

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



Value Convergence Holdings Limited

(Incorporated in Hong Kong with limited liability)

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

(Stock Code: 821)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

The board (the “**Board**”) of directors (the “**Directors**”) of Value Convergence Holdings Limited (the “**Company**”) submits the unaudited condensed consolidated results of the Company and its subsidiaries (collectively “**VC Group**” or the “**Group**”) for the six months ended 30 June 2017, together with the unaudited comparative figures of the corresponding period in 2016.

FINANCIAL HIGHLIGHTS

The Group’s consolidated revenue for the six months ended 30 June 2017 amounted to approximately HK\$28.8 million, which increased by about 8% as compared with the same period in 2016.

The Group recorded a consolidated loss attributable to shareholders amounted to approximately HK\$10.1 million for the six months ended 30 June 2017 against a loss of approximately HK\$25.5 million for the same period in 2016, representing a substantial decrease of about 60%.

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. For the first half of 2017, the global investors reacted positively to the improving global and the Mainland economic outlook. Though the downturn in the local capital market continued in January 2017, the local investors' sentiment had improved subsequently and the local stock market had experienced steady growth throughout the first half of 2017. 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 the first half of 2017.

The local stock market remained sluggish in January 2017 in which the average daily trading turnover was down to approximately HK\$57.2 billion. It had grown more vibrant thereafter. The average daily trading turnover in February and March had reached HK\$81.6 billion and HK\$82.1 billion respectively at the highest level over the past 17 months. Overall, the local stock market's average daily trading turnover had improved with approximately HK\$76 billion for the first half of 2017 as compared to approximately HK\$67.5 billion for the same period in 2016, representing an increase of about 13%. Meanwhile, the total market capitalization recorded approximately HK\$28,680.5 billion as at 30 June 2017, representing an increase of about 16% as compared with that of 30 December 2016. Further, the Hang Seng Index (the "HSI") also gradually grew up and recorded an increase of about 17% in the first half of 2017, in which the HSI closed at 25,764 as at 30 June 2017 from 22,000 as at 30 December 2016. As the market sentiments improved, fund raising activities also increased. The local fund raised amount was approximately HK\$174.3 billion in the first half of 2017, which was about 20% higher than that of the same period in 2016.

As a financial services provider, the business performance of the Group will certainly impacted by both the global and local economic and market conditions. Nevertheless, the Group always thrived on its solid financial standing and its various investment services and products offered to our clients. All of these consolidated the Group as a competitive player in the financial industry. While the financial-oriented business makes the Group particularly sensitive to fluctuating economic conditions and investors' sentiments, our fundamental strategy is firmly anchored and our core focus remains on developing and fortifying the Group's core businesses in 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; and proprietary trading. Indeed, the Group is committed to achieving long-term and balanced growth on the basis of solid financial capability and a pragmatic operating strategy, which help capitalizing on any growth opportunities and thereon enhance our shareholders' value.

In July 2016, the Company announced that VC Brokerage Limited ("**VC Brokerage**"), an indirectly wholly owned subsidiary of the Company, entered into a joint venture agreement (the "**Joint Venture Agreement**") with three independent third parties to establish a joint venture securities company in Guangxi, the PRC (the "**JV Company**"). Subject to the approval by China Securities Regulatory Commission (the "**CSRC**"), the JV Company is expected to be a full-licensed securities company permitted to provide securities brokerage, trading and investment advisory, underwriting, sponsorship and asset management services in the PRC. Pursuant to the Joint Venture Agreement, VC Brokerage will contribute RMB445 million (equivalent to approximately HK\$534 million), representing 44.5% shareholding in the JV Company. The Company will finance the above investment by placing of convertible bonds in the aggregate principal amount of up to HK\$850 million (the "**Convertible Bonds**") at an initial conversion price of HK\$0.65 each pursuant to a placing agreement (the "**Placing Agreement**") entered into at the same time. 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 expanding the Group's financial services business and other possible investment(s) in the future when opportunities arise. This investment definitely not only strengthen the Group's financial position and prospects, but provide a stepping stone to the Group for entering and developing into the PRC market.

The Joint Venture Agreement and the Placing Agreement will become effective upon, inter alia, (i) the Company having obtained the approval and authorisation from its shareholders and the relevant regulatory authorities about the Joint Venture Agreement and the Placing Agreement and the transactions contemplated thereunder including but not limited to the formation of the JV Company and the placing of the Convertible Bonds; and (ii) VC Brokerage having obtained the approval and authorisation from the relevant regulatory authorities for establishment of the JV Company. The Joint Venture Agreement and the Placing Agreement were approved by the shareholders of the Company during the extraordinary general meeting held on 26 October 2016.

As at the date of this announcement, the application of the formation of the JV Company is still under the CSRC's review. Details of the transactions please refer to the Company's announcements dated 24 July 2016, 20 September 2016, 26 October 2016, 18 November 2016, 17 January 2017, 29 March 2017, 28 June 2017 and the Company's circular dated 26 September 2016 and 27 February 2017.

Details of the Group's business performance of each operating segment for the six months ended 30 June 2017, together with the comparative figures of the corresponding period in 2016, are given in the section "Financial Review" below.

Outlook

Looking ahead, the Group's operating environment remains challenging in the second half of 2017 though it is expected that the positive market sentiments of the local stock market will persist. Investors are reminded to watch the capital market closely and avoid taking excessive risks. The global stock markets have somewhat recovered gradually, but the outlook is far from reassuring, which would still be influenced by various uncertain economic and political factors such as the US interest rate normalisation, negotiations relating to the British's formal exit from the European Union and possible US and European policy changes. Given Hong Kong economy is highly external-oriented, it certainly cannot escape the global economic volatility.

Since Shenzhen-Hong Kong Stock Connect was launched in December 2016, the Stock Connects (together with Shanghai-Hong Kong Stock Connect) continued to gather momentum in the first half of 2017, with the increased fund flows and trading volume in both Northbound and Southbound trading services. Through the Stock Connects, overseas investors can make use of Hong Kong as a convenient access point to the Mainland China, while the Mainland investors can use Hong Kong as their first stop as they begin to diversify their assets beyond the Mainland China's borders. In addition, the China-Hong Kong Bond Connect had also been launched in early July 2017, which is a new mutual market access scheme that allows investors from the Mainland China and overseas to trade in each other's bond markets through connection between the related Mainland and Hong Kong financial infrastructure institutions. With these new trading platforms, it is vital to the local financial market infrastructure and strategy for the long term. It will certainly bring positive impact and help to boost the growth of the local financial market in the foreseeable future.

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

Financial Review

For the six months ended 30 June 2017, the Group's consolidated revenue was approximately HK\$28.8 million, which increased by about 8% as compared with the same period in 2016. The Group recorded a consolidated loss attributable to shareholders amounted to approximately HK\$10.1 million for the six months ended 30 June 2017 against a loss of approximately HK\$25.5 million for the same period in 2016, representing a substantial decrease of about 60%.

The significant decrease in the Group's consolidated loss attributable to shareholders for the six months ended 30 June 2017 was mainly due to the improved operating performance from the Group's brokerage and financing businesses and proprietary trading business, in which the operating profit increased to approximately HK\$8.6 million and approximately HK\$9.7 million from a loss of approximately HK\$1 million and HK\$5.6 million for the same period in 2016 respectively. This financial effect had been partially set-off by the increase in corporate operating expenses incurred for the Group's business development of approximately HK\$6.4 million in the first half of 2017.

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

Revenue Analysis

	Six months ended 30 June 2017		Six months ended 30 June 2016		
	Proportion of total revenue		Proportion of total revenue		Increase (decrease)
	HK\$'000	%	HK\$'000	%	%
Revenue from:					
Brokerage and Financing	24,770	86%	23,042	86%	7%
Brokerage commission and other related fees	9,218	32%	9,768	36%	(6%)
Underwriting, sub-underwriting, placing and sub-placing commission	255	1%	2,594	10%	(90%)
Interest income from brokerage clients	6,894	24%	10,389	39%	(34%)
Interest income from money lending clients	2,765	10%	291	1%	850%
Other fees	5,638	19%	–	–	100%
Corporate Finance	4,017	14%	3,330	12%	21%
Asset Management	–	–	–	–	–
Proprietary Trading	–	–	406	2%	(100%)
Total revenue	28,787	100%	26,778	100%	8%

Segment Analysis

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Segment results:		
Brokerage and Financing	8,621	(958)
Corporate Finance	(1,707)	(1,839)
Asset Management	(896)	(828)
Proprietary Trading	9,746	(5,579)
Group segment profit (loss)	15,764	(9,204)
Compensation income arising from profit guarantee	978	–
Central administrative costs	(26,888)	(16,259)
Loss before taxation	(10,146)	(25,463)
Income tax credit	18	–
Loss for the period attributable to shareholders of the Company	(10,128)	(25,463)

Brokerage and Financing

During the six months ended 30 June 2017, the Company, through its indirect wholly owned subsidiaries, namely, VC Brokerage and VC Futures Limited, provides securities, futures and options brokering and dealing, margin financing, and placing and underwriting services. It also through another indirect wholly owned subsidiary, VC Finance Limited (“**VC Finance**”), provides money lending services. For the six months ended 30 June 2017, the brokerage and financing businesses recorded total revenue of approximately HK\$24.8 million as compared with approximately HK\$23 million for the same period last year, representing an increase of about 7%, and accounted for about 86% of the Group’s total revenue.

The Group’s one of the major revenue streams, namely, brokerage commission and other related fees from dealing in securities, futures and options contracts for the six months ended 30 June 2017 decreased to approximately HK\$9.2 million from approximately HK\$9.8 million for the same period last year, representing a mild decrease of about 6%, and accounted for about 32% of the Group’s total revenue. Nevertheless, the Group’s brokerage transactions registered growth throughout the first half of 2017 with average daily trading turnover increasing by above 30% from the month of December 2016 to the month of June 2017, which was in line with the local market conditions. Together with other fees such as the arrangement fee and referral fee of approximately HK\$5.6 million for the six months ended 30 June 2017, the revenue from these brokerage business recorded a sharp increase of about 52% as compared to the same period last year.

Meanwhile, the Group's total interest income from financing for the six months ended 30 June 2017 decreased by about 10% to approximately HK\$9.7 million from approximately HK\$10.7 million for the same period last year, and accounted for about 34% of the Group's total revenue. The revenue included interest income derived from both the brokerage business and the money lending business. Among these, the Group's interest income from our brokerage clients recorded approximately HK\$6.9 million for the six months ended 30 June 2017, representing a drop of about 34% as compared with the same period last year. The drop was mainly attributable to the decrease of average loan portfolio of our brokerage clients by about 37% for the six months ended 30 June 2017 as compared with the same period last year. Nevertheless, among the various client receivables, the aggregate initial public offering subscription financings provided to our clients registered significant growth during the first half of 2017 as compared to that of the second half of 2016, though the net interest income derived is thin.

As abovementioned, the Group also provides money lending services to our clients. This aims at broadening our revenue base and also offering our clients with more financial flexibility to meet their personal and business needs. The Group's interest income from money lending services was approximately HK\$2.8 million for the six months ended 30 June 2017, representing a significant growth of about 8.5 times as compared with the same period last year. The sharp increase was mainly contributed by the increase of average loan portfolio of the money lending business by about 8 times for the six months ended 30 June 2017 as compared with the same period last year.

The Group has put efforts on implementing our credit control policies and procedures to review our clients' creditworthiness and credit limits from time to time so as to minimize our credit risk exposure. The Group's credit control policies and procedures are principally based on the doubtful unsecured exposure having assessed the fair value of the clients' collaterals held, the evaluation of collectability and aging analysis of the client accounts. As the local economy is volatile from time to time, the Group will take a much more cautious approach in provision of the financing services. For the six months ended 30 June 2017, there was a reversal of impairment loss of approximately HK\$2.6 million on client receivables from the brokerage and financing businesses (31 December 2016: recognition of impairment loss of HK\$32.7 million) in accordance with the Group's credit control policies and procedures. The Group will take all necessary legal actions against the relevant clients to follow up the outstanding loans. Details of the impairment loss on the client receivables had been disclosed in Note 13 to the unaudited condensed consolidated financial statements.

Meanwhile, the Group offers placing and underwriting services to our clients, and acts as placing agent and underwriter for Hong Kong listed companies' fund raising activities. For the six months ended 30 June 2017, the Group's placing and underwriting commission was approximately HK\$0.3 million as compared with approximately HK\$2.6 million for the same period last year. The Group will continue to put efforts to capture the opportunities towards the local initial public offerings and other fund raising exercises.

Overall, the operating performance of the brokerage and financing businesses for the six months ended 30 June 2017 had been significantly improved, in line with the local stock market conditions, which generated an operating profit after tax of approximately HK\$8.6 million against a loss of approximately HK\$1 million for the same period last year.

Corporate Finance

The Company through one of its indirect wholly owned subsidiary, VC Capital Limited ("**VC Capital**"), provides corporate finance advisory services to its clients. For the six months ended 30 June 2017, VC Capital was appointed as the financial adviser of several Hong Kong listed companies for a number of corporate transactions and involved in acting as sponsor for clients to seek for new listings on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

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 shares placement and underwriting for the Group as a whole. As mentioned in the section "Business Review" above, the local fund raising activities had been increased in the first half of 2017. It is vital to the Group to capture the growing opportunities from the more favourable and stable local market conditions in the foreseeable future.

Overall, the operating performance of the corporate finance business for the six months ended 30 June 2017 had been slightly improved as compared to the same period last year, which recorded revenue and operating loss after tax of approximately HK\$4 million and HK\$1.7 million as compared with approximately HK\$3.3 million and HK\$1.8 million for the same period last year respectively.

Asset Management

For the six months ended 30 June 2017, the Company's asset management business, through its indirect wholly owned subsidiary, VC Asset Management Limited, recorded an operating loss after tax of approximately HK\$0.9 million as compared with a loss of approximately HK\$0.8 million for the same period last year, which mainly included the general operating expenses such as staff costs and professional costs.

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

Proprietary Trading

As at 30 June 2017, the Group held equity securities listed in Hong Kong of approximately HK\$285.9 million (31 December 2016: HK\$257.4 million) as financial assets held for trading, which was stated at market value. The fair value of these listed equity securities represents about 35% of the Group's total assets as at 30 June 2017 (31 December 2016: 33%). The Group started to devote more resources for proprietary trading business from the second half of 2016 so as to capture opportunities arising from improving market sentiments and considered it as one of the Group's core businesses thereafter.

The Group invests mainly through purchases in the secondary market. The management follows strictly the internal securities investment policy and seeks the approval from the Board, when necessary, so as to enhance the financial returns to the shareholders and limit the risk exposure associated therewith. During the first half of 2017, there was net additional purchase in securities investment of approximately HK\$15.3 million.

For the six months ended 30 June 2017, no revenue recorded for the proprietary trading business (six months ended 30 June 2016: HK\$0.4 million, solely the dividend income from trading investments). Meanwhile, the Group recognised a net gain of approximately HK\$13.8 million (including a realised loss of approximately HK\$9.8 million and an unrealised gain of approximately HK\$23.6 million) on the trading investments for the six months ended 30 June 2017 as compared with a net loss of approximately HK\$5.7 million (including a realised gain of approximately HK\$0.9 million and an unrealised loss of approximately HK\$6.6 million) for the same period in 2016.

Overall, the Group's proprietary trading business recorded an operating profit after tax of approximately HK\$9.7 million for the six months ended 30 June 2017 against a loss of approximately HK\$5.6 million for the same period last year.

Central administrative costs

For the six months ended 30 June 2017, the Group's central administrative costs amounted to approximately HK\$26.9 million as compared with approximately HK\$16.3 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\$10.6 million during the first half of 2017 was mainly attributable to the increase in corporate operating expenses incurred for the Group's business development such as staff costs, entertainment and travel expenses.

Financial asset designated as at fair value through profit or loss

Century Race Investments Limited ("**Century Race**"), an indirect wholly owned subsidiary of the Company, had acquired 10.5% equity interest of a private entity (the "**Entity**") at a cash consideration of HK\$35 million in 2016. It was guaranteed that the Entity'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 (collectively the "**Guaranteed Amounts**") respectively. In the event that the Entity's net profit after tax falls below the Guaranteed Amounts in any of the two years, the sellers of the Entity (the "**Sellers**") shall compensate Century Race by proportion to the percentage of shareholding interest in cash.

Based on the accountants' report of the Entity for the year ended 31 March 2017, it was noted that the Entity's audited net profit after tax was less than RMB37.5 million and was unable to meet its profit guarantee for the year ended 31 March 2017. As such, compensation in cash for an amount of approximately RMB846,000 (equivalent to approximately HK\$978,000) by the Sellers to Century Race was required and recognised as the Group's other income for the six months ended 30 June 2017. Details had been disclosed in Note 12 to the unaudited condensed consolidated financial statements.

The Directors are of the opinion that the fair value as at 30 June 2017 was approximately HK\$48.5 million (31 December 2016: HK\$48.5 million) with reference to the recent and similar transaction executed in late December 2016. The fair value of this unlisted equity securities represents about 6% of the Group's total assets as at 30 June 2017 (31 December 2016: 6%).

Income tax credit

During the six months ended 30 June 2017, the Group recognised an income tax credit of approximately HK\$18,000 (six months ended 30 June 2016: Nil), which represented the over-provision of approximately HK\$20,000 for Hong Kong Profits Tax in prior year for the brokerage and financing businesses and the provision of approximately HK\$2,000 for the PRC Enterprise Income Tax for the six months ended 30 June 2017 for the PRC representative office of the Group.

Finance costs

For the six months ended 30 June 2017, the finance costs of the Group amounted to approximately HK\$30,000 as compared with approximately HK\$35,000 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.

Headcount and employees information

As at 30 June 2017, the Group employed a total of 108 employees (31 December 2016: 109), which excluded 8 self-employed account executives for brokerage services (31 December 2016: 8), and all were located in Hong Kong. Salaries and staff benefits costs (including the Directors' emoluments) and staff commission amounted to approximately HK\$28.6 million and HK\$4.7 million respectively for the six months ended 30 June 2017 as compared with approximately HK\$22.8 million and HK\$3.9 million respectively for the same period last year. Details had been disclosed in Note 6 to the unaudited condensed consolidated financial statements. The increase in the salaries and staff benefits costs of approximately HK\$5.8 million during the first half of 2017 was mainly attributable to the increase in headcounts for the Group's business development in the PRC.

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

Liquidity and financial resources/capital structure

For the six months ended 30 June 2017, the Group financed its business operations and investments with internal resources, cash revenues generated from operating activities and short-term bank loans.

The Group adopts a prudent treasury policy. As at 30 June 2017, all borrowings and almost all the bank balances and cash were denominated in Hong Kong dollars. The Group intends to maintain minimum exposure to foreign exchange risks. Further, all the bank balances and cash were put in time deposits, saving deposits and current accounts as at 30 June 2017.

As at 30 June 2017, the Group held banking facilities of HK\$100 million granted from a bank to VC Brokerage (31 December 2016: HK\$100 million), which is required to be secured by bank deposits of HK\$40 million (31 December 2016: HK\$40 million) and corporate guarantee of HK\$100 million (31 December 2016: HK\$100 million) provided by the Company. Among the available banking facilities, HK\$40 million (31 December 2016: HK\$40 million) is general short-term money market loan and current account overdraft. The other HK\$50 million (31 December 2016: HK\$50 million) is short-term

money market loan for margin financing business, which is required to be secured by VC Brokerage's margin clients' listed securities when utilised. The balance of HK\$10 million (31 December 2016: HK\$10 million) is used for drawings against uncleared cheques. As at 30 June 2017, the Group utilised an amount of HK\$40 million for the general short-term money market loan (31 December 2016: HK\$40 million), which bore an interest rate at 2.8% per annum (31 December 2016: 2.78% per annum).

As at 30 June 2017, the Group's bank balances and cash, net current assets and shareholders' equity (other than clients' segregated accounts) amounted to approximately HK\$208.5 million (31 December 2016: HK\$247.7 million), HK\$628.3 million (31 December 2016: HK\$638.8 million) and HK\$689.4 million (31 December 2016: HK\$699.6 million) respectively, representing a decrease of about 16%, 2% and 1% respectively as compared with that of 31 December 2016. Current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of about 5.7 times as at 30 June 2017 (31 December 2016: 8.4 times). These showed that the Group still maintained a solid financial position as at 30 June 2017.

As at 30 June 2017 and 31 December 2016, the total number of issued ordinary shares of the Company was 662,616,829. There was no shares movement during the six months ended 30 June 2017.

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 30 June 2017 (31 December 2016: HK\$40 million) for securing the banking facilities granted to VC Brokerage.

Foreign exchange exposure

It is the Group's policy for all operating entities to use corresponding local currency as much as possible so as to minimize exchange related risks. For the six months ended 30 June 2017, almost all of the Group's principal businesses were conducted and recorded in Hong Kong dollars. Impact from foreign exchange exposure was thus minimal and no hedging against foreign currency exposure had been necessary. In view of the operational needs, the Group will continue to monitor the foreign currency exposure from time to time and take necessary action to minimize the exchange related risks.

Contingent liabilities

As at 30 June 2017, the Company had given financial guarantees of HK\$100 million (31 December 2016: HK\$100 million) to a bank in respect of banking facilities of HK\$100 million (31 December 2016: HK\$100 million) provided to VC Brokerage as mentioned in the section "Liquidity and financial resources/capital structure" above. As at 30 June 2017, banking facilities of an amount of HK\$40 million was utilised by VC Brokerage (31 December 2016: HK\$40 million).

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

Gearing ratio

As at 30 June 2017, the Group’s gearing ratio, expressed as total borrowings (solely the bank borrowings) over shareholders’ equity, was approximately 0.06 time (31 December 2016: 0.06 time).

Significant investments held, their performance and future prospects

For the six months ended 30 June 2017, details of the Group’s significant investments held, their performance and future prospects are disclosed in the sections “Proprietary Trading” and “Financial asset designated as at fair value through profit or loss” above.

Material acquisitions and disposal of subsidiaries, associates and joint ventures

For the six months ended 30 June 2017, the Group did not make any material acquisitions and disposal of subsidiaries, associates and joint ventures.

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

As at 30 June 2017, 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 30 June 2017, the Group did not have any significant commitments contracted but not provided for in respect of purchase of property and equipment. Details of the Group’s commitments are disclosed in Note 20 to the unaudited condensed consolidated financial statements.

Events after the reporting period

Placing and Issue of New Shares under General Mandate

- (i) On 10 July 2017, the Company entered into a placing agreement with VC Brokerage (the “**Placing Agent**”) regarding the placement of, on a best effort basis, up to an aggregate of 132 million new shares of the Company to not less than six independent parties at a placing price of HK\$0.93 per placing share. As certain conditions precedent had not been fulfilled upon expiry of the placing period, the placing agreement had lapsed on 21 July 2017. 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. Details of the transaction had been disclosed in the Company's announcements dated 10 July 2017 and 21 July 2017.

- (ii) On 28 July 2017, the Company entered into a placing agreement with the Placing Agent regarding the placement of, on a best effort basis, up to an aggregate of 132 million new shares of the Company (the “**Placing Share(s)**”) to not less than six independent parties at a placing price of HK\$0.91 per Placing Share. The placing price represented a discount of about 19.47% to the closing market price of the Company's shares as quoted on the Stock Exchange on 28 July 2017. The placement was completed on 18 August 2017 and a total of 132 million Placing Shares were issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 25 May 2017. The net proceeds from the placement amounted to approximately HK\$117.1 million and the net placing price per Placing Share was approximately HK\$0.887. The 132 million Placing Shares rank pari passu with other shares of the Company in issue in all respects. The Company intends to use the net proceeds from the placement for the (i) general working capital of the Group; (ii) expanding the Group's proprietary trading, brokerage and financing and corporate finance businesses; and (iii) possible investment(s) in the future when opportunities arise. The Directors are of the view that the placement not only broadens the shareholders' portfolio, but also strengthens the financial position of the Group. As the Group has always been looking for new business opportunities, the funds from the placement will provide the Group with 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 28 July 2017 and 18 August 2017.

As at the date of this announcement, the aforesaid net proceeds had not been used.

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

Hong Kong
22 August 2017

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	<i>Notes</i>	Six months ended 30 June	
		2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited) Restated
Revenue	4	28,787	26,778
Other income	4	1,475	362
Other gains and losses	5	16,500	(5,693)
Staff costs	6	(33,315)	(26,724)
Commission expenses		(1,028)	(2,421)
Depreciation of property and equipment	11	(892)	(901)
Finance costs		(30)	(35)
Other operating expenses		(21,643)	(16,829)
Loss before taxation		(10,146)	(25,463)
Income tax credit	7	18	—
Loss and total comprehensive expense for the period	8	(10,128)	(25,463)
Loss per share (HK cents)			
Basic	10	(1.53)	(4.61)
Diluted	10	(1.53)	(4.61)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

		30 June 2017	31 December 2016
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
Non-current assets			
Trading rights		—	—
Other intangible assets		1,246	1,246
Property and equipment	11	5,080	4,619
Statutory deposits		3,128	3,125
Rental and utility deposits		3,253	3,253
Financial asset designated as at fair value through profit or loss	12	48,460	48,460
Available-for-sale investments		—	—
		61,167	60,703
Current assets			
Accounts receivable	13	217,826	173,720
Prepayments, deposits and other receivables		10,834	6,038
Tax recoverable		32	—
Financial assets held for trading	14	285,891	257,418
Pledged bank deposits	15	40,000	40,000
Bank balances and cash	16	208,490	247,661
		763,073	724,837

		30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
	<i>Notes</i>		
Current liabilities			
Accounts payable	17	87,516	26,881
Accrued liabilities and other payables		7,300	19,109
Taxation payable		2	—
Short-term bank borrowings	18	40,000	40,000
		134,818	85,990
Net current assets		628,255	638,847
Total assets less current liabilities		689,422	699,550
Capital and reserves			
Share capital	19	735,252	735,252
Reserves		(45,830)	(35,702)
Total equity		689,422	699,550

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to owners of the Company				Total HK\$'000
	Share capital HK\$'000	Capital reserve HK\$'000 (Note 1)	Accumulated losses HK\$'000	Other reserve HK\$'000 (Note 2)	
At 1 January 2016 (Audited)	639,851	123,758	(122,383)	(767)	640,459
Loss for the period representing total comprehensive expense for the period	—	—	(25,463)	—	(25,463)
At 30 June 2016 (Unaudited)	639,851	123,758	(147,846)	(767)	614,996

	Attributable to owners of the Company					Total HK\$'000
	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)	
At 1 January 2017 (Audited)	735,252	123,758	(179,099)	20,406	(767)	699,550
Loss for the period representing total comprehensive expense for the period	—	—	(10,128)	—	—	(10,128)
At 30 June 2017 (Unaudited)	735,252	123,758	(189,227)	20,406	(767)	689,422

Notes:

- Pursuant to a scheme of capital reorganisation, which became effective on 28 May 2003, the High Court of Hong Kong had approved the reduction of the Company's capital and the cancellation of the Company's share premium account. The credit arising from the reduction of the share capital account and cancellation of the share premium account, after eliminated against the accumulated loss, in the aggregate amount of HK\$123,758,200 was transferred to a capital reserve account of the Company. Such capital reserve account will not be treated as realised profits, and shall be treated as an undistributable reserve of the Company until and unless the creditors of the Company as at the date of the sanction are fully settled. In view of the fact that the Company had already fully settled the relevant debts due to the creditors, the Company is of the view that the reserve is distributable to the Company's shareholders.
- 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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
		Restated
Net cash used in operating activities	<u>(38,073)</u>	<u>(103,170)</u>
Net cash used in investing activities	<u>(1,065)</u>	<u>(20,105)</u>
Net cash used in financing activities	<u>(33)</u>	<u>(33)</u>
Net decrease in cash and cash equivalents	(39,171)	(123,308)
Cash and cash equivalents at the beginning of period	<u>247,661</u>	<u>350,832</u>
Cash and cash equivalents at the end of period, represented by bank balances and cash	<u>208,490</u>	<u>227,524</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of the registered office and principal place of business of the Company is 28/F, The Centrium, 60 Wyndham Street, Central, Hong Kong.

The Company and its subsidiaries (the “Group”) are principally engaged in the provision of financial services and proprietary trading.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the six months ended 30 June 2017 have been prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange.

The preparation of the interim financial information in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The unaudited condensed consolidation financial statements and selected explanatory notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The condensed consolidated financial statements are unaudited, but have been reviewed by the Audit Committee of the Company. The unaudited condensed consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

The financial information relating to the year ended 31 December 2016 that is included in the unaudited condensed consolidated financial statements as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year 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 audited consolidated financial statements for the year ended 31 December 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not included a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

3. SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed 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.

Except as described below, the accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group's audited annual consolidated financial statements for the year ended 31 December 2016.

In the current interim period, the Group has applied, for the first time, the amendments to HKFRSs issued by the HKICPA that are mandatorily effective for the current interim period.

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

The Group has not early applied the following amendments to HKFRSs and interpretations that have been issued after the date the audited consolidated financial statements for the year ended 31 December 2016 were authorised for issuance but are not yet effective, which may be relevant to the Group:

Amendments to HKAS 40	Transfers of investment property ¹
HK(IFRIC)-Int 22	Foreign currency transactions and advance consideration ¹
HK(IFRIC)-Int 23	Uncertainty over income tax treatments ²

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

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

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, and other corporate finance related advisory services, and proprietary trading.

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
		Restated
Revenue		
Brokerage commission and other related fees		
from dealing in securities, futures and		
options contracts	9,218	9,768
Underwriting, sub-underwriting,		
placing and sub-placing commission	255	2,594
Arrangement, management,		
advisory and other fee income	9,655	3,330
Interest income from clients	9,659	10,680
Dividend income from listed securities	—	406
	<u>28,787</u>	<u>26,778</u>
Other income		
Interest income from authorised institutions	279	362
Compensation income arising from		
profit guarantee (<i>Note 12</i>)	978	—
Sundry income	218	—
	<u>1,475</u>	<u>362</u>
Total income	<u>30,262</u>	<u>27,140</u>

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 the second half of 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. With the addition of proprietary trading segment from the second half of 2016, some comparative figures in 2016 were restated to conform to the current period's presentation. 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 six months ended 30 June 2017 and 2016.

Six months ended 30 June 2017 (Unaudited)

	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	24,770	4,017	-	-	28,787	-	28,787
Inter-segment sales	510	20	-	-	530	(530)	-
	<u>25,280</u>	<u>4,037</u>	<u>-</u>	<u>-</u>	<u>29,317</u>	<u>(530)</u>	<u>28,787</u>
Segment profit (loss)	<u>8,621</u>	<u>(1,707)</u>	<u>(896)</u>	<u>9,746</u>	<u>15,764</u>	<u>-</u>	<u>15,764</u>
Compensation income arising from profit guarantee							978
Central administrative costs							<u>(26,888)</u>
Loss before taxation for the period							<u>(10,146)</u>

Six months ended 30 June 2016 (Unaudited) (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	23,042	3,330	–	406	26,778	–	26,778
Inter-segment sales	317	20	–	–	337	(337)	–
	<u>23,359</u>	<u>3,350</u>	<u>–</u>	<u>406</u>	<u>27,115</u>	<u>(337)</u>	<u>26,778</u>
Segment loss	<u>(958)</u>	<u>(1,839)</u>	<u>(828)</u>	<u>(5,579)</u>	<u>(9,204)</u>	<u>–</u>	<u>(9,204)</u>
Central administrative costs							<u>(16,259)</u>
Loss before taxation for the period							<u>(25,463)</u>

Segment profit or loss represents the profit earned by/loss from each segment, before the adjustments of compensation income arising from profit guarantee and central administrative costs. This is the measure reported to the Group's Executive Committee for the purposes of resource allocation and performance assessment.

For the six months ended 30 June 2017, there was one customer amounted to more than 10% of the Group's revenue (six months ended 30 June 2016: one customer), representing about 18% (six months ended 30 June 2016: 11%). The Group's operations are mainly located in Hong Kong (place of domicile). The Group's revenue from external customers are mainly derived from Hong Kong for the six months ended 30 June 2017 and 2016. 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

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
		Restated
Net realised and unrealised gain (loss) on financial assets held for trading (Note 14)	13,849	(5,667)
Reversal of impairment loss on accounts receivable, net (Note 13)	2,612	–
Gain on disposal of property and equipment	–	8
Net exchange gain (loss)	<u>39</u>	<u>(34)</u>
	<u>16,500</u>	<u>(5,693)</u>

6. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Staff commission	4,673	3,945
Salaries and wages	26,392	21,072
Staff welfare	1,290	1,062
Recruitment costs	374	102
(Reversal) provision of long service payment/annual leave benefits	(180)	64
Retirement benefits scheme contributions	766	661
Reversal of discretionary and performance related incentive payments	—	(182)
	<u>33,315</u>	<u>26,724</u>

7. INCOME TAX CREDIT

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax		
Hong Kong Profits Tax	—	—
PRC Enterprise Income Tax	2	—
	<u>2</u>	<u>—</u>
Overprovision in prior year		
Hong Kong Profits Tax	(20)	—
	<u>(18)</u>	<u>—</u>

No provision for Hong Kong Profits Tax has been made in the unaudited condensed consolidated financial statements for the six months ended 30 June 2017 as the assessable profit is wholly absorbed by the tax losses brought forward (six months ended 30 June 2016: Nil). Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods. The PRC representative office is subject to the PRC Enterprise Income Tax at 20% for the six months ended 30 June 2017.

At 30 June 2017, the Group has estimated unused tax losses of approximately HK\$327,750,000 (31 December 2016: HK\$306,985,000) available for offset against future profits. As at 30 June 2017, deferred tax asset and liability have been recognised in respect of tax losses of approximately HK\$51,152,000 (31 December 2016: HK\$32,304,000) and taxable temporary difference of approximately HK\$51,152,000 (31 December 2016: HK\$32,304,000) respectively. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK\$276,598,000 (31 December 2016: HK\$274,681,000) due to the unpredictability of future profit streams. The estimated unused tax losses have no expiry date but are subject to further approval of the Hong Kong Inland Revenue Department.

8. LOSS FOR THE PERIOD

Loss for the period has been arrived at after charging:

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Included in other operating expenses:		
Auditor's remuneration	560	515
Operating leases in respect of rental premises	4,926	5,016
Entertainment and travel expenses (mainly incurred for business development)	7,419	3,942

9. DIVIDENDS

No dividends have been paid or declared or proposed by the Company during the six months ended 30 June 2017 (six months ended 30 June 2016: Nil). The Directors of the Company have determined that no dividend will be paid for the six months ended 30 June 2017.

10. LOSS PER SHARE

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

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss		
Loss for the purposes of basic and diluted loss per share	(10,128)	(25,463)
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	662,617	552,217

The diluted loss per share for the six months ended 30 June 2017 is computed excluding the effect of share options as the exercise of the Company's share options is anti-dilutive.

Diluted loss per share is the same as the basic loss per share for the six months ended 30 June 2016 as there is no dilutive effect, in which no share option was outstanding in the reporting period.

11. PROPERTY AND EQUIPMENT

	As at 30 June 2017 <i>HK\$'000</i> (Unaudited)	As at 31 December 2016 <i>HK\$'000</i> (Audited)
Carrying value, at beginning of the period/year	4,619	3,858
Additions	1,353	2,600
Depreciation	(892)	(1,839)
	<u>5,080</u>	<u>4,619</u>
Carrying value, at end of the period/year	<u>5,080</u>	<u>4,619</u>

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

	As at 30 June 2017 <i>HK\$'000</i> (Unaudited)	As at 31 December 2016 <i>HK\$'000</i> (Audited)
Unlisted equity securities with embedded derivatives	48,460	48,460

In 2016, Century Race Investments Limited ("Century Race"), an indirect wholly-owned subsidiary of the Company, acquired 10.5% equity interest of a Cayman Islands company (the "Entity") at a consideration of HK\$35 million. It was guaranteed that the Entity'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 (collectively the "Guaranteed Amounts") respectively. In the event that the Entity's net profit after tax falls below the Guaranteed Amounts in any of the two years, the sellers of the Entity (the "Sellers") shall compensate Century Race by proportion to the percentage of shareholding interest in cash. Moreover, Century Race has the right to request the Sellers to buy back its shareholding interest in the Entity if the Entity is not listed on the Stock Exchange on or before 31 December 2017.

Based on the accountants' report of the Entity for the year ended 31 March 2017, it was noted that the Entity's audited net profit after tax was less than RMB37.5 million and was unable to meet its profit guarantee for the year ended 31 March 2017. As such, compensation in cash for an amount of approximately RMB846,000 (equivalent to approximately HK\$978,000) by the Sellers to Century Race was required and recognised as the Group's other income for the six months ended 30 June 2017.

The investment in unlisted equity securities with embedded 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 with embedded derivatives as at 30 June 2017 is determined based on the recent and similar transaction executed in late December 2016. The Directors of the Company are of the opinion that the carrying amount of unlisted equity securities approximates to its fair value as at 30 June 2017.

13. ACCOUNTS RECEIVABLE

	As at 30 June 2017 <i>HK\$'000</i> (Unaudited)	As at 31 December 2016 <i>HK\$'000</i> (Audited)
Accounts receivable arising from the ordinary course of business of dealing in:		
Securities transactions (<i>Note a</i>):		
Clearing house	–	124
Cash clients	89,941	15,197
Margin clients	78,925	154,209
Futures and options contracts transactions (<i>Note a</i>):		
Clearing house	4	4
Accounts receivable arising from the ordinary course of business of provision of corporate financial advisory services (<i>Note b</i>)	1,950	311
Accounts receivable arising from the ordinary course of business of money lending services (<i>Note c</i>)	77,139	36,620
	247,959	206,465
Less: Allowance for impairment (<i>Note d</i>)	(30,133)	(32,745)
	217,826	173,720

Notes:

- (a) The settlement terms of accounts receivable arising from the ordinary course of business of dealing in securities transactions are two trading days after the trade date and accounts receivable arising from the ordinary course of business of dealing in futures and options contracts transactions are one trading day after the trade date. Accounts receivable from clearing house and majority of accounts receivable from cash clients represent trades pending settlement arising from the business of dealing in securities transactions.

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

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Within 30 days	89,264	14,439
31 – 90 days	82	170
Over 90 days	599	716
	89,945	15,325

Included in the amount of approximately HK\$89,945,000 as at 30 June 2017 (31 December 2016: HK\$15,325,000), approximately HK\$678,000 (31 December 2016: HK\$885,000) is past due but not impaired from cash clients, aging analysis of which is as follows:

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
31 – 90 days	82	170
Over 90 days	596	715
	678	885

As at 30 June 2017, no impairment loss has been provided for the amounts that are past due as the fair value of the listed securities of approximately HK\$24,103,000 (31 December 2016: HK\$29,672,000) of these cash clients held by the Group were generally over the relevant carrying amounts of the receivable. No such listed securities held can be pledged by the Group and the corresponding listed securities held can be sold at the Group's discretion to settle any past due outstanding amounts of the cash clients. Accounts receivable due from cash clients bear interest at commercial rates when it becomes past due.

As at 30 June 2017, accounts receivable due from cash clients of approximately HK\$3,000 (31 December 2016: HK\$1,000) were overdue and impaired.

As at 30 June 2017, accounts receivable due from margin clients were secured by the clients' pledged listed securities which carried a fair value of approximately HK\$364,059,000 (31 December 2016: HK\$623,475,000). 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 their margin values. Additional funds or collaterals 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 replugged up to 140% of the margin receivable amounts and the corresponding collateral held can be sold at the Group's discretion to settle any outstanding amounts owed by the margin clients. Accounts receivable due from margin clients are repayable on demand and bear interest at commercial rates.

As at 30 June 2017, accounts receivable of approximately HK\$9,000 (31 December 2016: Nil) are due from a director of the Group in respect of transactions in securities undertaken for his 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 based on the invoice date is as below:

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Within 30 days	–	311
31 – 90 days	<u>1,950</u>	<u>–</u>
	<u>1,950</u>	<u>311</u>

Included in the amount of approximately HK\$1,950,000 as at 30 June 2017 (31 December 2016: HK\$311,000), approximately HK\$1,950,000 (31 December 2016: Nil) is past due but not impaired. The Group has not provided for any impairment loss as at 30 June 2017 as the clients are with good credit quality or there is on-going project with the Group. Moreover, an amount of HK\$1,600,000 had been settled in July 2017.

- (c) As at 30 June 2017, accounts receivable arising from money lending services bear fixed-rate interest at 1.5% per month or 12% per annum (31 December 2016: 1.5% per month or 12% per annum). The accounts receivable as at 30 June 2017 and 31 December 2016 had remaining contractual maturity date falling within one year. As at 30 June 2017, certain of these receivables were secured by the clients' pledged listed securities, personal guarantee provided by the client's related party and/or corporate guarantee provided by the client's ultimate shareholder or the company owned by the client and his family members. 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 30 June 2017 <i>HK\$'000</i> (Unaudited)	As at 31 December 2016 <i>HK\$'000</i> (Audited)
Neither past due nor impaired	43,728	–
Not past due but impaired	–	36,620
Impaired	33,411	–
	77,139	36,620
Less: Allowance for impairment	(30,131)	(32,744)
	47,008	3,876

As at 30 June 2017, accounts receivable arising from money lending services of approximately HK\$33,411,000 were overdue and impaired, which include the following:

Accounts receivable from two margin clients of approximately HK\$18,500,000 were restructured into two term loans in 2016 and are repayable by monthly installments based on the financial status of the clients and their financial needs. However, both clients were unable to settle the outstanding principal in accordance with the respective loan agreement after a few installments were settled. VC Finance Limited has taken all necessary legal actions to follow up the outstanding loans. Taking into account the specific facts and circumstances, the Group made an impairment loss of approximately HK\$11,198,000 (31 December 2016: HK\$13,989,000) for the outstanding loans of approximately HK\$14,478,000 as at 30 June 2017 (31 December 2016: HK\$17,865,000) after deducting the fair value of the client's collateral pledged for the term loan and/or any subsequent cash repayments made by the clients. During the six months ended 30 June 2017, there was a reversal of impairment loss of approximately HK\$2,791,000 to profit or loss.

Further, an unsecured loan of HK\$23,000,000 was granted to a Hong Kong listed company in 2016, which was due in January 2017 in accordance with the loan agreement. The client failed to repay the outstanding principal of approximately HK\$18,933,000 on the due date. The Group had served the statutory demand to the client but did not receive any positive response thereafter. Based on the published announcements and information of that listed company, in which provisional liquidators had been appointed, the management considered that the probability for settlement of the outstanding principal within a short period of time is highly uncertain. Taking into account the specific facts and circumstances, the Group made a full impairment loss of approximately HK\$18,933,000 for the outstanding loan as at 30 June 2017 (31 December 2016: HK\$18,755,000). During the six months ended 30 June 2017, there was a recognition of impairment loss of approximately HK\$178,000 to profit or loss.

As at 31 December 2016, accounts receivable arising from money lending services of approximately HK\$36,620,000 were not overdue but impairment of approximately HK\$32,744,000 was made. The details are explained as abovementioned.

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

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

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
At beginning of the period/year	32,745	–
Recognition (reversal) of impairment loss on accounts receivable arising from:		
Securities transactions	1	1
Money lending services	(2,613)	32,744
	30,133	32,745
At end of the period/year	30,133	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.

14. FINANCIAL ASSETS HELD FOR TRADING

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Equity securities listed in Hong Kong, at market value	<u>285,891</u>	<u>257,418</u>

15. PLEDGED BANK DEPOSITS

As at 30 June 2017, the Group has placed a deposit of HK\$40,000,000 (31 December 2016: HK\$40,000,000) at an interest rate of 0.7% (31 December 2016: 0.7%) per annum to a bank to secure banking facilities of HK\$100,000,000 (31 December 2016: HK\$100,000,000) which included the drawn bank borrowings of HK\$40,000,000 (31 December 2016: HK\$40,000,000). Details of the bank borrowings are set out in Note 18.

16. BANK BALANCES AND CASH

As at 30 June 2017, 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 0.8% (31 December 2016: 0.001% to 1.03%) per annum with an original maturity of three months or less.

In the course of the conduct of the regulated activities of its ordinary business, VC Brokerage Limited ("VC Brokerage"), VC Futures Limited and VC Capital Limited act as trustees that result in the holding of clients' monies on behalf of clients and other institutions. These assets are not assets of the Group and, therefore, are not included in its unaudited condensed consolidated statement of financial position. As at 30 June 2017, the Group maintained segregated accounts at a clearing house of approximately HK\$295,000 (31 December 2016: HK\$2,026,000) and at other authorised institutions of approximately HK\$265,472,000 (31 December 2016: HK\$257,254,000) in conjunction with its securities, futures and options brokering and dealing business, and corporate financial advisory business as a result of the normal business transactions, which are not otherwise dealt with in the unaudited condensed consolidated financial statements.

17. ACCOUNTS PAYABLE

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Accounts payable arising from the ordinary course of business of dealing in securities transactions:		
Clearing house	42,910	19,874
Cash clients	33,589	6,827
Margin clients	<u>11,017</u>	<u>180</u>
	<u>87,516</u>	<u>26,881</u>

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 Directors of the Company, the aging analysis does not give additional value in view of the nature of this business.

As at 30 June 2017, accounts payable of approximately HK\$135,000 (31 December 2016: Nil) are due to directors of the Group in respect of transactions in securities undertaken for their accounts.

18. SHORT-TERM BANK BORROWINGS

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Secured	<u>40,000</u>	<u>40,000</u>

The short-term bank borrowings, which were secured by the 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 30 June 2017 (31 December 2016: cost of funding plus 2% per annum). Details of the pledged bank deposits are disclosed in Note 15.

19. SHARE CAPITAL

	Issued and fully paid Ordinary shares Number of shares	Amount HK\$'000
At 1 January 2016 (Audited)	552,216,829	639,851
Issue of shares by placement	110,000,000	95,700
Transaction costs attributable to issue of share by placement	—	(1,204)
Issue of shares upon exercise of share options	<u>400,000</u>	<u>905</u>
At 31 December 2016 (Audited) and 30 June 2017 (Unaudited)	<u>662,616,829</u>	<u>735,252</u>

20. COMMITMENTS

(a) Capital commitments

As at 30 June 2017 and 31 December 2016, 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:

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Capital contribution to joint venture (<i>Note</i>)	534,000	534,000
Purchase of property and equipment	47	—
	534,047	534,000

Note:

In July 2016, VC Brokerage entered into a joint venture agreement (the “Joint Venture Agreement”) with three independent third parties to establish a joint venture, in which the principal activity is securities broking in Guangxi, the People's Republic of China (the “JV Company”). Pursuant to the Joint Venture Agreement, VC Brokerage will contribute RMB445 million (equivalent to approximately HK\$534 million), representing 44.5% shareholding in the JV Company. Meanwhile, the Company entered into a placing agreement (the “Placing Agreement”) with a placing agent to procure on a best effort basis, to not less than six independent parties, to subscribe for the convertible bonds in the aggregate principal amount of up to HK\$850 million during the placing period, to finance the investment of the JV Company.

The Joint Venture Agreement and the Placing Agreement will become effective upon (i) the Company having obtained the approval and authorisation from its shareholders and the relevant regulatory authorities about the Joint Venture Agreement and the Placing Agreement; and (ii) VC Brokerage having obtained the approval and authorisation from the relevant regulatory authorities for establishment of the JV Company. On 26 October 2016, the approval and authorisation from the shareholders of the Company in relation to the Joint Venture Agreement and the Placing Agreement had been obtained. As at the date of this announcement, the application of the formation of the JV Company is still under China Securities Regulatory Commission's review.

(b) Commitments under operating leases

As at 30 June 2017 and 31 December 2016, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rental premises which fall due as follows:

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Within one year	10,677	10,661
In the second to fifth years inclusive	6,277	11,165
	16,954	21,826

Operating lease payments represent rental payable by the Group for its office premises and car parking spaces. Rentals are fixed for lease terms of 1 to 3 years as at 30 June 2017 (31 December 2016: 1 to 3 years).

21. RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2017 and 2016, the Group entered into the following transactions with related parties:

	Six months ended 30 June 2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Brokerage commission income/interest income earned from certain directors of the Group, close family members of or entities controlled by these directors	77	56

The balances with related parties are set out in Notes 13 and 17.

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities that are not measured at fair value

The Directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the unaudited condensed consolidated financial statements approximate their fair values.

Fair value of financial assets that are measured at fair value on a recurring basis

The Group's financial asset designated as at fair value through profit or loss and financial assets held for trading are measured at fair value at the end of each reporting period. The fair value of financial asset designated as at fair value through profit or loss is determined based on the recent and similar transaction executed in late December 2016. The fair value of financial assets held for trading is determined based on the quoted market price available on the Stock Exchange. Details of these financial assets are disclosed in Notes 12 and 14 respectively.

Fair value hierarchy

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
At 30 June 2017 (Unaudited)				
Financial asset designated as at fair value through profit or loss	–	48,460	–	48,460
Financial assets held for trading	285,891	–	–	285,891
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
At 31 December 2016 (Audited)				
Financial asset designated as at fair value through profit or loss	–	48,460	–	48,460
Financial assets held for trading	257,418	–	–	257,418

There were no transfers between levels of the fair value hierarchy in the current and prior periods.

23. EVENTS AFTER THE REPORTING PERIOD

Placing and Issue of New Shares under General Mandate

- (i) On 10 July 2017, the Company entered into a placing agreement with VC Brokerage (the "Placing Agent") regarding the placement of, on a best effort basis, up to an aggregate of 132 million new shares of the Company to not less than six independent parties at a placing price of HK\$0.93 per placing share. As certain conditions precedent had not been fulfilled upon expiry of the placing period, the placing agreement had lapsed on 21 July 2017. 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. Details of the transaction had been disclosed in the Company's announcements dated 10 July 2017 and 21 July 2017.

- (ii) On 28 July 2017, the Company entered into a placing agreement with the Placing Agent regarding the placement of, on a best effort basis, up to an aggregate of 132 million new shares of the Company (the “Placing Share(s)”) to not less than six independent parties at a placing price of HK\$0.91 per Placing Share. The placing price represented a discount of about 19.47% to the closing market price of the Company’s shares on 28 July 2017. The placement was completed on 18 August 2017 and a total of 132 million Placing Shares were issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 25 May 2017. The net proceeds from the placement amounted to approximately HK\$117.1 million and the net placing price per Placing Share was approximately HK\$0.887. The 132 million Placing Shares rank pari passu with other shares of the Company in issue in all respects. The Company intends to use the net proceeds from the placement for the (i) general working capital of the Group; (ii) expanding the Group’s proprietary trading, brokerage and financing and corporate finance businesses; and (iii) possible investment(s) in the future when opportunities arise. The Directors are of the view that the placement not only broadens the shareholders’ portfolio, but also strengthens the financial position of the Group. As the Group has always been looking for new business opportunities, the funds from the placement will provide the Group with 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 28 July 2017 and 18 August 2017.

As at the date of this announcement, the aforesaid net proceeds had not been used.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

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

The Company has not redeemed any of its shares during the six months ended 30 June 2017. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company’s shares during the six months ended 30 June 2017.

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 six months ended 30 June 2017, 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.

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; and
- d. Nomination 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 unaudited condensed consolidated financial statements and results for the six months ended 30 June 2017 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 six months ended 30 June 2017.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.vcgroup.com.hk. The Company's interim report for the six months ended 30 June 2017 will be available at the same websites and will be dispatched to the Company's shareholders in due course.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises four Executive Directors, namely, Mr. Tin Ka Pak, Timmy (Chief Executive Officer), Mr. 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
22 August 2017