VC GROUP
滙盈集團

Value Convergence Holdings Limited

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

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018 together with the audited comparative figures of the corresponding period in 2017.

FINANCIAL HIGHLIGHTS

The Group's consolidated revenue for the year ended 31 December 2018 amounted to approximately HK$50.5 million, which decreased by about 6% as compared with the same period in 2017.

The Group recorded a consolidated loss attributable to shareholders amounted to approximately HK$486.3 million for the year ended 31 December 2018 against a loss of approximately HK$67.5 million for the same period in 2017, representing an increase of about 6 times.

CHAIRMAN'S STATEMENT

The local stock market has been turbulent in 2018 against the backdrop of trade conflict between China and the United States as well as the rise in U.S. benchmark interest rates. Global investors are wary of the economic outlook given the above uncertainties and some recent economic figures appear to confirm the slowdown of the Chinese economy. Investors turned pessimistic and started sell-off during the fourth quarter of 2018. Average daily turnover also shrank noticeably amid the sluggish market.

However, the ongoing development of the Hong Kong stock market infrastructure helped a great deal in boosting market activity. For instance, the listing reforms implemented since the second quarter of 2018 has set stage for welcoming a more diverse group of companies to list in Hong Kong. Amount of IPO funds raised in 2018 was the most since 2010 and Hong Kong successfully returned to the top of the world's IPO fundraising table. The expansion of quota for Mainland-HK Stock Connects has also enhanced fund flows between mainland and international investors throughout 2018. According to market statistics published by The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), yearly equity turnover surged to all time high during the year.

Although 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 (i) provision of financing services including brokerage and financing services, corporate finance and other advisory services, and asset management; and (ii) proprietary trading. 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. 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 of 2018, the Group's financial position has strengthened, in which the Company successfully raised net cash proceeds of approximately HK$72.6 million through top-up placing of existing shares and issuing new shares to independent parties. The increase in financial resources not only helps the Company to expand the existing core businesses, but also provides flexibility for future business developments when opportunities arise.

Looking ahead, operating environment of the Group remains complicated facing macroeconomic and political uncertainties. The progress of the Sino-US trade deal and the monetary policies of central banks could weigh on investment sentiment in 2019. 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, hard work, commitment and contributions throughout the year. I would also like to extend our sincere thanks to our shareholders and stakeholders for their confidence and continuous support to the Group throughout the year. We will continue to put efforts in creating greater value for our shareholders and investors.

Fu Yiu Man, Peter
Chairman & Executive Director

Hong Kong
28 March 2019

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 (i) provision of financial services comprising securities, futures and options brokering and dealing, financing services, corporate finance and other advisory services, and asset management; and (ii) proprietary trading.

BUSINESS REVIEW

Hong Kong continues to be an international financial hub and serves as a gateway to mainland China for foreign investors. China has paid various efforts to open up to the global world both financially and economically and international investors are also aware of the progress the related authorities have made. This could definitely benefit Hong Kong in a great extent. For instance, global benchmark company MSCI Inc has added A-shares to their emerging market index with the first phase effective in June 2018. Active and passive funds influx to A-shares occurs, which also boosts the activity of the H-share market. This was reflected by the record high turnover volume of the local bourse in 2018. The average daily turnover for 2018 was HK$107.4 billion, an increase of 22% when compared with HK$88.2 billion for same period last year.

Fund raising was also hot during the period. Newly listed companies in 2018 rose 25% to 218 compared with 174 for the same period last year while total funds raised through IPOs surged 123% to nearly HK$287 billion compared with HK$129 billion in 2017.

Investment sentiment has been dampened since second half of 2018 mainly due to the escalating trade tensions between China and the United States and the normalization of U.S. benchmark interest rates. Investors were worried about a full-blown trade war together with higher interest costs could hit global economic growth. Hong Kong stock market was inevitably struck and the Hang Seng Index (the "HSI") lost 13.6% to close at 25,845 at the end of 2018.

As a financial services provider, the business performance of the Group is inevitably impacted by both the macro environment and local 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 provision of 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 and other advisory services (including mergers and acquisitions and company secretarial services to clients, etc.); 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.

Establishment of a joint venture securities company in Guangxi

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 "PRC JV Company"). Subject to the approval by China Securities Regulatory Commission (the "CSRC"), the PRC 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$503 million), representing 44.5% shareholding in the PRC JV Company.

The Company will finance the investment in the PRC JV Company 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 entered into at the same time. The aggregate net proceeds from placing of the Convertible Bonds will be approximately HK$829 million, which is intended to use for capital contribution to the PRC JV Company and the remaining balance is intended to use for expanding the Group's existing businesses and other possible investments in the future, when opportunities arise.

In June 2018, the Company was informed by Guangxi Financial Investment Group Company Limited (廣西金融投資集團有限公司) ("Guangxi Jintou"), who is responsible for liaising with CSRC for the formation of the PRC JV Company, partners of the PRC JV Company would be changed. Guangxi Railway Investment Group Co., Ltd. (廣西鐵路投資集團有限公司) ("Guangxi Railway") will replace Guangxi Hande Group Company Limited (廣西瀚德集團有限公司) and Beijing Heyuan Finance Equity Investment Centre (limited partnership) (北京合源融金股權投資中心(有限合夥)) as a new partner of the PRC JV Company. The amount of capital contribution and shareholding of VC Brokerage in the PRC JV Company remains unchanged.

As further informed by Guangxi Jintou in September 2018, Guangxi Communications Investment Group Co., Ltd. (廣西交通投資集團有限公司) will replace Guangxi Railway become one of the joint venture partners of the PRC JV Company. The amount of capital contribution and shareholding of VC Brokerage in the PRC JV Company still remains unchanged.

As at the date of this announcement, the Company and VC Brokerage have not yet obtained the approval and authorisation from the CSRC for establishment of the PRC JV Company. 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, 29 March 2017, 28 June 2017, 20 September 2017, 12 October 2017, 12 January

2018, 27 March 2018, 27 June 2018, 20 July 2018, 28 August 2018, 6 September 2018, 28 November 2018 and 21 February 2019; and the Company's circulars dated 26 September 2016, 27 February 2017, 22 September 2017, 23 February 2018, 3 August 2018 and 31 January 2019.

Formation of joint venture company to act as a sponsor to a limited partnership fund

On 22 September 2017, the Company entered into a legally binding memorandum of understanding (the "2017 MOU") with an independent third party (the "Party") in relation to the proposed formation of a joint venture company (the "JV Company") to act as a sponsor to a limited partnership fund (the "Fund") which will focus on infrastructure projects (the "Proposed Joint Venture"). The 2017 MOU is subject to the parties entering into formal agreements to set out the definitive terms of the Proposed Joint Venture. The Company shall have the right to acquire no less than 5% of the entire issued share capital of the JV Company. The initial cost required for the setting up of the JV Company and the Fund (the "Organisation Expenses") shall be borne equally between the Company and the Party, provided that in any event, the Company's provision of the initial cost shall be limited to HK$7.5 million. As at 31 December 2018, the Company paid an amount of HK$5 million for the Organisation Expenses. Details of the transaction had been disclosed in the Company's announcements dated 22 September 2017, 5 January 2018, 27 June 2018 and 28 December 2018.

Acquisition of convertible bonds issued by China Fortune Financial Group Limited

On 18 October 2017, the Company entered into a sale and purchase agreement with Pacific Alliance Limited ("PAL") as vendor, pursuant to which the Company agreed to purchase, and PAL agreed to sell, the 3-year two per cent. unsecured redeemable convertible bonds in the principal amount of HK$153,585,000 issued by China Fortune Financial Group Limited ("China Fortune", Stock Code: 290) on 30 March 2017 (the "China Fortune Convertible Bonds") for an aggregate consideration of HK$400,000,000 (the "Acquisition"). The consideration of HK$40,000,000 will be satisfied in cash and the balance of the consideration of HK$360,000,000 will be satisfied by way of issue of the convertible bonds by the Company (the "VC Convertible Bonds") at the completion date of the Acquisition.

The China Fortune Convertible Bonds are convertible into 2,559,750,000 conversion shares at the initial conversion price of HK$0.06 per conversion share (subject to adjustments), which representing approximately 26.54% of the enlarged issued share capital of China Fortune as at 8 January 2018, being the date of completion of the Acquisition. The VC Convertible Bonds is a 3-year zero interest unsecured redeemable convertible bonds in the principal amount of HK$360,000,000, which are convertible into 288,000,000 conversion shares at the initial conversion price of HK$1.25 per conversion share (subject to adjustments), which representing approximately 26.60% of the enlarged issued share capital of the Company as at the date of completion. As at 31 December 2018, the convertible bonds in the principal amount of HK$15,000,000 was still outstanding.

One of the Group's principal businesses is proprietary trading including the trading of equity securities. Taking an optimistic view of the prospect of the financial services industry in Hong Kong and the PRC, the Group intends to hold the China Fortune Convertible Bonds for trading purposes with a view to achieve capital gains through disposal of the China Fortune Convertible Bonds or the conversion shares of the China Fortune Convertible Bonds. The Acquisition had been approved by the shareholders of the Company during the extraordinary general meeting held on 27 December 2017 and completed on 8 January 2018. Details of the Acquisition had been disclosed in the Company's announcements dated 18 October 2017, 27 December 2017 and 8 January 2018; and the Company's circular dated 7 December 2017.

Acquisition of 18% of the entire issued share capital of Hackett Enterprises Limited

On 8 March 2018, Apex Treasure International Limited, the Company's indirect wholly owned subsidiary, entered into a sale and purchase agreement with CVP Financial Group Limited ("CVP Financial") as vendor pursuant to which the Company intends to acquire and CVP Financial intends to sell 18% of the entire issued share capital of Hackett Enterprises Limited (the "Hackett Enterprises") at a consideration of HK$160,000,000. Hackett Enterprises and its subsidiaries are principally engaged in the provision of loan financing and financial consultancy services in the PRC and the provision of money lending services in Hong Kong. The consideration will be settled by issue of a 3-year two per cent. unsecured convertible bonds by the Company in the principal amount of HK$160,000,000, which are convertible into 123,076,923 conversion shares at an initial conversion price of HK$1.3 per conversion share (subject to adjustments). The transaction had been approved by the shareholders of the Company during the extraordinary general meeting held on 3 May 2018 and completed on 8 June 2018. Details of the transaction had been disclosed in the Company's announcements dated 16 January 2018, 8 March 2018 and 8 June 2018; and the Company's circular dated 16 April 2018. As at 31 December 2018, the aforesaid convertible bonds in the principal amount of HK$18,000,000 was still outstanding.

Acquisition of 49% of the entire issued share capital of BTCC Pool Limited

On 24 June 2018, Initial Honour Limited ("Initial Honour"), the Company's indirect wholly owned subsidiary, entered into the non-legally binding memorandum of understanding (the "2018 MOU") with Mr. Chong Wing Chuen, Vincent (the "Vendor") in relation to the proposed acquisition of 49% of the entire issued capital of BTCC Pool Limited ("BTCC"). BTCC, through its subsidiaries, is principally engaged in the provision of multi-cryptocurrencies mining pool to which miners can connect through servers located worldwide to implement encrypted communications. The consideration for the proposed acquisition shall be HK$147,000,000 and is expected to be satisfied by Initial Honour by a combination of cash and consideration shares of the Company at the issue price of HK$1.5 per consideration share. As long stop date of the 2018 MOU has passed, the proposed acquisition would not proceed. Details of the 2018 MOU had been disclosed in the Company's announcement dated 24 June 2018.

Top-up placing and subscription of new shares of the Company under general mandate

On 26 June 2018, the Company entered into the placing and subscription agreement with Shenwan Hongyuan Securities (H.K.) Limited (the "Placing Agent") and Mr. Chung Chi Shing, Eric ("Mr. Chung") whereby (i) Mr. Chung agreed to appoint the Placing Agent and the Placing Agent has agreed to act as agent of Mr. Chung and use its best endeavour to procure not less than six placees for up to 60,000,000 shares of the Company at HK$1.45 per placing shares; and (ii) Mr. Chung has agreed to subscribe for up to 60,000,000 shares of the Company at HK$1.45 per subscription share.

The completion of the placing took place on 29 June 2018 and a total of 50,904,000 shares of the Company (the "Sale Shares") were successfully placed to not less than six placees at HK$1.45 per Sale Share. All the conditions of the subscription as set out in the placing and subscription agreement have been fulfilled and completion of the subscription took place on 10 July 2018 whereby a total of 50,904,000 shares of the Company (the "Subscription Shares") were allotted and issued to Mr. Chung at HK$1.45 per Subscription Share.

The net proceeds from the placing is approximately HK$72.6 million after deduction of commission and other related expenses of the placing from the gross proceeds of approximately HK$73.8 million. The Company intends to use the net proceeds from the placing for (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. Details of the top-up placing and subscription had been disclosed in the Company's announcements dated 26 June 2018 and 10 July 2018.

Acquisition of the entire issued equity interest in and the sale loan of Bright Element Investments Limited

On 29 June 2018, VC Global Investments Limited, the Company's indirect wholly owned subsidiary, entered into an agreement with Mr. Ting Pang Wan Raymond ("Mr. Ting") in relation to the acquisition of the entire issued equity interest in Bright Element Investments Limited ("Bright Element") and all obligations, liabilities and debts owing by Bright Element to Mr. Ting on or at any time prior to the completion of the said acquisition. The total consideration for the acquisition is HK$257,200,000, which shall be settled by the Company to issue the convertible bonds in the principal amount of HK$257,200,000 to Mr. Ting on the completion date of the acquisition. The convertible bonds are convertible into 205,760,000 conversion shares at an initial conversion price of HK$1.25 per conversion share (subject to adjustments). Shareholders' approval was obtained at the extraordinary general meeting held on 15 October 2018. As certain conditions precedent of the acquisition under the agreement has not been fulfilled in full (or waived) on or before the extended long stop date falling on 31 January 2019, the agreement has lapsed and the acquisition would not proceed. Details of the transaction had been disclosed in the Company's announcements dated 29 June 2018, 15 October 2018, 31 October 2018, 30 November 2018, 31 December 2018 and 31 January 2019; and the Company's circular dated 26 September 2018.

Acquisition of 30% of the entire issued capital of Telebox Technology Holdings Limited

On 24 August 2018, Initial Honour entered into a sale and purchase agreement with Honour Century Global Limited ("Honour Century") whereas the Initial Honour shall acquire from Honour Century 30% of the entire issued capital of Telebox Technology Holdings Limited ("TTHL"). TTHL, through its subsidiary, is principally engaged in the business of (i) operation of social media platform; (ii) operation of cryptocurrency trading platform; and (iii) provision of digital wallet for custody and transfer of cryptocurrencies. The consideration for the acquisition shall be HK$10,000,000 in cash. The acquisition was completed on 28 August 2018.

Details of the Group's business performance of each operating segment for the year ended 31 December 2018, together with the comparative figures of the corresponding period in 2017, are given in the section "FINANCIAL REVIEW" below.

OUTLOOK

Looking forward, uncertainties persist which could cloud the economic outlook. The Sino-U.S. trade dispute hasn't been resolved though negotiations have been at work for quite some time. The pace of interest rate normalization has also triggered worries on economic growth which also contributes to the stock market rout in the fourth quarter of 2018.

After the widespread bearish views, investment sentiment has improved slightly in recent months. The decision for the US government to postpone the tariff hike on Chinese imports together with the ongoing negotiations has ignited hopes for a trade deal. On the other hand, the Federal Reserve stated that it would be patient in its future rate hikes and is willing to adjust the size of its balance-sheet runoff if needed, slightly alleviating worries about pushing up rates too fast that could lead to economic recession. Last but not the least, market believes Chinese government is taking measures to stimulate the economy. Nevertheless, investors are reminded to follow the market closely and avoid taking excessive risks.

Fortunately, Hong Kong is expected to continue benefitting from the open up of mainland China. The financial infrastructure enhancement has also attracted activities of international investors. The expansion of daily quota of Shanghai/Shenzhen-Hong Kong stock connects widens the gate for capital flow between mainland and international investors. In the meanwhile, MSCI Inc's decision to add A-shares to its emerging market index should attract international funds, either active or passive, for asset allocation. Weightings of A-shares will gradually increase in coming phases. The Group could benefit from the anticipated increase in the Northbound trading volume in the long run.

In addition, the listing reforms of the Stock Exchange including the weighted voting rights and special treatment of growth tech and biotech sectors enhanced the competitiveness as a listing venue. Two companies adopting weighted voting rights and four biotech companies were successfully listed in 2018. The Group believes that the reforms would enhance the competitiveness as a listing venue and we could seize more fund raising businesses within the more vibrant capital market.

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 provision of financial services and proprietary trading.

Throughout 2018, the Group did not make any significant changes to its business strategy. 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 2018, the Group's consolidated revenue was approximately HK$50.5 million, which decreased by about 6% as compared with the same period in 2017. The Group recorded a consolidated loss attributable to shareholders amounted to approximately HK$486.3 million for the year ended 31 December 2018 against a loss of approximately HK$67.5 million for the same period in 2017, representing an increase of about 6 times.

The increase in the Group's consolidated loss attributable to shareholders in 2018 was mainly attributable to (i) increase in recognition of net realised and unrealised loss on financial assets held for trading of approximately HK$137.1 million as compared with the net loss of only approximately HK$10.8 million for the same period last year; (ii) share-based payment expense of approximately HK$31.3 million incurred pursuant share options by the Company granted in January 2018; (iii) increase in recognition of impairment loss on certain accounts receivable of approximately HK$8.3 million as compared with approximately HK$0.5 million for the same period last year; (iv) imputed interest in convertible bonds issued by the Company in January 2018 and June 2018 of approximately HK$21.2 million; and (v) loss on acquisition of and unrealised loss on fair value change in convertible bonds issued by China Fortune Financial Group Limited acquired by the Company in January 2018 of approximately HK$47.4 million and approximately HK$163.2 million, respectively.

To facilitate the review, the Group's revenue and segment information shown in Notes 4 and 5 to the consolidated financial statements is reproduced below after some re-arrangements:

Revenue Analysis

	2018		2017		
		Proportion of total revenue		Proportion of total revenue	Increase (decrease)
	HK$'000	**%**	*HK$'000*	%	%
Revenue from:					
Brokerage and Financing	**36,721**	**73%**	46,721	87%	(21%)
Brokerage commission and other related fees	**18,185**	**36%**	21,388	40%	(15%)
Underwriting, sub-underwriting, placing and sub-placing commission	**360**	**1%**	311	1%	16%
Interest income from brokerage clients	**9,234**	**18%**	11,835	22%	(22%)
Interest income from money lending clients	**7,942**	**16%**	7,549	14%	5%
Other fees	**1,000**	**2%**	5,638	10%	(82%)
Corporate Finance and Other Advisory Services	**13,753**	**27%**	6,865	13%	100%
Asset Management	**–**	**–**	–	–	–
Proprietary Trading	**–**	**–**	99	0%	(100%)
Total revenue	**50,474**	**100%**	53,685	100%	(6%)

Segment Analysis

	2018 *HK$'000*	2017 *HK$'000*
Segment results:		
Brokerage and Financing	**4,572**	9,981
Corporate Finance and Other Advisory Services	**(2,208)**	(5,115)
Asset Management	**(1,539)**	(1,799)
Proprietary Trading	**(146,369)**	(23,956)
Group segment loss	**(145,544)**	(20,889)
Loss on acquisition of financial assets at fair value through profit or loss	**(47,436)**	–
Fair value change on financial assets at fair value through profit or loss	**(177,657)**	–
Fair value change on financial assets designated as at fair value through profit or loss	**–**	14,855
Compensation income arising from profit guarantee	**–**	978
Unallocated administrative costs	**(115,327)**	(61,722)
Share of loss of an associate	**(11)**	–
Loss before taxation	**(485,975)**	(66,778)
Income tax expense	**(341)**	(698)
Loss for the year attributable to shareholders of the Company	**(486,316)**	(67,476)

Brokerage and Financing

During the year ended 31 December 2018, 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, provides money lending services. For the year ended 31 December 2018, the brokerage and financing businesses recorded total revenue of approximately HK$36.7 million as compared with approximately HK$46.7 million for the same period last year, representing a decrease of about 21%, and accounted for about 73% 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 year ended 31 December 2018 amounted to approximately HK$18.2 million, which was about 15% lower than that of 2017 of approximately HK$21.4 million, and accounted for about 36% of the Group's total revenue. The Group's brokerage transactions registered reduction throughout 2018 with average daily trading turnover decreasing by about 17% as compared to that of 2017. Together with other fees, mainly the handling and consultancy fees of approximately HK$1.0 million for the year ended 31 December 2018 as compared to approximately HK$5.6 million in 2017, the revenue from these brokerage businesses recorded a decrease of about 29% as compared with the same period last year.

Meanwhile, the Group's total interest income from financing for the year ended 31 December 2018 decreased by about 11% to approximately HK$17.2 million from approximately HK$19.4 million for the same period last year, and accounted for about 34% of the Group's total revenue. The revenue included the 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$9.2 million for the year ended 31 December 2018, representing a drop of about 22% as compared to approximately HK$11.8 million for the same period last year. The drop was mainly attributable to the decrease of average loan portfolio of our brokerage clients by about 31% for the year ended 31 December 2018 as compared with the same period last year.

As mentioned above, 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 generated from the money lending services was approximately HK$8.0 million for the year ended 31 December 2018, representing an increase of about 5% as compared to approximately HK$7.6 million for the same period last year. The increase was mainly contributed by a slight increase of average loan portfolio of the money lending business in 2018 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 continued to be dampened during the year ended 31 December 2018, together with the implementation of Hong Kong Financial Reporting Standard 9 "Financial Instruments", the Group is prudent in provision of the financing services. For the year ended 31 December 2018, there was an additional impairment loss of approximately HK$8.3 million on client receivables from the brokerage and financing businesses (2017: HK$0.5 million) accordingly. The Group has taken the effort and all necessary legal actions against the relevant clients to follow up the settlement of the outstanding loans, resulting in certain previously impaired client receivables of approximately HK$5.5 million collected during the year and a corresponding impairment loss of approximately HK$5.3 million reversed in the financial statements. Details of the impairment loss on the client receivables had been disclosed in Note 16 to the 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 year ended 31 December 2018, the Group's placing and underwriting commission was approximately HK$0.4 million as compared with approximately HK$0.3 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 brokerage and financing businesses generated an operating profit after tax of approximately HK$3.7 million for the year ended 31 December 2018 as compared with a profit of approximately HK$9.7 million for the same period last year. The deterioration in operating performance in 2018 was mainly due to the increase in recognition of impairment loss on the client receivables of approximately HK$8.3 million in 2018 as compared to only of approximately HK$0.5 million for that of 2017.

Corporate Finance and Other Advisory Services

The Company through its indirect wholly owned subsidiary, VC Capital Limited ("VC Capital"), provides corporate finance advisory services to its clients. In 2018, VC Capital was appointed as the financial adviser of several Hong Kong listed companies for a number of corporate transactions.

Further, the Company through its indirect wholly owned subsidiary, VC Corporate Services Limited, provides corporate services, including company secretarial services, registered office and business services, etc., to listed and private companies. The expansion of the Group's advisory services has proved to broaden our revenue and clients' base.

For the year ended 31 December 2018, the Company's corporate finance and other advisory services recorded revenue and operating loss after tax of approximately HK$13.8 million and HK$2.2 million as compared with approximately HK$6.9 million and HK$5.1 million for the same period last year, respectively.

Asset Management

For the year ended 31 December 2018, 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$1.5 million as compared with a loss of approximately HK$1.8 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.

Proprietary Trading

As at 31 December 2018, the Group held equity securities listed in Hong Kong of approximately HK$240.3 million (31 December 2017: HK$272.7 million) as financial assets held for trading, which was stated at market value. The fair value of these listed equity securities represents about 21% of the Group's total assets as at 31 December 2018 (31 December 2017: 32%). This segment did not provide positive result to the Group due to the downturn of the Hong Kong capital market during the year but signs of recovery were obvious during the first quarter of 2019 following the bounce back in global markets.

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 year ended 31 December 2018, there was net additional purchase in securities investment of approximately HK$107.5 million (2017: HK$25.6 million).

For the year ended 31 December 2018, the Group did not record revenue from the proprietary trading business (2017: HK$0.1 million, which was mainly the dividend income received on the trading investments). Meanwhile, the Group recognised a net loss of approximately HK$137.1 million (including a realised gain of approximately HK$2.8 million and an unrealised loss of approximately HK$139.9 million) on the trading investments for the year ended 31 December 2018 as compared with a net loss of approximately HK$10.8 million (including a realised loss of approximately HK$0.7 million and an unrealised loss of approximately HK$10.1 million) for the same period in 2017.

Below is an analysis of the financial assets held for trading held by the Group as at 31 December 2018:

Industries	Market value as at 31 December 2018 *HK$'000*	Percentage to the Group's total assets	Unrealised loss for the year ended 31 December 2018 *HK$'000*
Energy	75,989	6.7%	61,505
Information technology	58,219	5.1%	3,350
Consumer goods and services	42,170	3.7%	35,904
Properties and construction	24,086	2.1%	4,524
Materials	16,115	1.4%	8,262
Financials	12,453	1.1%	11,905
Industrials	11,250	1.0%	14,511
	240,282	21.1%	139,961

Though the portfolio's performance for the year ended 31 December 2018 was not satisfactory which was also in line with the market, it could possibly turn around in year 2019 following the removal of uncertainties scattered around by global economic incidents such as Sino-US trade war and Brexit.

Overall, the Group's proprietary trading business recorded an operating loss after tax of approximately HK$146.1 million for the year ended 31 December 2018 as compared with a loss of approximately HK$24.3 million for the same period last year.

Loss on acquisition of financial assets at fair value through profit or loss

As mentioned in the section "BUSINESS REVIEW" above, the Company had acquired the China Fortune Convertible Bonds in a principal amount of HK$153,585,000 at initial conversion price of HK$0.06 each for an aggregate consideration of HK$400 million on 8 January 2018. The consideration was satisfied in cash of HK$40 million and by issue of the VC Convertible Bonds in the principal amount of HK$360 million at initial conversion price of HK$1.25 each. According to the valuation reports prepared by an independent professional valuer, the fair values of the China Fortune Convertible Bonds and the put option as at 8 January 2018 were approximately HK$439.2 million and HK$28 million respectively and the fair value of the VC Convertible Bonds as at 8 January 2018 was approximately HK$474.7 million. As such, the Group recognised a loss on acquisition of the China Fortune Convertible Bonds of approximately HK$47.4 million in profit or loss represented the difference between the aggregate fair value of the China Fortune Convertible Bonds and the put option and the aggregate of cash consideration and fair value of the VC Convertible Bonds on 8 January 2018.

Financial assets at fair value through profit or loss/financial assets designated at fair value through profit or loss

China Fortune Financial Group Limited

The China Fortune Convertible Bonds were measured at fair value with the fair value change recognised in profit or loss. As at 31 December 2018, the fair values of the China Fortune Convertible Bonds and the put option were approximately HK$224.6 million and HK$79.5 million respectively in accordance with a valuation report prepared by an independent professional valuer. For the year ended 31 December 2018, the Group recognised the decrease in the fair value of the China Fortune Convertible Bonds of approximately HK$214.6 million and the increase in fair value of the put option of approximately HK$51.5 million.

IBO Technology Company Limited

Century Race Investments Limited ("Century Race"), an indirect wholly owned subsidiary of the Company, acquired 10.5% equity interest of IBO Technology Company Limited ("IBO Tech") at a cash consideration of HK$35 million in 2016. On 28 December 2017, IBO Tech (stock code: 2708) has been listed on the Main Board of the Stock Exchange and the Company's shareholding in IBO Tech was then diluted to 7.875% as at 31 December 2017. Century Race has undertaken not to dispose of or otherwise encumber any of its interest in IBO Tech up to the date falling on the expiration of six months of the listing (both days inclusive).

The fair value of the Group's investment in IBO Tech as at 28 June 2018, being the date falling on six months after its listing, was approximately HK$48.8 million (31 December 2017: HK$63.3 million). As such, there was a decrease in the fair value of approximately HK$14.5 million and included in the Group's fair value change on financial assets at fair value through profit or loss for the year ended 31 December 2018 against an increase in fair value of approximately HK$14.9 million and included in the Group's fair value change on financial assets designated as at fair value through profit or loss in 2017. On 29 June 2018, this investment was reclassified and grouped under financial assets at fair value through profit or loss.

Further, Century Race was guaranteed that IBO Tech's net profit after tax for the year ended 31 March 2017 shall not be less than RMB37.5 million (the "Guaranteed Amount"). In the event that IBO Tech's net profit after tax falls below the Guaranteed Amount, the sellers of IBO Tech (the "Sellers") shall compensate Century Race by proportion to the percentage of shareholding interest in cash. Based on the audited financial information of IBO Tech for the year ended 31 March 2017, it was noted that IBO Tech'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 compensation income arising from profit guarantee and included in the Group's other gains and losses in 2017. Besides, upon the listing of IBO Tech, all the rights granted by the Sellers to Century Race have been terminated and ceased to be effective.

Unallocated administrative costs

For the year ended 31 December 2018, the Group's unallocated administrative costs amounted to approximately HK$115.3 million as compared with approximately HK$61.7 million for the same period last year, which mainly included the unallocated corporate operating expenses. The increase in the unallocated administrative costs of approximately HK$53.6 million in 2018 was mainly attributable to (i) the equity-settled share option expense of approximately HK$31 million pursuant to the share options granted in January 2018; and (ii) the effective interest expense of approximately HK$21.2 million incurred for the convertible bonds issued by the Company in 2018.

Income tax expenses

For the year ended 31 December 2018, the Group recognised an income tax expense of approximately HK$341,000 (2017: HK$698,000) which included current tax expense of approximately HK$922,000 (2017: HK$310,000) and deferred tax credit of approximately HK$581,000 (2017: deferred tax expense of HK$388,000). The current tax expense was made for the provision of Hong Kong Profits Tax charge in relation to the profitability generated from the brokerage and financing businesses and the corporate finance and other advisory services businesses and the provision of PRC Enterprise Income Tax in relation to the PRC representative offices of the Group. The deferred tax credit/expense was recognised mainly in relation to the convertible bonds issued by the Company and unrealised gain on financial assets held for trading for the proprietary trading business.

Finance costs

For the year ended 31 December 2018, the finance costs of the Group amounted to approximately HK$21.3 million (2017: HK$452,000), out of which approximately HK$21.2 million was incurred pursuant to the effective interest expense of convertible bonds issued by the Company during the year ended 31 December 2018, together with some finance costs incurred for the short-term bank loans, in relation to the Group's brokerage and financing businesses.

Headcount and employees information

As at 31 December 2018, the Group employed a total of 81 employees (31 December 2017: 122), which excluded 18 self-employed account executives for brokerage services (31 December 2017: 7), and 75 and 6 were located in Hong Kong and the PRC respectively (31 December 2017: 117 and 5). Salaries and staff benefits costs (including the Directors' emoluments) and staff commission amounted to approximately HK$78.2 million and HK$5.8 million respectively for the year ended 31 December 2018 as compared with approximately HK$65.1 million and HK$10.9 million respectively for the same period last year. Details had been disclosed in Note 7 to the consolidated financial statements.

The increase in the salaries and staff benefits costs of approximately HK$13.1 million in 2018 was mainly attributable to the recognition of the equity-settled share option expense of approximately HK$19.8 million for the share options granted in 2018, which had been set-off by the staff related costs of approximately HK$6.7 million saved due to average headcount reduction and other cost control measures.

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 year ended 31 December 2018, the Group financed its business operations and investments with internal resources, cash revenue generated from operating activities, shares placement, short-term bank loans and convertible bonds.

The Group adopts a prudent treasury policy. As at 31 December 2018, 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 2018.

As at 31 December 2018, the Group held banking facilities of HK$100 million granted from a bank to VC Brokerage (31 December 2017: HK$100 million), which is required to be secured by bank deposits of HK$40 million (31 December 2017: HK$40 million) and corporate guarantee of HK$100 million (31 December 2017: HK$100 million) provided by the Company. Among the available banking facilities, HK$40 million (31 December 2017: HK$40 million) is general short-term money market loan and current account overdraft. The other HK$50 million (31 December 2017: 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 2017: HK$10 million) is used for drawings against uncleared cheques. As at 31 December 2018, the Group had utilised an amount of HK$40 million for the general short-term money market loan (31 December 2017: HK$40 million), which bore an interest rate at 5.09% per annum (31 December 2017: 3.22% per annum).

As at 31 December 2018, the Group's bank balances and cash, net current assets and shareholders' equity (other than clients' segregated accounts) amounted to approximately HK$138.0 million (31 December 2017: HK$228.2 million), HK$536.9 million (31 December 2017: HK$740.5 million) and HK$1,039.3 million (31 December 2017: HK$752.2 million) respectively, representing a decrease of about 40% and 27% and an increase of about 38% respectively as compared with that of 31 December 2017. Current ratio, expressed as current assets over current liabilities, remained robust at about 8.5 times as at 31 December 2018 (31 December 2017: 8.9 times). These showed that the Group still maintained a solid financial position as at 31 December 2018.

As at 31 December 2018 and 31 December 2017, the total numbers of issued ordinary shares of the Company were 1,230,951,598 and 794,616,829 respectively. The increase of share capital in 2018 was attributable to (i) the completion of placement of 50.9 million new shares in July 2018 providing the net proceeds of approximately HK$72.6 million to the Company, (ii) conversion of the Company's convertible bonds by bondholders resulting in issue of approximately 385.2 million new shares, and (iii) exercise of option by an option holder resulting in issue of 0.2 million new shares.

The details of the placement are disclosed in the section "BUSINESS REVIEW" above. As at 31 December 2018, all aforesaid net proceeds had been utilised based on the intended usage, in which approximately HK$24.0 million, HK$23.6 million, HK$10.0 million and HK$15.0 million used for (a) providing additional working capital for brokerage and financing businesses; (b) acquisition of investment securities for proprietary trading business; (c) acquisition of investment in an associate; and (d) settlement of the Group's corporate administrative expenses, respectively.

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 2018 (31 December 2017: 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 2018, 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 2018, the Company had given financial guarantees of HK$100 million (31 December 2017: HK$100 million) to a bank in respect of banking facilities of HK$100 million (31 December 2017: HK$100 million) provided to VC Brokerage as mentioned in the section "Liquidity and financial resources/capital structure" above. As at 31 December 2018, banking facilities of an amount of HK$40 million was utilised by VC Brokerage (31 December 2017: 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 31 December 2018, the Group's gearing ratio, expressed as total borrowings (being the bank borrowings and liability portion of convertible bonds) over shareholders' equity, was approximately 0.06 time (31 December 2017: 0.05 time).

Significant investments held, their performance and future prospects

For the year ended 31 December 2018, details of the Group's significant investments held, their performance and future prospects are disclosed in the sections "Proprietary Trading" and "Financial assets at fair value through profit or loss/financial assets 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 2018, details of the Group's material acquisition of subsidiaries, associates and joint ventures are disclosed in the section "BUSINESS REVIEW" above. The Group did not make any material disposals during the year.

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

As at 31 December 2018 and as at the date hereof, 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 for (i) the formation of the joint venture securities company in the PRC, (ii) the proposed formation of a joint venture company to act as a sponsor to a limited partnership fund which will focus on infrastructure projects as disclosed in the section "BUSINESS REVIEW" above, and (iii) the investment in equity interest in an aviation ground service company in the PRC as disclosed in the section "Events after the reporting period" below. 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 2018, 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 24 to the consolidated financial statements.

Events after the reporting period

(i) Regarding the acquisition of the entire issued equity interest in and the sale loan of Bright Element as disclosed in the section "BUSINESS REVIEW" above, as certain conditions precedent of the acquisition under the agreement has not been fulfilled in full (or waived) on or before the extended long stop date falling on 31 January 2019, the agreement has lapsed and the acquisition would not proceed.

(ii) On 27 February 2019, Massive Benefit (HK) Limited (the "Investor"), an indirect wholly owned subsidiary of the Company, Beijing Sky Jingshi Investment Co., Ltd. (the "Existing Shareholder A"), Beijing Taihe Zhongcheng Management Technology Center (the "Existing Shareholder B") and Beijing Shuntong Taida Aviation Ground Service Co., Ltd. (the "Target Company") entered into an investment agreement pursuant to which the Target Company has agreed to conditionally increase its registered capital by RMB2,117,600, and the Investor has agreed to conditionally make a capital investment of RMB15,000,000 in cash to subscribe for the increased registered capital in the Target Company. Upon completion, the Investor will directly hold 15% equity interest in the Target Company and accordingly, the Company will thereby indirectly hold 15% equity interest in the Target Company. The Target Company, the Existing Shareholder A and the Existing Shareholder B covenant that the aggregate minimum net profit before tax of the Target Company during the two financial years ending 31 December 2020 will be RMB28,000,000. Upon fulfillment of the profit guarantee, the Investor will be entitled to subscribe for a further 5% equity interest in the Target Company at the capital investment of RMB5,000,000, whereby the Investor will directly hold 20% equity interest in the Target Company and accordingly, the Company will thereby indirectly hold 20% equity interest in the Target Company. The Target Company is principally engaged in provision of aviation ground services.

(iii) On 27 March 2019, VC Financial Group Limited, a direct wholly owned subsidiary of the Company, entered into a memorandum of understanding (the "2019 MOU") with Mr. Lo Ping Hung Eric ("Mr. Lo") to acquire from Mr. Lo the entire equity interest in Experts Management Limited, an insurance broker company. The consideration for the proposed acquisition is approximately HK$2 million.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	**2018** **HK$'000**	2017 *HK$'000*
Revenue	4	**50,474**	53,685
Other income	4	**4,058**	814
Other gains and losses, net	6	**(207)**	1,051
Loss on acquisition of financial assets at fair value through profit or loss	15	**(47,436)**	–
Fair value change on financial assets at fair value through profit or loss	15	**(177,657)**	–
Fair value change on financial assets designated as at fair value through profit or loss	15	**–**	14,855
Net realised and unrealised loss on financial assets held for trading	15	**(137,119)**	(10,820)
Impairment loss on accounts receivable, net		**(8,260)**	(501)
Staff costs	7	**(84,046)**	(75,953)
Commission expenses		**(5,387)**	(3,039)
Depreciation of property and equipment	13	**(2,108)**	(2,026)
Finance costs	8	**(21,282)**	(452)
Other operating expenses		**(56,994)**	(44,392)
Share of loss of an associate		**(11)**	–
Loss before tax		**(485,975)**	(66,778)
Income tax expenses	9	**(341)**	(698)
Loss and total comprehensive expense for the year	10	**(486,316)**	(67,476)
Loss per share (HK cents)			
Basic and diluted	12	**(49.36)**	(9.48)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Notes	**2018** **HK$'000**	2017 *HK$'000*
Non-current assets			
Trading rights		**–**	–
Other intangible assets		**1,246**	1,246
Interest in an associate		**9,989**	–
Property and equipment	13	**2,844**	4,704
Statutory deposits		**2,988**	3,447
Rental and utility deposits		**1,578**	2,702
Financial assets at fair value through profit or loss	15	**304,081**	–
Financial assets at fair value through other comprehensive income	14	**207,084**	–
Available-for-sale investments		**–**	–
		529,810	12,099
Current assets			
Accounts receivable	16	**167,927**	216,897
Prepayments, deposits and other receivables		**22,429**	12,871
Financial assets designated as at fair value through profit or loss	15	**–**	63,315
Financial assets held for trading	15	**–**	272,728
Financial assets at fair value through profit or loss	15	**240,282**	–
Tax recoverable		**–**	32
Pledged bank deposits	17	**40,000**	40,000
Bank balances and cash	18	**138,032**	228,190
		608,670	834,033
Current liabilities			
Accounts payable	19	**24,390**	36,891
Accrued liabilities and other payables		**6,893**	16,338
Tax payable		**537**	330
Short-term bank borrowings	20	**40,000**	40,000
		71,820	93,559
Net current assets		**536,850**	740,474
Total assets less current liabilities		**1,066,660**	752,573

	Notes	**2018** *HK$'000*	2017 *HK$'000*
Non-current liabilities			
Convertible bonds	21	**26,116**	–
Deferred tax liabilities		**1,282**	388
		27,398	388
Net assets		**1,039,262**	752,185
Capital and reserves			
Share capital	22	**1,585,239**	855,363
Reserves		**(545,977)**	(103,178)
Total equity		**1,039,262**	752,185

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Attributable to owners of the Company							
	Share capital *HK$'000*	**Capital reserve** *HK$'000* *(note a)*	**Convertible bonds reserve** *HK$'000*	**Investments revaluation reserve** *HK$'000*	**Share option reserve** *HK$'000*	**Other reserve** *HK$'000* *(note b)*	**Accumulated losses** *HK$'000*	**Total** *HK$'000*
At 1 January 2018	855,363	123,758	–	–	20,406	(767)	(246,575)	752,185
Impact on initial application of HKFRS 9 *(note 2)*	–	–	–	(550)	–	–	(4,694)	(5,244)
Adjusted balance at 1 January 2018	855,363	123,758	–	(550)	20,406	(767)	(251,269)	746,941
Loss and total comprehensive expense for the year	–	–	–	–	–	–	(486,316)	(486,316)
Recognition of equity-settled share option expenses *(note 23)*	–	–	–	–	31,322	–	–	31,322
Issue of shares upon exercise of share options *(note 22)*	431	–	–	–	(97)	–	–	334
Recognition of equity component of convertible bonds *(note 21)*	–	–	310,819	–	–	–	–	310,819
Deferred tax liabilities on recognition of equity component of convertible bonds	–	–	(24,593)	–	–	–	–	(24,593)
Issue of shares upon conversion of convertible bonds *(note 22)*	656,821	–	(291,808)	–	–	–	–	365,013
Release of deferred tax liabilities on conversion of convertible bonds	–	–	23,118	–	–	–	–	23,118
Issue of shares by top-up placement and subscription *(note 22)*	73,811	–	–	–	–	–	–	73,811
Transaction costs attributable to issue of shares by top-up placement and subscription	(1,187)	–	–	–	–	–	–	(1,187)
At 31 December 2018	1,585,239	123,758	17,536	(550)	51,631	(767)	(737,585)	1,039,262
At 1 January 2017	735,252	123,758	–	–	20,406	(767)	(179,099)	699,550
Loss and total comprehensive expense for the year	–	–	–	–	–	–	(67,476)	(67,476)
Issue of shares by placement *(note 22)*	120,120	–	–	–	–	–	–	120,120
Transaction costs attributable to issue of shares by placement	(9)	–	–	–	–	–	–	(9)
At 31 December 2017	855,363	123,758	–	–	20,406	(767)	(246,575)	752,185

Notes:

(a) Capital reserve

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 capital of Value Convergence Holdings Limited (the "Company") 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.

(b) Other reserve

Other reserve represented the differences between the purchase considerations and the amounts acquired from non-controlling interests arising from acquisitions of the remaining equity interests of 9.90% 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 2018

1. GENERAL INFORMATION

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 6/F, Centre Point, 181-185 Gloucester Road, Wanchai, Hong Kong.

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 2018 and 2017 included in this preliminary announcement of the annual results for the year ended 31 December 2018 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 2017 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 2018 in due course.

The Company's auditors have reported on the consolidated financial statements of the Group for both years. The auditors' 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 REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for its first time, the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and related Amendments
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of Annual Improvements to HKFRSs 2014 - 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration

The impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers have been summarised below. The application of other new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and position for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 superseded HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard established a five-step model for determining whether, how much and when revenue is recognised. The Group has elected to adopt the modified retrospective approach for contracts with customers that are not completed as the date of initial application (i.e. 1 January 2018) with the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of accumulated losses and comparative information is not restated. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue.

The impact of transition of HKFRS 15 was insignificant on the accumulated losses and each financial statement line item of the consolidated statement of financial position at 1 January 2018.

HKFRS 9 Financial Instruments

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Group has applied HKFRS 9 retrospectively to financial instruments that have not been derecognised at the date of initial application (i.e. 1 January 2018) in accordance with the transition provisions under HKFRS 9, and chosen not to restate comparative information. Differences in the carrying amounts of financial assets and financial liabilities on initial application are recognised in accumulated losses as at 1 January 2018.

(i) Classification and measurement of financial instruments

The directors of the Company reviewed and assessed the Group's existing financial assets and liabilities as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of HKFRS 9 has had the following impact on the Group's financial assets and liabilities as regards their classification and measurement.

(a) Equity investments previously classified as financial assets designated as at fair value through profit or loss ("FVTPL"):

The Group no longer applied designation as measured at FVTPL for equity investments amounting to approximately HK$63,315,000 under HKAS 39 as these financial assets are required to be measured at FVTPL under HKFRS 9.

(b) Equity investments previously classified as financial assets held for trading:

The Group's equity investments amounting to approximately HK$272,728,000 are measured at FVTPL under HKAS 39 and continue to be measured at FVTPL under HKFRS 9.

(c) Unlisted equity investments previously classified as available-for-sale investments carried at cost less impairment:

The Group had elected to present in other comprehensive income for the fair value changes in respect of certain of the Group's unlisted equity instruments with carrying amount of HK$nil as they are held for medium or long-term strategic purpose, and reclassified them to financial assets at fair value through other comprehensive income ("FVTOCI") upon initial application of HKFRS 9. The Group measures them at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in the investment revaluation reserve, which will not be reclassified to profit or loss when they are derecognised. On initial application of HKFRS 9, an impairment loss of HK$550,000 previously recognised against these investments was reclassified from accumulated losses to investments revaluation reserve at 1 January 2018. There is no difference between the previous carrying amount and the fair value at 1 January 2018.

(d) Financial assets previously classified as loans and receivables:

The directors of the Company reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that all financial assets previously classified as loans and receivables under HKAS 39 are continued to measure at amortised cost under HKFRS 9.

(ii) Loss allowance for expected credit losses ("ECL")

The adoption of HKFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss model with a forward-looking expected credit loss model. As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirement HKFRS 9.

As at 1 January 2018, an additional allowance on the Group's accounts receivable of approximately HK$5,244,000 have been recognised, thereby increase the opening accumulated losses of approximately HK$5,244,000.

(iii) Summary of effects arising from initial application of HKFRS 9

The table below summaries the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets and reconciles the carrying amounts of financial assets under HKAS 39 to the carrying amounts under HKFRS 9 on 1 January 2018.

	Carrying amount at 31 December 2017 (HKAS 39)	Adoption of HKFRS 9 - Reclassification	Adoption of HKFRS 9 - Remeasurement	Carrying amount at 1 January 2018 (HKFRS 9)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Available-for-sale investments				
– Unlisted equity securities in Hong Kong and BVI	–	–	–	–
Financial assets designated as at FVTPL				
– Equity securities listed in Hong Kong	63,315	(63,315)	–	–
Financial assets held for trading				
– Equity securities listed in Hong Kong	272,728	(272,728)	–	–
Loans and receivables				
– Accounts receivable	216,897	(216,897)	–	–
– Deposits and other receivables	10,408	(10,408)	–	–
– Pledged bank deposits	40,000	(40,000)	–	–
– Bank balances and cash	228,190	(228,190)	–	–
Financial assets at FVTOCI				
– Unlisted equity securities in Hong Kong and BVI	–	–	–	–
Financial assets at FVTPL				
– Equity securities listed in Hong Kong	–	63,315	–	63,315
– Equity securities listed in Hong Kong held for trading	–	272,728	–	272,728
Financial assets at amortised cost				
– Accounts receivable	–	216,897	(5,244)	211,653
– Deposits and other receivables	–	10,408	–	10,408
– Pledged bank deposits	–	40,000	–	40,000
– Bank balances and cash	–	228,190	–	228,190

The table below summarises the impact of transition to HKFRS 9 on accumulated losses at 1 January 2018.

	Accumulated losses *HK$'000*
Balance at 31 December 2017 as originally stated	(246,575)
Transferred from accumulated losses to investments revaluation reserve as the financial assets now measured at FVTOCI	550
Recognition of additional expected credit losses	(5,244)
Total change as a result of adoption of HKFRS 9 on 1 January 2018	(4,694)
Balance at 1 January 2018 as restated	(251,269)

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.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

4. REVENUE AND OTHER INCOME

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.

Revenue

	2018	2017
	HK$'000	*HK$'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major services lines		
– Brokerage commission and other related fees from dealing in securities and futures and options contracts	**18,185**	21,388
– Underwriting, sub-underwriting, placing and sub-placing commission	**360**	311
– Arrangement, referral, advisory and other fee income	**14,753**	12,503
	33,298	34,202
Revenue from other sources		
– Interest income from clients	**17,176**	19,384
– Dividend income from listed equity securities	**–**	99
	17,176	19,483
	50,474	53,685

Note: The amounts for the year ended 31 December 2017 were recognised under HKAS 18.

Disaggregation of revenue by timing of recognition

	2018
	HK$'000
Timing of revenue recognition	
At a point in time	**22,359**
Over time	**10,939**
	33,298

Transaction price allocated to the remaining performance obligations

The service contracts are with an original expected duration of one year or less or contracts for which revenue is recognised at the amount to which that Group has the right to invoice for the services performed. Accordingly, the Group has elected the practical expedient and has not disclosed the amount of transaction price allocated to the performance obligations that are unsatisfied as of the end of the reporting period.

Other income

	2018	2017
	HK$'000	*HK$'000*
Interest income from authorised institutions	**733**	581
Interest income from convertible bonds	**3,013**	–
Total interest income	**3,746**	581
Sundry income	**312**	233
	4,058	814

5. SEGMENT INFORMATION

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 and other advisory services, asset management and proprietary trading and reports to the Group's Executive Committee (being the Group's Chief Operating Decision Maker) accordingly. 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 and other advisory services segment engages in the provision of corporate financial advisory services and company secretarial 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 presented revenue and results of these reportable and operating segments for the years ended 31 December 2018 and 2017.

Year ended 31 December 2018

	Brokerage and financing *HK$'000*	Corporate finance and other advisory services *HK$'000*	Asset management *HK$'000*	Proprietary trading *HK$'000*	Segment total *HK$'000*	Eliminations *HK$'000*	Total *HK$'000*
Segment revenue	36,721	13,753	–	–	50,474	–	50,474
Intra-segment sales	511	540	–	–	1,051	(1,051)	–
	37,232	14,293	–	–	51,525	(1,051)	50,474
Segment profit (loss)	4,572	(2,208)	(1,539)	(146,369)	(145,544)	–	(145,544)
Unallocated administrative costs							(115,327)
Loss on acquisition of financial assets at FVTPL							(47,436)
Fair value change on financial assets at FVTPL							(177,657)
Share of loss of an associate							(11)
Loss before taxation for the year							(485,975)

Other segment information

	Brokerage and financing *HK$'000*	Corporate finance and other advisory services *HK$'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 loss on financial assets held for trading	–	–	–	137,119	137,119	–	137,119
Interest income from authorised institutions	(569)	(109)	(53)	–	(731)	(2)	(733)
Staff costs	17,783	7,689	1,227	–	26,699	57,347	84,046
Commission expenses	5,287	–	–	611	5,898	(511)	5,387
Depreciation of property and equipment	586	318	–	–	904	1,204	2,108
Impairment loss on accounts receivable, net	8,260	–	–	–	8,260	–	8,260
Finance costs	4,683	–	–	7,391	12,074	9,208	21,282
Amounts regularly provided to the Group's Executive Committee but not included in the measure of segment profit or loss:							
Income tax expenses	867	18	–	(242)	643	(302)	341
Interest income from convertible bonds	–	–	–	–	–	(3,013)	(3,013)

Year ended 31 December 2017

	Brokerage and financing *HK$'000*	Corporate finance and other advisory services *HK$'000*	Asset management *HK$'000*	Proprietary trading *HK$'000*	Segment total *HK$'000*	Eliminations *HK$'000*	Total *HK$'000*
Segment revenue	46,721	6,865	–	99	53,685	–	53,685
Intra-segment sales	3,968	20	–	–	3,988	(3,988)	–
	50,689	6,885	–	99	57,673	(3,988)	53,685
Segment profit (loss)	9,981	(5,115)	(1,799)	(23,956)	(20,889)	–	(20,889)
Unallocated administrative costs							(61,722)
Fair value change on financial assets designated as at FVTPL							14,855
Compensation income arising from profit guarantee *(note 6)*							978
Loss before taxation for the year							(66,778)

Other segment information

	Brokerage and financing *HK$'000*	Corporate finance and other advisory services *HK$'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 loss on financial assets held for trading	–	–	–	10,820	10,820	–	10,820
Interest income from authorised institutions	(523)	(38)	(19)	–	(580)	(1)	(581)
Staff costs	26,967	7,506	1,320	–	35,793	40,160	75,953
Commission expenses	3,039	–	–	965	4,004	(965)	3,039
Depreciation of property and equipment	648	111	2	–	761	1,265	2,026
Impairment loss on accounts receivable, net	501	–	–	–	501	–	501
Finance costs	4,275	–	–	9,338	13,613	(13,161)	452
Amounts regularly provided to the Group's Executive Committee but not included in the measure of segment profit or loss:							
Income tax expenses	270	25	–	388	683	15	698

Note: Adjustments include the unallocated 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 unallocated administrative costs, loss on acquisition of financial assets at FVTPL, fair value change on financial assets at FVTPL, share of loss of an associate, fair value change on financial assets designated as at FVTPL and compensation income arising from profit guarantee. This is the measure reported to the Group's Executive Committee for the purposes of resource allocation and performance assessment.

In 2018, no single customer contributed 10% or more of the Group's revenue. In 2017, two customers contributed 10% or more of the Group's revenue each, in which the revenue from these customers amounted to approximately HK$5,603,000 and HK$5,445,000 respectively. The Group's operations are mainly located in Hong Kong (place of domicile). The Group's revenue from external customers is mainly derived from Hong Kong for both 2018 and 2017. Almost all of its non-current assets other than financial instruments are attributed to the operations in Hong Kong and located in Hong Kong.

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

6. OTHER GAINS AND LOSSES, NET

	2018	2017
	HK$'000	*HK$'000*
Loss on disposal of property and equipment	**(149)**	(2)
Net exchange (loss) gain	**(58)**	75
Compensation income arising from profit guarantee *(note 15)*	**–**	978
	(207)	1,051

7. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2018	2017
	HK$'000	*HK$'000*
Staff commission	**5,846**	10,894
Salaries and wages	**52,455**	52,930
Staff welfare	**2,244**	2,282
Recruitment costs	**354**	411
Provision (reversal) of long service payment/annual leave benefits	**463**	(122)
Retirement benefits scheme contributions	**1,263**	1,555
Discretionary and performance related incentive payments and provision of gratuity	**1,651**	8,003
Equity-settled share option expense	**19,770**	–
	84,046	75,953

8. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interests on:		
Convertible bonds *(note 21)*	**21,203**	–
Bank loans and overdrafts	**79**	452
	21,282	452

9. INCOME TAX EXPENSES

	2018	2017
	HK$'000	*HK$'000*
Current tax		
Hong Kong Profit Tax	**914**	315
The People's Republic of China (the "PRC") Enterprise Income Tax	**45**	15
Overprovision in prior year		
Hong Kong Profits Tax	**(29)**	(20)
PRC Enterprise Income Tax	**(8)**	–
Deferred tax		
Current year	**(581)**	388
	341	698

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying corporation will be taxed at 8.25% and profits above HK$2 million will be taxed at 16.5%. For the year ended 31 December 2018, Hong Kong profits tax of the qualified entity of the Group is calculated in accordance with the two-tiered profits tax rates regime. The profits of other entities of the Group in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%. For the year ended 31 December 2017, Hong Kong profits tax was calculated at a flat rate of 16.5% of the estimated assessable profits.

Under the Law of The People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC entities is 25% from 1 January 2008 onwards.

Pursuant to the rules and regulation of the British Virgin Islands ("BVI"), the Group is not subject to any income tax in this jurisdiction.

10. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging:

	2018 *HK$'000*	2017 *HK$'000*
Included in other operating expenses:		
Auditor's remuneration	**1,080**	1,343
Minimum operating lease payments in respect of rental premises	**10,710**	9,960
Entertainment and travel expenses (mainly incurred for business development)	**9,220**	14,243

11. DIVIDENDS

No dividends have been paid or declared or proposed by the Company during the years ended 31 December 2018 and 2017.

12. LOSS PER SHARE

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

	2018 *HK$'000*	2017 *HK$'000*
Loss		
Loss for the purpose of basic and diluted loss per share (Loss for the year attributable to owners of the Company)	**(486,316)**	(67,476)

	2018 *'000*	2017 *'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**985,197**	711,800

The computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in a decrease in loss per share for the year ended 31 December 2018.

The computation of diluted loss per share does not assume the exercise of the Company's options because the exercise price of those options was higher than the average market price for shares for both 2018 and 2017.

13. PROPERTY AND EQUIPMENT

	2018	2017
	HK$'000	*HK$'000*
Carrying value, beginning of the year	**4,704**	4,619
Additions	**869**	2,120
Depreciation	**(2,108)**	(2,026)
Written off/Disposal	**(621)**	(9)
Carrying value, end of the year	**2,844**	4,704

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31/12/2018	1/1/2018
	HK$'000	*HK$'000*
Unlisted equity securities designated as at FVTOCI *(notes a & b)*	**207,084**	–
Analysed for reporting purpose as non-current assets	**207,084**	–

Notes:

(a) On 8 June 2018, the Company issued convertible bonds with 2% coupon rate at a total principal value of HK$160,000,000 to CVP Financial Group Limited as the consideration of the acquisition of 18% of the entire equity securities issued by Hackett Enterprises Limited, a private entity incorporated in the Republic of Seychelles, which, together with its subsidiaries, is engaged in the business of provision of loan financing and financial consultancy services in the PRC and the provision of money lending services in Hong Kong. They are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits. Dividend on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with HKFRS 9, unless the dividends clearly represent a recovery of part of the investment. Dividends are included in the "other income" line item in profit or loss.

(b) The amount also includes the Group's investments in 5% and 5% of the unlisted equity securities issued by two private entities incorporated in Hong Kong and the British Virgin Islands respectively. Their principal activities are investment holding in the PRC and operation of restaurants in Hong Kong respectively. The fair value of investments were approximately HK$nil as at 31 December 2018 and 1 January 2018. The investments were reclassified from available-for-sale investments to financial assets at FVTOCI upon the adoption of HKFRS 9 on 1 January 2018.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/FINANCIAL ASSETS HELD FOR TRADING/FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

Details of financial assets at FVTPL/financial assets held for trading/financial assets designated as at FVTPL are set out as follows:

	31/12/2018	1/1/2018	31/12/2017
	HK$'000	*HK$'000*	*HK$'000*
Financial assets mandatorily measured at FVTPL			
Convertible bonds *(note a)*	**224,573**	–	–
Derivative financial asset *(note a)*	**79,508**	–	–
Equity securities listed in Hong Kong *(note b)*	**–**	63,315	–
Financial assets held for trading – equity securities listed in Hong Kong	**240,282**	272,728	272,728
	544,363	336,043	272,728
Financial assets designated as at FVTPL – equity securities listed in Hong Kong *(note b)*	**–**	–	63,315
Analysed for reporting purpose:			
Non-current assets	**304,081**	–	–
Current assets	**240,282**	336,043	336,043
	544,363	336,043	336,043

Notes:

(a) On 18 October 2017, the Company entered into a sale and purchase agreement with Pacific Alliance Limited ("PAL") as vendor, pursuant to which the Company agreed to purchase, and PAL agreed to sell, the 3-year two per cent. unsecured redeemable convertible bonds in the principal amount of HK$153,585,000 issued by China Fortune Financial Group Limited ("China Fortune", Stock Code: 290) on 30 March 2017 (the "China Fortune Convertible Bonds") for an aggregate consideration of HK$400,000,000 (the "Acquisition"). The consideration of HK$40,000,000 was satisfied in cash and the balance of the consideration of HK$360,000,000 was satisfied by way of issue of the convertible bonds by the Company at the completion date of the Acquisition. The China Fortune Convertible Bonds are convertible into 2,559,750,000 conversion shares at the initial conversion price of HK$0.06 per conversion share (subject to adjustments). The Acquisition was completed on 8 January 2018. The China Fortune Convertible Bonds were classified as financial assets at fair value through profit or loss and measured at fair value at initial recognition and at the end of each reporting period.

In return for the Company's undertaking to China Fortune that the Company shall not exercise the conversion rights attaching to the China Fortune Convertible Bonds from the completion date up to and including 29 March 2019, PAL grants to the Company a put option to require PAL to purchase from the Company the China Fortune Convertible Bonds to the extent of the principal amount of HK$76,792,500. The put option of the bondholder was classified as derivative financial asset and measure at fair value at initial recognition and at the end of each reporting period.

The fair values of the China Fortune Convertible Bonds and the put option were approximately HK$439,213,000 and HK$28,035,000 respectively as at 8 January 2018 and approximately HK$224,573,000 and HK$79,508,000 respectively as at 31 December 2018 and were calculated using the binomial option pricing model ("Binomial Model") by an independent professional valuer in which the parameters were summarised as follows:

	8 January 2018	**31 December 2018**
Share price of the issuer	HK$0.171	HK$0.085
Effective interest rate of the issuer	13%	12%
Risk free rate	1.30%	1.73%
Expected volatility of the issuer	64%	45%
Dividend yield of the issuer	0%	0%

The effective interest rate of the issuer was determined with reference to the average of the bond yields of the comparable companies with similar businesses and credit rating of the issuer. Risk free rate was determined with reference to yield of Hong Kong government bonds over the exercise period near the valuation dates of 8 January 2018 and 31 December 2018 respectively. Expected volatility of the issuer was determined using the historical volatility of the issuer's share price over the exercise period as at the valuation dates of 8 January 2018 and 31 December 2018 respectively.

(b) On 11 May 2016, Century Race Investments Limited ("Century Race"), an indirect wholly owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party (the "Holder") to acquire 6% equity interest of a private entity incorporated in the British Virgin Islands (the "Acquired Company") at a consideration of HK$20 million. 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 consideration of HK$20 million and Century Race agreed to acquire 10.5% equity interest of IBO Technology Company Limited ("IBO Tech"), which is incorporated in the Cayman Islands and held by the Acquired Company, at a consideration of HK$35 million. Net cash outflow of the Second S&P Agreement was HK$15 million.

According to the Second S&P Agreement, the Holder and the Acquired Company jointly and severally guarantee that IBO Tech'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 IBO Tech'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 IBO Tech (the "Buy-back Option") if IBO Tech is not listed on the Main Board of the Stock Exchange on or before 31 December 2017.

The investment is managed and its performance is evaluated on a fair value basis, in accordance with the Group's investment strategy so that the Group designated the investment as financial assets designated as at FVTPL at initial recognition.

On 28 December 2017, IBO Tech has been listed on the Main Board of the Stock Exchange and Century Race's shareholding in IBO Tech was then diluted to 7.875% of the entire listed share of IBO Tech as at 31 December 2017. According to the Second S&P Agreement, all the rights granted by the Holder and the Acquired Company to Century Race have been terminated and ceased to be effective upon the listing of IBO Tech, including the abovementioned profit guarantee for the year ending 31 March 2018 and the Buy-back Option. Further, Century Race has undertaken not to dispose of or otherwise encumber any of its interest in IBO Tech up to the date falling on the expiration of 6 months of the listing (both days inclusive). The fair value of Century Race's interest in IBO Tech as at 31 December 2017 was approximately HK$63,315,000 based on its quoted market price available on the Stock Exchange. As such, there was an increase in the fair value of approximately HK$14,855,000 for the year ended 31 December 2017.

As abovementioned, Century Race was guaranteed that IBO Tech's net profit after tax for the year ended 31 March 2017 shall not be less than RMB37.5 million. Based on the audited financial information of IBO Tech for the year ended 31 March 2017, Century Race recognised a gain of approximately RMB846,000 (equivalent to approximately HK$978,000) for the year ended 31 December 2017 which was included in other gains and losses as set out in note 6.

16. ACCOUNTS RECEIVABLE

	31/12/2018	1/1/2018	31/12/2017
	HK$'000	*HK$'000*	*HK$'000*
Accounts receivable arising from the ordinary course of business of dealing in:			
Securities transactions *(note a):*			
Clearing house	**763**	14,909	14,909
Cash clients	**15,821**	30,419	30,419
Futures and options contracts transactions *(note a)*:			
Clearing house	**17**	4	4
Accounts receivable arising from the ordinary course of business of provision of corporate finance and other advisory services *(note a)*	**5,673**	1,284	1,284
	22,274	46,616	46,616
Accounts receivable arising from the ordinary course of business of money lending services *(note b)*	**60,552**	115,272	115,272
Less: Impairment loss	**(40,469)**	(38,487)	(33,243)
	20,083	76,785	82,029
Accounts receivable arising from the ordinary course of business of dealing in *(note c)*:			
Securities transactions:			
Margin clients	**131,157**	88,252	88,252
Less: Impairment loss	**(5,587)**	–	–
	125,570	88,252	88,252
	167,927	211,653	216,897

The Group measures the loss allowance for accounts receivable at an amount equal to 12-month ECL or lifetime ECL. The expected credit losses on accounts receivable are estimated using a provision matrix with reference to past default experience of the accounts receivable, adjusted for factors that are specific to the accounts receivable, latest collateral valuation, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

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:

	2018	2017
	HK$'000	*HK$'000*
Within 30 days	**16,158**	44,562
31 – 90 days	**101**	288
Over 90 days	**342**	482
	16,601	45,332

Included in the amount of approximately HK$45,332,000, approximately HK$5,201,000 is past due but not impaired from cash clients as at 31 December 2017, aging analysis of which is as follows:

	2017
	HK$'000
Within 30 days	4,431
31 – 90 days	288
Over 90 days	482
	5,201

As at 31 December 2017, no impairment loss had been provided for the amounts that are past due as the fair value of the listed equity securities of approximately HK$43,070,000 of these cash clients held by the Group were generally over the relevant carrying amounts of the receivable. No such listed equity securities held can be pledged by the Group and the corresponding listed equity 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 2017, no accounts receivable due from cash clients were past due and impaired.

As at 31 December 2018, no accounts receivable (2017: HK$18,000) is due from a director of the Group in respect of transactions in securities undertaken for his accounts.

The settlement terms of accounts receivable arising from provision of corporate finance and other 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 follows:

	2018	2017
	HK$'000	*HK$'000*
Within 30 days	**2,859**	515
31 – 90 days	**1,387**	419
Over 90 days	**1,427**	350
	5,673	1,284

As at 31 December 2017, included in the accounts receivable arising from provision of corporate finance and other advisory services, an aggregate carrying amount of approximately HK$769,000 which were past due as at the end of the reporting period for which the Group had not provided for impairment loss because there was no significant change in credit quality of these clients and the balances were still considered as recoverable. The Group did not hold any collateral over these balances.

Movements in the impairment allowance on accounts receivable due from cash clients are as follows:

	2017
	HK$'000
At 1 January	1
Impairment charged to profit or loss during the year	2
Amounts written off	(3)
At 31 December	–

(b) As at 31 December 2018, accounts receivable arising from money lending services bear fixed-rate interest of 1.5% per month or 12% per annum (2017: 1.5% to 1.8% per month or 12% per annum). The accounts receivable had remaining contractual maturity date falling within one year as at the end of each reporting period. As at 31 December 2018, accounts receivable with net carrying amount of approximately HK$3 million were secured by the client's listed securities. As at 31 December 2017, accounts receivable with net carrying amount of approximately HK$58.6 million were secured by the clients' pledged listed securities, the client's pledged listed securities held by a discretionary trust in which the client is one of the beneficiaries and/or the corporate/personal guarantee provided by the clients' related parties.

As at 31 December 2017, accounts receivable arising from money lending services of approximately HK$33,411,000 were past due and an impairment amount of approximately HK$33,243,000 was provided.

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

	2017 *HK$'000*
Neither past due nor impaired	81,861
Past due and impaired	33,411
	115,272
Less: Allowance for impairment	(33,243)
	82,029

Movements in the impairment allowance on accounts receivable arising from money lending services are as follows:

	2017 *HK$'000*
At 1 January	32,744
Impairment charged to profit or loss during the year	499
At 31 December	33,243

Analysis of the gross carrying amount as at 31 December 2018 by the Group's internal credit rating and year end classification is as follows:

Internal credit rating	12-months ECL (Stage 1) *HK$'000*	Lifetime ECL not credit-impaired (Stage 2) *HK$'000*	Lifetime ECL credit-impaired (Stage 3) *HK$'000*	Total *HK$'000*
Performing	–	–	–	–
Doubtful	–	20,332	–	20,332
Default	–	–	40,220	40,220
	–	20,332	40,220	60,552

Movements in the impairment allowance on accounts receivable arising from money lending services during the year are as follows:

	12-months ECL (Stage 1) *HK$'000*	Lifetime ECL not credit-impaired (Stage 2) *HK$'000*	Lifetime ECL credit-impaired (Stage 3) *HK$'000*	Total *HK$'000*
At 31 December 2017	–	–	33,243	33,243
Effect on adoption of HKFRS 9	–	5,244	–	5,244
At 1 January 2018	–	5,244	33,243	38,487
Amounts written off	–	–	(691)	(691)
Impairment reversed during the year	–	(2,803)	(5,332)	(8,135)
Impairment recognised during the year	–	808	10,000	10,808
At 31 December 2018	–	3,249	37,220	40,469

During 2016, the accounts receivable from two margin clients were restructured into term loans based on the financial status of the clients and their financial needs. As at 31 December 2017, the accounts receivable from these clients amounted to approximately HK$14,478,000 with impairment allowance of approximately HK$14,310,000. The Group has taken all necessary legal actions to follow up the outstanding loans. During the year ended 31 December 2018, one of these clients had settled an amount of HK$5,500,000 for his total outstanding principal and accrued interest in accordance with the settlement terms as mutually agreed by the Group and the client. As such, the reversal of impairment losses of approximately HK$5,332,000 were recognised in profit or loss for the year ended 31 December 2018. An amount of approximately HK$691,000 was written off for the year ended 31 December 2018.

During 2016, another loan was granted to a listed company which was due in January 2017 according to the loan agreement. The client failed to repay the outstanding principal on due date. The Group had served a statutory demand to the client but did not receive any positive response thereafter. Based on the published announcements of the listed company, in which provisional liquidators had been appointed, the management considered that the probability of the settlement of outstanding principal and/or accrued interests within a short period of time is highly uncertain. Taking into account the specific facts and circumstances, the Group had made full impairment allowance for the total outstanding amounts for the year ended 31 December 2017.

(c) The accounts receivable due from margin clients of approximately HK$131,157,000 (2017: HK$88,252,000) were secured by the clients' pledged listed securities which carried a fair value of approximately HK$520,490,000 (2017: HK$480,307,000). The management of the Group has assessed the market value of pledged listed 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 re-pledged 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 31 December 2018, an impairment of approximately HK$5,587,000 (2017: Nil) was recognised in respect of the accounts receivable due from a margin client of approximately HK$18,585,000 and secured by the pledged listed securities which carried a fair value of approximately HK$12,800,000. Such accounts receivable due from the margin client was assessed to be credit impaired and transferred from stage 1 to stage 3 during the year as it became default to repay another term loan of approximately HK$13,000,000 to the Group on due date.

Analysis of the gross carrying amount as at 31 December 2018 by the Group's internal credit rating and year end classification is as follows:

Internal credit rating	12-months ECL (Stage 1) *HK$'000*	Lifetime ECL not credit-impaired (Stage 2) *HK$'000*	Lifetime ECL credit-impaired (Stage 3) *HK$'000*	Total *HK$'000*
Performing	112,572	–	–	112,572
Doubtful	–	–	–	–
Default	–	–	18,585	18,585
	112,572	–	18,585	131,157

Movements in the impairment allowance on accounts receivable due from margin clients during the year are as follows:

	12-months ECL (Stage 1) *HK$'000*	Lifetime ECL not credit-impaired (Stage 2) *HK$'000*	Lifetime ECL credit-impaired (Stage 3) *HK$'000*	Total *HK$'000*
At 1 January 2018	–	–	–	–
Impairment loss recognised during the year	–	–	5,587	5,587
At 31 December 2018	–	–	5,587	5,587

17. PLEDGED BANK DEPOSITS

As at 31 December 2018, the Group has placed a bank deposit of HK$40,000,000 (2017: HK$40,000,000) at an interest rate of 2.00% (2017: 0.83%) per annum to a bank to secure banking facilities of HK$100,000,000 (2017: HK$100,000,000) which included the drawn bank borrowings of HK$40,000,000 (2017: HK$40,000,000). Details of the bank borrowings are set out in note 20.

18. 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 2.05% (2017: 0.001% to 1.09%) 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 consolidated statement of financial position. As at 31 December 2018, the Group maintained segregated accounts at a clearing house of approximately HK$3,463,000 (2017: HK$2,033,000) and at other authorised institutions of approximately HK$162,367,000 (2017: HK$267,970,000) 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 these consolidated financial statements.

19. ACCOUNTS PAYABLE

	2018	2017
	HK$'000	*HK$'000*
Accounts payable arising from dealing in securities:		
Clearing house	**23,313**	15,762
Cash clients	**973**	20,245
Margin clients	**104**	884
	24,390	36,891

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 which are usually due within two trading days after the trade date or deposits received from clients for their securities dealing activities. 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 2018, no accounts payable (2017: HK$18,000) are due to the directors of the Group and the close family members of these directors in respect of transactions in securities undertaken for their accounts.

20. SHORT-TERM BANK BORROWINGS

	2018	2017
	HK$'000	*HK$'000*
Secured and guaranteed	**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 2018 (2017: the bank's cost of funding plus 2% per annum). Details of the pledged bank deposits are disclosed in note 17.

As at 31 December 2018, the Group has unused banking facilities of HK$60,000,000 (2017: HK$60,000,000), including an amount of HK$50,000,000 (2017: HK$50,000,000) for short-term money market loan for margin financing business and an amount of HK$10,000,000 (2017: HK$10,000,000) for drawings against uncleared cheques.

The repayment date of the short-term bank borrowings is 3 January 2019 (2017: 4 January 2018).

21. CONVERTIBLE BONDS

On 8 January 2018, the Company issued convertible bonds (the "CB1") with zero coupon rate at a total principal value of HK$360,000,000 to PAL, as the balance of the consideration of the acquisition of the China Fortune Convertible Bonds as disclosed in note 15. The convertible bonds will mature on the third anniversary of the date of issue of the convertible bonds. The convertible bonds are convertible into 288,000,000 conversion shares at any time between the date of issue of the convertible bonds and the maturity date at the bondholder's option at initial conversion price of HK$1.25 per conversion share.

During the year ended 31 December 2018, the CB1 with principal amounts of HK$345,000,000 were converted into 276,000,000 ordinary shares of the Company at the conversion price of HK$1.25 per share. The amount of approximately HK$198,397,000 was recognised in convertible bonds reserve upon the conversion of convertible bonds.

On 8 June 2018, the Company issued convertible bonds (the "CB2") with 2% coupon rate at a total principal value of HK$160,000,000 to CVP Financial Group Limited as the consideration of the acquisition of unlisted equity securities issued by Hackett Enterprises Limited as disclosed in note 14. The convertible bond will mature on the third anniversary of the date of issue of the convertible bonds. The convertible bonds are convertible into 123,076,923 conversion shares at any time between the date of issue of the convertible bond and the maturity date at the bondholder's option at initial conversion price of HK$1.3 per conversion share.

During the year ended 31 December 2018, the CB2 with principal amounts of HK$142,000,000 were converted into 109,230,769 ordinary shares of the Company at the conversion price of HK$1.3 per share. The amount of approximately HK$70,293,000 was recognised in convertible bonds reserve upon the conversion of convertible bonds.

	CB1 issued on 8 January 2018	**CB2 issued on 8 June 2018**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Liability component at 1 January 2018	–	–	–
Liability component on initial recognition	249,415	121,534	370,949
Effective interest expenses *(note 8)*	16,543	4,660	21,203
Interest payable	–	(1,023)	(1,023)
Conversion into new ordinary shares	(254,241)	(110,772)	(365,013)
Liability component at 31 December 2018	11,717	14,399	26,116

The liability component of the CB1 and CB2 are classified under non-current liabilities.

The convertible bonds issued during the year ended 31 December 2018 recognised in the consolidated statement of financial position are as follows:

	CB1 issued on 8 January 2018	**CB2 issued on 8 June 2018**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Fair value of convertible bonds issued	474,684	207,084	681,768
Equity conversion component recognised under convertible bonds reserve	(225,269)	(85,550)	(310,819)
Liability component on initial recognition at issue date	249,415	121,534	370,949
Maturity date	8 January 2021	8 June 2021	

The fair values of the CB1 and CB2 were valued by an independent professional valuer, as at their respective issue dates and were calculated by using the Binomial Model. The inputs into the model were as follows:

	CB1	**CB2**
Share price	HK$1.46	HK$1.39
Conversion price	HK$1.25	HK$1.30
Effective interest rate	13%	12%
Expected volatility	71%	68%
Expected life	3 years	3 years
Risk free rate	1.45%	2.03%
Expected dividend yield	Nil	Nil

The effective interest rate was determined with reference to the average of the bond yields of the comparable companies with similar businesses and credit rating of the Company. Risk free rate was determined with reference to yield of 3 years Hong Kong government bonds near the valuation dates of 8 January 2018 and 8 June 2018 respectively. Expected volatility was determined using the historical volatility of the Company's share price over the previous 3 years as at the valuation dates of 8 January 2018 and 8 June 2018 respectively.

The CB1 and CB2 comprise a liability component and equity conversion component. The residual amount, representing the value of the equity component, is included in the convertible bonds reserve under equity attributable to the owners of the Company.

22. SHARE CAPITAL

	Number of ordinary shares *'000*	**Share capital** *HK$'000*
At 1 January 2017	662,617	735,252
Issue of shares by placement *(note a)*	132,000	120,120
Transaction costs attributable to issue of shares by placement	–	(9)
At 31 December 2017	794,617	855,363
Issue of shares upon conversion of convertible bonds *(note c)*	385,231	656,821
Issue of shares by top-up placement and subscription *(note b)*	50,904	73,811
Transaction costs attributable to issue of shares by top-up placement and subscription	–	(1,187)
Issue of shares upon exercise of share options *(note d)*	200	431
At 31 December 2018	1,230,952	1,585,239

Notes:

(a) On 28 July 2017, 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 132,000,000 new shares of the Company to not less than six independent parties at a placing price of HK$0.91 per new share. The placement was completed on 18 August 2017 and a total of 132,000,000 new shares were issued under the general mandate granted to the directors of the Company at the annual general meeting of the Company held on 25 May 2017. The proceeds from the placement amounted to approximately HK$120,120,000. The new shares rank pari passu with the existing shares in all respects.

(b) On 26 June 2018, the Company entered into a placing and subscription agreement with a placing agent (the "Placing Agent") and Mr. Chung Chi Shing, Eric ("Mr. Chung") whereby (i) Mr. Chung agreed to appoint the Placing Agent and the Placing Agent has agreed to act as agent of Mr. Chung and use its best endeavour to procure not less than six placees for up to 60,000,000 shares of the Company at HK$1.45 per placing shares; and (ii) Mr. Chung has agreed to subscribe for up to 60,000,000 shares of the Company at HK$1.45 per subscription share.

The completion of the placing took place on 29 June 2018 and a total of 50,904,000 shares of the Company (the "Sale Shares") were successfully placed to not less than six placees at HK$1.45 per Sale Share. All the conditions of the subscription as set out in the placing and subscription agreement have been fulfilled and completion of the subscription took place on 10 July 2018 whereby a total of 50,904,000 shares of the Company (the "Subscription Shares") were allotted and issued to Mr. Chung at HK$1.45 per Subscription Share. The new shares rank pari passu with the existing shares in all respects.

The net proceeds from the placing is approximately HK$72,624,000 after deduction of commission and other related expenses of placing from the gross proceeds of approximately HK$73,811,000.

(c) During the year ended 31 December 2018, certain portions of the CB1 and CB2 were converted into 276,000,000 and 109,230,769 ordinary shares of the Company at the conversion price of HK$1.25 and HK$1.3 per ordinary share respectively. As a result of the conversion, share capital has been increased by approximately HK$470,123,000 and HK$186,698,000 respectively and convertible bonds reserve has been decreased by approximately HK$198,397,000 and HK$70,293,000 respectively. The new shares rank pari passu with the existing shares in all respects.

(d) During the year ended 31 December 2018, 200,000 share options had been exercised by the holders at exercise price of HK$1.67 each for the issuance of shares. As a result of the exercise of share options, bank balances and cash and share capital have been increased by approximately HK$334,000 and HK$431,000 respectively and share option reserve has been decreased by approximately HK$97,000. The new shares rank pari passu with the existing shares in all respects.

23. SHARE OPTIONS

The Company offered the share option scheme under which share options are granted to the directors, employees and other eligible persons of the Group to subscribe for shares of the Company in recognising their contributions and in retaining employees who will continue to make valuable contribution to the Group.

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 8 June 2009, the Company adopted a share option scheme (the "2009 Share Option Scheme").

At an extraordinary general meeting held on 14 June 2018, the shareholders of the Company approved the adoption of a new share option scheme (the "2018 Share Option Scheme"), which superseded the 2009 Share Option Scheme. The purpose of 2018 Share Option Scheme same as the 2009 Share Option Scheme. After termination of the 2009 Share Option Scheme, no further options may be granted but the provisions of the 2009 Share Option Scheme shall in all other respects remain in full force and effect and options which are granted under the 2009 share Option Scheme may continue to be exercisable in accordance with their respective terms of issue.

On 29 September 2016, directors and employees of the Group were granted share options to subscribe for 41,000,000 underlying shares under the 2009 Share Option Scheme. These share options were immediately vested on the grant date and have 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.

On 24 January 2018, directors and employees of the Group and other eligible persons were granted share options to subscribe for 66,256,000 underlying shares under the 2009 Share Option Scheme. These share options were immediately vested on the grant date and have duration of 3 years from the date of grant i.e. from 24 January 2018 to 23 January 2021. 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 2009 Share Option Scheme.

As at 31 December 2018, the number of shares in respect of which share options had been granted and remained outstanding under the 2009 Share Option Scheme was 106,656,000 (2017: 40,600,000), representing approximately 8.66% (2017: 5.11%) of the shares of the Company in issue as at 31 December 2018. No share options had been granted under the 2018 Share Option Scheme as at 31 December 2018.

The estimated fair values of the options granted under the 2009 Share Option Scheme on 24 January 2018 is approximately HK$31,322,000 recognised in the share option reserve, which was calculated using the Binomial Model by an independent professional valuer. The key inputs into the model were as follows:

	24 January 2018
Share Price at the date of grant	HK$1.62
Exercise Price	HK$1.67
Risk free rate	1.512%
Expected volatility	71.528%
Exercise multiples – directors	1.38
– employees/other eligible persons	1.53

The Group recognised total equity-settled share option expense of approximately HK$31,322,000 included in the staff costs and other operating expenses for the year ended 31 December 2018 (2017: Nil) in relation to the 66,256,000 share options granted under the 2009 Share Option Scheme.

24. COMMITMENTS

(a) Capital commitments

As at the end of the reporting period, the Group's commitments contracted but not provided for in respect of capital contribution to a joint venture and purchase of property and equipment are as follows:

	2018	2017
	HK$'000	*HK$'000*
Capital contribution to a joint venture *(note)*	**502,850**	525,056
Purchase of property and equipment	**1,979**	470
	504,829	525,526

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 PRC (the "JV Company"). Pursuant to the Joint Venture Agreement, VC Brokerage will contribute RMB445 million (equivalent to approximately HK$503 million (2017: equivalent to approximately HK$525 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 31 December 2018 and 2017, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rental premises which fall due are as follows:

	2018	2017
	HK$'000	*HK$'000*
Within one year	**7,345**	10,267
In the second to fifth year inclusive	**9,320**	1,233
	16,665	11,500

Operating lease payments represent rentals payable by the Group for its office premises, apartments and car parking spaces. As at 31 December 2018, rentals are fixed for lease terms of 0.5 to 3 years (2017: 1 to 3 years).

25. EVENTS AFTER THE REPORTING PERIOD

The Group has the following events after the reporting period:

(a) Regarding the acquisition of the entire issued equity interest in and the sale loan of Bright Element Investments Limited as disclosed in the section "Business Review" of this announcement, as certain conditions precedent of the acquisition under the agreement has not been fulfilled in full (or waived) on or before the extended long stop date falling on 31 January 2019, the agreement has lapsed and the acquisition would not proceed.

(b) On 27 February 2019, Massive Benefit (HK) Limited (the "Investor"), an indirect wholly owned subsidiary of the Company, Beijing Sky Jingshi Investment Co., Ltd. (the "Existing Shareholder A"), Beijing Taihe Zhongcheng Management Technology Center (the "Existing Shareholder B") and Beijing Shuntong Taida Aviation Ground Service Co., Ltd. (the "Target Company") entered into an investment agreement pursuant to which the Target Company has agreed to conditionally increase its registered capital by RMB2,117,600, and the Investor has agreed to conditionally make a capital investment of RMB15,000,000 in cash to subscribe for the increased registered capital in the Target Company. Upon completion, the Investor will directly hold 15% equity interest in the Target Company and accordingly, the Company will thereby indirectly hold 15% equity interest in the Target Company. The Target Company, the Existing Shareholder A and the Existing Shareholder B covenant that the aggregate minimum net profit before tax of the Target Company during the two financial years ending 31 December 2020 will be RMB28,000,000. Upon fulfillment of the profit guarantee, the Investor will be entitled to subscribe for a further 5% equity interest in the Target Company at the capital investment of RMB5,000,000, whereby the Investor will directly hold 20% equity interest in the Target Company and accordingly, the Company will thereby indirectly hold 20% equity interest in the Target Company. The Target Company is principally engaged in provision of aviation ground services.

(c) On 27 March 2019, VC Financial Group Limited, a direct wholly owned subsidiary of the Company, entered into a memorandum of understanding (the "2019 MOU") with Mr. Lo Ping Hung Eric ("Mr. Lo") to acquire from Mr. Lo the entire equity interest in Experts Management Limited, an insurance broker company. The consideration for the proposed acquisition is approximately HK$2 million.

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: 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 2018, 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. During the period from 1 January 2018 to 21 January 2018, Mr. Tin Ka Pak, Timmy had taken up the roles and functions of the chairman and the chief executive officer ("CEO"). 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.

Although the Board believes that Mr. Tin Ka Pak, Timmy is the best candidate to take up the roles and functions of the chairman and the CEO, it always wants to be the best of the best, so to comply with the CG Code. On 22 January 2018, Mr. Chung Chi Shing, Eric, the Executive Director of the Company, was appointed as the Chairman of the Company. Following the appointment of Mr. Chung Chi Shing, Eric, the Company has complied with code provision A.2.1. However, due to other business development which requires more of his dedication, Mr. Chung Chi Shing, Eric resigned as the Chairman and the Executive Director of the Company on 2 March 2018. On the same date, Mr. Fu Yiu Man, Peter had been appointed as the Chairman and the Executive Director of the Company.

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 (the "Articles of Association"), all Directors, including non-executive Directors, are subject to retirement by rotation and reelection 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. Chiang Ho Wai, an Independent Non-executive Director of the Company, was absent from the extraordinary general meeting of the Company held on 15 October 2018 due to other business engagement.

Under the code provision E.1.3, the listed issuer should arrange for the notice to shareholders to be send for annual general meetings at least 20 clear business days before the meeting. The Company had served 21 clear days' notice to its shareholders for the annual general meeting held on 26 April 2018 pursuant to its Articles of Association, of which the notice period is shorter than the requirement of the CG Code.

In the first half of 2018, the Company has certain potential acquisitions, which might need funding for completion. As the general mandate granted to the Directors during the annual general meeting held on 25 May 2017 was almost fully utilized due to the completion of the placing of 132,000,000 new shares on 18 August 2017, earlier refreshment of the general mandate in the annual general meeting would provide the Company with flexibility of having a readily available funding alternative for transactions. The Company commits it will comply with this code provision in future unless the circumstance are exceptional.

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 four Independent Non-executive Directors of the Company, namely, Mr. Wong Chung Kin, Quentin (Chairman), Mr. Wong Kam Choi, Kerry, MH, Mr. Siu Miu Man, Simon and Mr. Chiang Ho Wai. 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 2018 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 2018.

SCOPE OF WORK OF MESSRS. SHINEWING (HK) CPA LIMITED

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 2018 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. SHINEWING (HK) CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. SHINEWING (HK) CPA Limited 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. SHINEWING (HK) CPA Limited on the preliminary announcement.

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

For the year ended 31 December 2018, 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 2018 (the "2018 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 2018 will be held in May 2019. A notice convening this annual general meeting will be issued to the shareholders of the Company together with the 2018 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 seven Executive Directors, namely, Mr. Fu Yiu Man, Peter (Chairman), Mr. Tin Ka Pak, Timmy, Mr. Lin Hoi Kwong, Aristo, Mr. Xie Jintai, Mr. Zhang Min, Mr. Jiang Tian and Ms. Lu Mengjia; and four Independent Non-executive Directors, namely, Mr. Wong Chung Kin, Quentin, Mr. Wong Kam Choi, Kerry, MH, Mr. Siu Miu Man, Simon and Mr. Chiang Ho Wai.

By Order of the Board of
Value Convergence Holdings Limited
Fu Yiu Man, Peter
Chairman & Executive Director

Hong Kong
28 March 2019