. Material capital expenditure will be incurred when the Group begins to pursue different investments or projects in the coming years. The Group will finance the respective investments or projects by using its internal resources and/or different financing options available, whichever should be deemed appropriate.

Meanwhile, as at 31 December 2016, the Group did not have any significant commitments contracted but not provided for in respect of purchase of property and equipment. Details of the Group's commitments are disclosed in Note 23 to the consolidated financial statements.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

*FOR THE YEAR ENDED 31 DECEMBER 2016*

| | *NOTES* | **2016**<br>***HK$'000*** | 2015<br>*HK$'000* |
|---|---|---|---|
| Revenue | 4 | **56,283** | 79,795 |
| Other income | 4 | **658** | 2,490 |
| Other gains and losses | 5 | **23,544** | 8,037 |
| Staff costs | 6 | **(91,556)** | (65,743) |
| Commission expenses | | **(3,348)** | (5,915) |
| Depreciation of property and equipment | 12 | **(1,839)** | (1,694) |
| Finance costs | 7 | **(76)** | (752) |
| Other operating expenses | | **(40,401)** | (28,761) |
| Loss before taxation | | **(56,735)** | (12,543) |
| Income tax credit (expense) | 8 | **19** | (32) |
| Loss and total comprehensive expense for the year | 9 | **(56,716)** | (12,575) |
| Loss per share (HK cents) | | | |
| Basic | 11 | **(9.39)** | (2.43) |
| Diluted | 11 | **(9.39)** | (2.43) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AS AT 31 DECEMBER 2016*

| | *NOTES* | **2016** *HK$'000* | 2015 *HK$'000* |
|---|---|---|---|
| Non-current assets | | | |
| Trading rights | | **–** | – |
| Other intangible assets | | **1,246** | 1,246 |
| Property and equipment | 12 | **4,619** | 3,858 |
| Statutory deposits | | **3,125** | 3,816 |
| Rental and utility deposits | | **3,253** | 3,253 |
| Financial asset designated as at fair value through profit or loss | 13 | **48,460** | – |
| Available-for-sale investments | | **–** | – |
| | | **60,703** | 12,173 |
| Current assets | | | |
| Accounts receivable | 14 | **173,720** | 302,427 |
| Prepayments, deposits and other receivables | | **6,038** | 3,262 |
| Financial assets held for trading | 15 | **257,418** | 25,792 |
| Pledged bank deposits | 16 | **40,000** | 40,000 |
| Bank balances and cash | 17 | **247,661** | 350,832 |
| | | **724,837** | 722,313 |
| Current liabilities | | | |
| Accounts payable | 18 | **26,881** | 44,284 |
| Accrued liabilities and other payables | | **19,109** | 9,488 |
| Taxation payable | | **–** | 255 |
| Short-term bank borrowings | 19 | **40,000** | 40,000 |
| | | **85,990** | 94,027 |
| Net current assets | | **638,847** | 628,286 |
| Total assets less current liabilities | | **699,550** | 640,459 |
| Capital and reserves | | | |
| Share capital | 21 | **735,252** | 639,851 |
| Reserves | | **(35,702)** | 608 |
| Total equity | | **699,550** | 640,459 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*FOR THE YEAR ENDED 31 DECEMBER 2016*

| | Attributable to owners of the Company | | | | | |
|---|---|---|---|---|---|---|
| | **Share capital** *HK$'000* | **Capital reserve** *HK$'000* *(Note 1)* | **Accumulated losses** *HK$'000* | **Share option reserve** *HK$'000* | **Other reserve** *HK$'000* *(Note 2)* | **Total** *HK$'000* |
| At 1 January 2015 | 486,674 | 123,758 | (109,808) | 1,387 | (767) | 501,244 |
| Loss for the year representing total comprehensive expense for the year | – | – | (12,575) | – | – | (12,575) |
| Issue of shares upon exercise of share options | 6,295 | – | – | (1,387) | – | 4,908 |
| Issue of shares by placement | 80,948 | – | – | – | – | 80,948 |
| Transaction costs attributable to issue of shares by placement | (1,221) | – | – | – | – | (1,221) |
| Issue of shares upon exercise of warrants | 67,162 | – | – | – | – | 67,162 |
| Transaction costs attributable to issue of shares upon exercise of warrants | (7) | – | – | – | – | (7) |
| At 31 December 2015 | 639,851 | 123,758 | (122,383) | – | (767) | 640,459 |
| Loss for the year representing total comprehensive expense for the year | – | – | (56,716) | – | – | (56,716) |
| Recognition of equity-settled share option expense | – | – | – | 20,607 | – | 20,607 |
| Issue of shares upon exercise of share options | 905 | – | – | (201) | – | 704 |
| Issue of shares by placement | 95,700 | – | – | – | – | 95,700 |
| Transaction costs attributable to issue of shares by placement | (1,204) | – | – | – | – | (1,204) |
| At 31 December 2016 | 735,252 | 123,758 | (179,099) | 20,406 | (767) | 699,550 |

*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 losses, in the aggregate amount of HK$123,758,200 was transferred to a capital reserve account of the Company. Such capital reserve account will not be treated as realised profits, and shall be treated as an undistributable reserve of the Company until and unless the creditors of the Company as at the date of the sanction are fully settled. In view of the fact that the Company had already fully settled the relevant debts due to the creditors, the Company is of the view that the reserve is distributable to the Company's shareholders.

(2) Other reserve represented the negative differences between the purchase considerations and the amounts acquired from non-controlling interests arising from acquisitions of the remaining equity interests of 9.9% and 8.84% in VC Capital Limited and VC Asset Management Limited respectively completed in 2012.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE YEAR ENDED 31 DECEMBER 2016*

## 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 and proprietary trading.

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

The financial information relating to the years ended 31 December 2016 and 2015 included in this preliminary announcement of the annual results for the year ended 31 December 2016 does not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) (the "Companies Ordinance") is as follows:

The Company has delivered the consolidated financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the consolidated financial statements for the year ended 31 December 2016 in due course.

The Company's auditor has reported on the consolidated financial statements of the Group for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

**Amendments to HKFRSs that are mandatorily effective for the current year**

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

| | |
|---|---|
| Amendments to HKAS 1 | Disclosure initiative |
| Amendments to HKAS 16 and HKAS 38 | Clarification of acceptable methods of depreciation and amortisation |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment entities: Applying the consolidation exception |
| Amendments to HKFRS 11 | Accounting for acquisitions of interest in joint operations |
| Amendments to HKFRSs | Annual improvements to HKFRSs 2012 – 2014 cycle |

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

**Amendments to HKAS 1 Disclosure initiative**

The Group has applied the amendment to HKAS 1 "Disclosure initiative" for the first time in the current year. The amendments to HKAS 1 clarify that an entity need not provide a specific disclosure required by HKFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in HKFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes. The Group has applied these amendments retrospectively. Certain disclosure notes are reordered following the order of the line items in the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of financial position.

Other than the above disclosure changes, the application of the amendments to HKAS 1 has not resulted in any impact on the financial performance or financial position of the Group on the consolidated financial statements.

**New and amendments to HKFRSs in issue but not effective**

The Group has not early applied new and amendments to HKFRSs that have been issued but are not yet effective.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and the Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period.

## 4. REVENUE AND SEGMENT INFORMATION

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

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Revenue | | |
| Brokerage commission and other related fees from dealing in securities and futures and options contracts | **20,754** | 43,677 |
| Underwriting, sub-underwriting, placing and sub-placing commission | **4,654** | 1,690 |
| Arrangement, management, advisory and other fee income | **7,497** | 6,357 |
| Interest income from clients | **22,425** | 28,071 |
| Dividend income from listed securities | **953** | – |
| | **56,283** | 79,795 |
| Other income | | |
| Interest income from authorised institutions | **587** | 519 |
| Interest income from convertible bond receivable | **–** | 1,970 |
| Sundry income | **71** | 1 |
| | **658** | 2,490 |
| Total income | **56,941** | 82,285 |

The Group's operating businesses are organised and managed separately, according to the nature of products and services provided, with each segment representing a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other operating segments. The Group operates financial services and proprietary trading businesses and classifies its business into four operating segments, namely brokerage and financing businesses, corporate finance, asset management and proprietary trading and reports to the Group's Executive Committee (being the Group's Chief Operating Decision Maker) accordingly. In 2016, the Group started to devote more resources on proprietary trading business and considered proprietary trading business as one of the Group's core businesses and operating segments. The comparative figures for proprietary trading segment were restated to conform to the presentation in the current year. Details of these four operating and reportable segments are summarised as follows:

(i) the brokerage and financing segment engages in securities, futures and options brokering and dealing, provision of margin financing and money lending, and placing and underwriting services;

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

(iii) the asset management segment engages in the provision of asset management services; and

(iv) the proprietary trading segment engages in the trading of equity securities, debt securities and other financial products.

The following tables represent revenue and results information of these operating segments for the years ended 31 December 2016 and 2015.

**Year ended 31 December 2016**

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

### Other segment information

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

### Year ended 31 December 2015 (restated)

| | Brokerage and financing HK$'000 | Corporate finance HK$'000 | Asset management HK$'000 | Proprietary trading HK$'000 | Segment total HK$'000 | Eliminations HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| Segment revenue | 73,438 | 6,357 | – | – | 79,795 | – | 79,795 |
| Inter-segment sales | – | 80 | – | – | 80 | (80) | – |
| | 73,438 | 6,437 | – | – | 79,875 | (80) | 79,795 |
| Segment profit (loss) | 362 | (3,937) | (1,475) | 8,667 | 3,617 | – | 3,617 |
| Central administrative costs | | | | | | | (15,490) |
| Fair value change on financial liability at FVTPL | | | | | | | (670) |
| Loss before taxation for the year | | | | | | | (12,543) |

**Other segment information**

| | Brokerage and financing *HK$'000* | Corporate finance *HK$'000* | Asset management *HK$'000* | Proprietary trading *HK$'000* | Segment total *HK$'000* | Adjustments *HK$'000* *(Note)* | Total *HK$'000* |
|---|---|---|---|---|---|---|---|
| Amounts included in the measure of segment profit or loss: | | | | | | | |
| Net realised and unrealised gain on financial assets held for trading | – | – | – | (8,667) | (8,667) | – | (8,667) |
| Interest income from authorised institutions and convertible bond receivable | (298) | (40) | (25) | – | (363) | (2,126) | (2,489) |
| Staff costs | 36,252 | 5,918 | 986 | – | 43,156 | 22,587 | 65,743 |
| Commission expenses | 5,815 | 100 | – | – | 5,915 | – | 5,915 |
| Depreciation of property and equipment | 992 | 15 | 2 | – | 1,009 | 685 | 1,694 |
| Finance costs | 2,025 | 69 | – | – | 2,094 | (1,342) | 752 |
| Amounts regularly provided to the Group's Executive Committee but not included in the measure of segment profit or loss: | | | | | | | |
| Income tax expense | 32 | – | – | – | 32 | – | 32 |

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

Segment profit or loss represents the profit earned by/loss from each segment, before the deduction of central administrative costs, fair value change on financial asset designated as at FVTPL 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.

In 2016 and 2015, no single customer amounts to 10% or more of the Group's revenue. The Group's operations are mainly located in Hong Kong (place of domicile). The Group's revenue from external customers are mainly derived from Hong Kong for both 2016 and 2015. All of its non-current assets other than financial instruments 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. OTHER GAINS AND LOSSES

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Fair value change on financial asset designated as at FVTPL *(Note 13)* | **13,460** | – |
| Fair value change on financial liability at FVTPL *(Note 20)* | **–** | (670) |
| Net realised and unrealised gain on financial assets held for trading | **42,914** | 8,667 |
| Impairment loss on accounts receivable, net *(Note 14)* | **(32,745)** | – |
| Gain on disposal of property and equipment | **8** | 95 |
| Net exchange loss | **(93)** | (55) |
| | **23,544** | 8,037 |

## 6. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Staff commission | **9,567** | 21,311 |
| Salaries and wages | **46,535** | 37,250 |
| Staff welfare | **1,871** | 1,528 |
| Recruitment costs | **102** | 170 |
| Provision of long service payment/annual leave benefits | **361** | 268 |
| Retirement benefits scheme contributions | **1,375** | 1,330 |
| Discretionary and performance related incentive payments | **11,138** | 3,886 |
| Equity-settled share option expense | **20,607** | – |
| | **91,556** | 65,743 |

## 7. FINANCE COSTS

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interests on: | | |
| Bank loans and overdrafts | **76** | 752 |

## 8. INCOME TAX CREDIT/EXPENSE

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

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current tax – Hong Kong Profits Tax | | |
| Provision for the year | **–** | 32 |
| Overprovision in respect of prior year | **(19)** | – |
| | **(19)** | 32 |

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the assessable profit is wholly absorbed by the tax losses brought forward. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for 2015.

## 9. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging:

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Included in other operating expenses: | | |
| Auditor's remuneration | **1,123** | 1,033 |
| Operating leases in respect of rental premises | **9,906** | 8,184 |
| Entertainment and travel expenses (mainly incurred for business development) | **12,447** | 5,291 |

## 10. DIVIDENDS

No dividends have been paid or declared or proposed by the Company during the year ended 31 December 2016 (2015: Nil).

## 11. 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:

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Loss** | | |
| Loss for the purposes of basic and diluted loss per share | **(56,716)** | (12,575) |
| | ***'000*** | *'000* |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of basic and diluted loss per share | **603,972** | 518,094 |

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

The diluted loss per share for the year ended 31 December 2015 is computed excluding the effects of share options and warrants as the exercise of the Company's share options and warrants are anti-dilutive.

## 12. PROPERTY AND EQUIPMENT

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Carrying value, beginning of the year | **3,858** | 2,587 |
| Additions | **2,600** | 3,150 |
| Depreciation | **(1,839)** | (1,694) |
| Written off/Disposal | **–** | (185) |
| Carrying value, end of the year | **4,619** | 3,858 |

## 13. FINANCIAL ASSET DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Unlisted equity securities and derivatives | **48,460** | – |

The investment in unlisted equity securities and derivatives is classified as financial asset designated as at fair value through profit or loss and is measured at fair value with change in fair value recognised in profit or loss. The fair value of the unlisted equity securities and derivatives as at 31 December 2016 is determined based on a recent and similar transaction executed close to the end of the reporting period.

## 14. ACCOUNTS RECEIVABLE

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Accounts receivable arising from the ordinary course of business of dealing in: | | |
| Securities transactions *(Note a)*: | | |
| Clearing house | **124** | 24,034 |
| Cash clients | **15,197** | 13,273 |
| Margin clients | **154,209** | 254,385 |
| Futures and options contracts transactions *(Note a)*: | | |
| Clearing house | **4** | 7 |
| Accounts receivable arising from the ordinary course of business of provision of corporate financial advisory services *(Note b)* | **311** | 608 |
| Accounts receivable arising from the ordinary course of business of money lending services *(Note c)* | **36,620** | 10,120 |
| | **206,465** | 302,427 |
| Less: Allowance for impairment *(Note d)* | **(32,745)** | – |
| | **173,720** | 302,427 |

*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 dealing in futures and options contracts transactions are one trading date after the trade date. Accounts receivable from clearing house and majority of accounts receivable from cash clients represent trades pending settlement arising from the business of dealing in securities transactions.

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

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **14,439** | 35,953 |
| 31 – 90 days | **170** | 53 |
| Over 90 days | **716** | 1,308 |
| | **15,325** | 37,314 |

Included in the amount of HK$15,325,000 (2015: HK$37,314,000), approximately HK$885,000 (2015: HK$1,361,000) is past due but not impaired from cash clients as at 31 December 2016, aging analysis of which is as follows:

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 31 – 90 days | **170** | 53 |
| Over 90 days | **715** | 1,308 |
| | **885** | 1,361 |

As at 31 December 2016, no impairment loss had been provided for the amounts that are past due as the fair value of the listed securities of approximately HK$29,672,000 (2015: HK$31,344,000) of these cash clients held by the Group were generally over the relevant carrying amounts of the receivable. No such listed securities held can be pledged by the Group and the corresponding listed securities held can be sold at the Group's discretion to settle any past due outstanding amounts of the cash clients. Accounts receivable due from cash clients bear interest at commercial rates when it becomes past due.

As at 31 December 2016, accounts receivable due from cash clients of approximately HK$1,000 (2015: Nil) were overdue and impaired.

As at 31 December 2016, accounts receivable due from margin clients were secured by the clients' pledged listed securities which carried a fair value of approximately HK$623,475,000 (2015: HK$1,100,277,000). Management of the Group has assessed the market value of pledged securities of each individual customer that has margin shortfall as at the end of each reporting period and considered that no impairment allowance is necessary.

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

As at 31 December 2016, accounts receivable of nil (2015: HK$91,000) are due from directors of the Group and close family members of these directors in respect of transactions in securities undertaken for their accounts.

(b) The settlement terms of accounts receivable arising from provision of corporate financial advisory services are normally due immediately from date of billing but the Group may grant a credit period of 30 days on average to its clients. The aging analysis of these receivables which are neither past due nor impaired based on the invoice date is as follows:

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **311** | 608 |

(c) As at 31 December 2016, accounts receivable arising from money lending services bear fixed-rate interest of 1.5% per month or 12% per annum (2015: 1.2% per month). The accounts receivable as at 31 December 2016 and 31 December 2015 had remaining contractual maturity date falling within one year. As at 31 December 2016, certain of these receivables were secured by the client's pledged listed securities or the personal guarantee provided by the client's related party. As at 31 December 2015, the accounts receivable was secured by the client's pledged listed securities and personal guarantee provided by the client's shareholder.

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

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Neither past due nor impaired | **–** | 10,120 |
| Not past due but impaired | **36,620** | – |
| | **36,620** | 10,120 |
| Less: Allowance for impairment | **(32,744)** | – |
| | **3,876** | 10,120 |

As at 31 December 2016, accounts receivable arising from money lending services of approximately HK$36,620,000 (2015: Nil) were not overdue but impairment of approximately HK$32,744,000 (2015: Nil) was made.

During the year, a loan of HK$23,000,000 was granted to a listed company which was due in January 2017 in accordance with the loan agreement. The borrower failed to repay the outstanding principal on the due date. The Group then served a statutory demand to the borrower, which could result in a winding-up petition to be presented without further notice. Based on the fact that the Group did not receive any response from the borrower and the management's assessment of the published announcements and information of the listed company, the management considered that the probability of the settlement of outstanding principal and accrued interest is highly uncertain. Taking into account the specific facts and circumstances, the Group made a full impairment loss of approximately HK$18,755,000 in 2016 for the outstanding loan.

During the year, the accounts receivable from two margin clients of approximately HK$18,500,000 were restructured into term loans based on the financial status of the clients and their financial needs. These term loans were not overdue as at 31 December 2016. However, subsequent to year end, the clients could not settle the outstanding principal in accordance with the loan agreements and the term loans became overdue. Taking into account the specific facts and circumstances, the Group made an impairment loss of approximately HK$13,989,000 in 2016 for the outstanding principal and accrued interest after deducting the fair value of the borrower's collateral pledged for the term loan and/or any subsequent cash repayments made by the borrowers.

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

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

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| At beginning of the year | **–** | – |
| Impairment loss recognised on accounts receivable arising from: | | |
| Securities transactions | **1** | – |
| Money lending services | **32,744** | – |
| At end of the year | **32,745** | – |

In determining the recoverability of these accounts receivable, the Group considers any change in the credit quality of the accounts receivable from the date on which the credit was initially granted up to the end of the reporting date and also the fair values of the collateral held.

## 15. FINANCIAL ASSETS HELD FOR TRADING

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Equity securities listed in Hong Kong, at market value | **257,418** | 25,792 |

## 16. PLEDGED BANK DEPOSITS

As at 31 December 2016, the Group has placed a deposit of HK$40,000,000 (2015: HK$40,000,000) at an interest rate of 0.7% (2015: 0.45%) per annum to a bank to secure banking facilities of HK$100,000,000 (2015: HK$130,000,000) which included the drawn bank borrowings of HK$40,000,000 (2015: HK$40,000,000). Details of the bank borrowings are set out in Note 19.

## 17. BANK BALANCES AND CASH

Bank balances and cash comprise of cash and short-term bank deposits held by the Group at market interest rates ranging from 0.001% to 1.03% (2015: 0.001% to 0.79%) 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, VC Futures Limited and VC Capital Limited act as trustees that result in the holding of clients' monies on behalf of clients and other institutions. These assets are not assets of the Group and, therefore, are not included in its consolidated statement of financial position. As at 31 December 2016, the Group maintained segregated accounts at a clearing house of approximately HK$2,026,000 (2015: HK$1,527,000) and at other authorised institutions of approximately HK$257,254,000 (2015: HK$227,947,000) 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.

## 18. ACCOUNTS PAYABLE

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Accounts payable arising from the ordinary course of business of dealing in securities transactions: | | |
| Clearing house | **19,874** | – |
| Cash clients | **6,827** | 26,145 |
| Margin clients | **180** | 18,139 |
| | **26,881** | 44,284 |

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

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

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

As at 31 December 2016, accounts payable of nil (2015: HK$872,000) are due to directors of the Group and close family members of these directors in respect of transactions in securities undertaken for their accounts.

## 19. SHORT-TERM BANK BORROWINGS

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Secured | **40,000** | 40,000 |

The short-term bank borrowings, which were secured by pledged bank deposits and the Company's corporate guarantee, bore an interest rate at the bank's cost of funding plus 2% per annum as at 31 December 2016 (2015: HIBOR plus 2% per annum).

As at 31 December 2016, the Group has unused banking facilities of HK$60,000,000 (2015: HK$90,000,000), including an amount of nil (2015: HK$40,000,000) for short-term money market loan and current account overdraft, an amount of HK$50,000,000 (2015: HK$50,000,000) for short-term money market loan for margin financing business, and an amount of HK$10,000,000 (2015: Nil) for drawings against uncleared cheques.

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

In August 2013, the Company placed and issued 80,000,000 non-listed warrants (the "Warrant(s)") at an issue price of HK$0.02 per Warrant. Each Warrant carried the right to subscribe for one ordinary share of the Company at the subscription price of HK$1.2, which could be exercised at any time during a period of 24 months commencing from the date of issue of the Warrants. In late July 2015, a total of 47,200,000 Warrants out of the 80,000,000 Warrants were exercised and the Company issued 47,200,000 subscription shares of the Company at a subscription price of HK$1.2 each accordingly. It provided net proceeds of approximately HK$56.6 million to the Company. The balance of 32,800,000 Warrants expired on 1 August 2015.

The Warrants were classified as financial liability at fair value through profit or loss and were measured at fair value with change in fair value recognised in profit or loss.

The movement of the fair value of the Warrants was as follows:

| | *HK$'000* |
|---|---|
| At 1 January 2015 | 9,852 |
| Fair value change recognised in profit or loss | 670 |
| Exercise of Warrants | (10,522) |
| At 31 December 2015 | – |

## 21. SHARE CAPITAL

| | **Issued and fully paid ordinary shares** | |
|---|---|---|
| | **Number of shares** | **Amount** |
| | | *HK$'000* |
| At 1 January 2015 | 418,166,829 | 486,674 |
| Issue of shares by placement *(Note a)* | 82,600,000 | 80,948 |
| Transaction costs attributable to issue of shares by placement | – | (1,221) |
| Issue of shares upon exercise of warrants *(Note 20)* | 47,200,000 | 67,162 |
| Transaction costs attributable to issue of shares upon exercise of warrants | – | (7) |
| Issue of shares upon exercise of share options | 4,250,000 | 6,295 |
| At 31 December 2015 | 552,216,829 | 639,851 |
| Issue of shares by placement *(Note b)* | 110,000,000 | 95,700 |
| Transaction costs attributable to issue of shares by placement | – | (1,204) |
| Issue of shares upon exercise of share options | 400,000 | 905 |
| At 31 December 2016 | 662,616,829 | 735,252 |

*Notes:*

(a) On 18 December 2014, the Company entered into a placing agreement with a placing agent regarding the placement of, on a best effort basis, up to an aggregate of 82,600,000 new shares of the Company to not less than six independent parties at a placing price of HK$0.98 per new share. The placement was completed on 21 January 2015 and a total of 82,600,000 new shares were issued. The net proceeds from the placement amounted to approximately HK$79.7 million. The new shares rank pari passu with the existing shares in all respects.

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

## 22. SHARE OPTIONS

On 29 September 2016, directors and employees of the Group were granted share options to subscribe for 41,000,000 underlying shares under the share option scheme adopted by the Company on 8 June 2009 (the "Share Option Scheme"). The share options were immediately vested on the grant date. The share options granted under the Share Option Scheme have a duration of 3 years from the date of grant, i.e. from 29 September 2016 to 28 September 2019. Any share options granted shall normally lapse upon the expiration of 3 months after the relevant grantee ceases to be an employee of the Group. The Board has the discretion to amend the terms of the Share Option Scheme.

The estimated fair value of the share options granted on 29 September 2016 was approximately HK$20,607,000. The fair value was calculated using the Binomial option pricing model by an independent professional valuer. The inputs into the model were as follows:

| | **29 September 2016** |
|---|---|
| No. of share options granted | 41,000,000 |
| Market price per share on the date of grant | HK$1.76 |
| Exercise price | HK$1.76 |
| Expected volatility | 82.848% |
| Expected dividend yield | 0% |
| Risk free rate | 0.502% |
| Exercise multiples | 1.37/1.55 |

Expected volatility was determined with reference to the historical volatility of the Company's share price over the previous 3 years. The risk free rate was determined with reference to the yield of 3 years Hong Kong Sovereign Curve as at the valuation date of 29 September 2016.

The binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the Company's Directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The Group recognised total equity-settled share option expense of approximately HK$20,607,000 for the year ended 31 December 2016 (2015: Nil) in relation to the 41,000,000 share options granted under the Share Option Scheme.

## 23. COMMITMENTS

### (a) Capital commitments

As at 31 December 2016 and 31 December 2015, the Group's commitments contracted but not provided for in respect of capital contribution to joint venture and purchase of property and equipment were as follows:

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Capital contribution to joint venture | **534,000** | – |
| Purchase of property and equipment | **–** | 39 |
| | **534,000** | 39 |

### (b) Commitments under operating leases

As at 31 December 2016 and 31 December 2015, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rental premises which fall due as follows:

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **10,661** | 3,734 |
| In the second to fifth years inclusive | **11,165** | 3,109 |
| | **21,826** | 6,843 |

Operating lease payments represent rentals payable by the Group for its office premises and car parking spaces. Rentals are fixed for lease terms of 1 to 3 years (2015: 1 to 3 years).

## DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: 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 complied with the code provisions set out in the Corporate Governance Code (the "**CG Code**") for the year ended 31 December 2016, which were contained in Appendix 14 of the Listing Rules, 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. Currently, Mr. Tin Ka Pak, Timmy has taken up the roles and functions of the Chairman and the Chief Executive Officer ("**CEO**") of the Company. The Board considers that the balance of power and authority of the Board will not be impaired even the roles of the Chairman and the CEO are performed by the same individual. It also believes that it is in the best interest of the Group with Mr. Tin Ka Pak, Timmy to assume the roles of the Chairman and the CEO as which the Board's decision could be made effectively. The Board would still consider segregation of the roles of the Chairman and the CEO if and when appropriate.

Under the code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term and subject to re-election. All the Non-executive Directors of the Company are not appointed for specific term. However, under the Article 97 of the Articles of Association of the Company, all Directors, including Non-executive Directors, are subject to retirement by rotation and re-election in the annual general meeting of the Company and each Director is effectively appointed under an average term of three years. The Company does not believe that arbitrary term limits on directors' service are appropriate given that directors ought to be committed to representing the long term interests of the Company's shareholders, and the retirement and re-election requirements of non-executive directors have given the Company's shareholders the right to approve continuation of non-executive directors' offices.

Under the code provision A.6.7 of the CG Code, non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Wong Chung Kin, Quentin, an Independent Non-executive Director of the Company, was absent from the 2016 annual general meeting of the Company held on 2 June 2016 due to other business engagement.

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 are given at the Company's website under the section "Corporate Governance".

## AUDIT COMMITTEE

The Company's Audit Committee is currently composed of three Independent Non-executive Directors of the Company, namely, Mr. Wong Chung Kin, Quentin (Chairman), Mr. Wong Kam Choi, Kerry, MH and Mr. Siu Miu Man, Simon. The primary duties of the Audit Committee are to (i) review the Group's financial statements and published reports; (ii) provide advice and comments thereon to the Board; and (iii) review and supervise the financial reporting process and internal control procedures of the Group. The Audit Committee has reviewed the Group's consolidated financial statements and results for the year ended 31 December 2016 and satisfied that these have been prepared in accordance with the applicable accounting standards and fairly present the Group's financial positions and results for the year ended 31 December 2016.

## SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the related notes thereto for the year ended 31 December 2016 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 the 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.

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

For the year ended 31 December 2016, neither the Company nor any of its subsidiaries has purchased, sold or brought back any of the Company's listed securities.

## PUBLICATION OF FINAL RESULTS AND ANNUAL 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 Annual Report for the year ended 31 December 2016 (the "**2016 Annual Report**") will be available on the same websites and will be dispatched to the Company's shareholders in due course.

## ANNUAL GENERAL MEETING

The annual general meeting of the Company for the year 2017 will be held at end of May 2017. A notice convening this annual general meeting will be issued to the shareholders of the Company together with the 2016 Annual Report in due course, which will also be available on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.vcgroup.com.hk.

## BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises five Executive Directors, namely, Mr. Tin Ka Pak, Timmy (Chief Executive Officer), Mr. Chau King Fai, Philip, Mr. Lin Hoi Kwong, Aristo, Mr. Xie Jintai and Mr. Chung Chi Shing, Eric; and three Independent Non-executive Directors, namely, Mr. Wong Chung Kin, Quentin, Mr. Wong Kam Choi, Kerry, MH and Mr. Siu Miu Man, Simon.

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

Hong Kong
31 March 2017