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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board (the "Board") of directors (the "Directors") of Value Convergence Holdings Limited (the "Company") submits the unaudited condensed consolidated results of the Company and its subsidiaries (collectively "VC Group" or the "Group") for the six months ended 30 June 2019, together with the unaudited comparative figures of the corresponding period in 2018.

FINANCIAL HIGHLIGHTS

The Group's consolidated revenue for the six months ended 30 June 2019 amounted to approximately HK$21.5 million, which decreased by about 20% as compared with approximately HK$26.7 million for the same period in 2018.

The Group recorded a consolidated loss attributable to shareholders amounted to approximately HK$68.3 million for the six months ended 30 June 2019 against a loss of approximately HK$320.3 million for the same period in 2018, representing a substantial drop of about 79%.

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, asset management and insurance brokerage; and (ii) proprietary trading.

BUSINESS REVIEW

General

In the first half year of 2019, global economy recovery saw a slowdown due to myriad reasons, such as the escalating US-China trade war, the uncertainty of economic as well as political policies and the "no-deal Brexit" of UK. China economy has recorded its slowest growth rate in nearly three decades. The economy grew 6.2% year-on-year in the second quarter of 2019, a decline from 6.4% in the first quarter of 2019. US economy is now slowing back toward its trend rate about 2% and the time of the next US recession is narrowing. These unfavorable economic conditions have led to cautious market sentiment in Hong Kong.

Looking at the stock market, in the first half year of 2019, Hong Kong stocks experienced an uptrend, except a decline in May. In the early April, the Hang Seng Index ("HSI") soared over 30,000. In May 2019, US raised import tariff from 10% to 25% on US$200 billion Chinese imports, and US threatened to further impose tariff on additional US$300 billion imports. The escalation of China-US trade dispute weakened market sentiment and HSI plunged from around 30,000 to around 27,000 in May. After that, market speculated the resumption of trade talk between President Xi and President Trump during G20 Meeting. Trade tension eased and market rebounded from low in late June, easing the loss in May. The average daily turnover was HK$97.9 billion, a decline of 23% compared with HK$126.6 billion for the same period in 2018. Further, HSI recorded an increase of about 10.4% in the first half year. Market capitalization was HK$32,727 billion on 30 June 2019.

On the other hand, the total initial public offering ("IPO") fundraising in Hong Kong reached to HK$69.5 billion, ranking first in Asia. The total number of new listed companies was 76 among which 70 companies listed on the main board. Meanwhile, the number of GEM IPOs dropped sharply to only 6 compared with 50 for the same period in 2018. This is because the reform plan adopted in 2018, apart from increasing flexibility of main board, Hong Kong Exchanges and Clearing Limited has also raised the requirements of GEM listing in many aspects, such as market value, minimum public ownership, cash flow, and raised the threshold of GEM to the main board, aiming at cracking down on the GEM hype.

As a financial services provider, the business performance of the Group is inevitably influenced by the macro environment and local market conditions. Yet, with our comprehensive investment services and products offered to our customers and the solid financial standing, the Group is able to thrive 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.); (iii) asset management; and (iv) insurance brokerage; 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 helps 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$504 million), representing 44.5% shareholding in the PRC JV Company.

The Company intended to 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. This investment definitely not only strengthen the Group's financial position and prospects, but provide a stepping stone to the Group for entering into and developing of the PRC market.

On 21 May 2019, being the expiry date of the extended placing period, the Company was unable to reach agreement with the placing agent to further extend the placing period, the placing agreement had lapsed on that date.

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 30 June 2019, the Company paid an amount of HK$5 million for the Organisation Expenses. Since the Company was unable to reach agreement with the Party to extend the 2017 MOU which was due on 30 June 2019, the 2017 MOU had lapsed on that date. Remaining funds after expenses would be returned to the Company upon finalization of completion account. Details of the transaction had been disclosed in the Company's announcements dated 22 September 2017, 5 January 2018, 27 June 2018, 28 December 2018 and 28 June 2019.

Subscription of the increased registered capital in Beijing Shuntong Taida Aviation Ground Service Co., Ltd.

On 27 February 2019, Massive Benefit (HK) Limited ("Massive Benefit"), 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 (the "Investment Agreement") pursuant to which the Target Company has agreed to conditionally increase its registered capital by RMB2,117,600, and Massive Benefit 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 with the premium to be accounted into capital reserve of the Target Company. Upon completion, Massive Benefit 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.

On 28 June 2019, due to business plan adjustment, the parties to the Investment Agreement voluntarily entered into a termination agreement (the "Termination Agreement"), pursuant to which, the parties mutually agreed that the Investment Agreement shall terminate and cease to have any effect. Each party to the Termination Agreement has released and discharged other parties from all their legal liabilities under the Investment Agreement and shall have no claim against each other. Details of the transaction had been disclosed in the Company's announcements dated 27 February 2019 and 28 June 2019.

Establishment of insurance brokerage business

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 formal sale and purchase agreement was made on 3 April 2019 and the acquisition was completed on the same date, with the cash consideration of approximately HK$2.3 million.

Details of the Group's business performance of each operating segment for the six months ended 30 June 2019, together with the comparative figures of the corresponding period in 2018, are given in the section "FINANCIAL REVIEW" below.

OUTLOOK

Looking ahead, the macroeconomic environment remains challenges in the second half of 2019. The progress of trade talks would be the major uncertainty on the coming market sentiment. During G20 Meeting, China and the US agreed to resume trade talks without mentioning any deadline. Resumption of trade talk alleviates near-term market concerns on trade tension, driving market sentiment in the short-run. But market will continue to keep an eye on the progress of trade talk which is expected to still be a long way to reach a trade agreement. Political risk is still the major risk and uncertainty in the second half year. On the back of slowing economy, China government is likely to introduce some policy easing measures to maintain the stable growth of economy. In June 2019, National Development and Reform Commission allows local government project specific bond to be used as equity finance source for infrastructure project. This will ease the restriction on the project financing and accelerate project starts. More stabilized economic measures, including fiscal and monetary, are expected to come in the second half of 2019, such as more tax & fee reduction, reserve requirement ratio cut. US economy may also face upside pressure and the Federal Reserve is expected to cut interest rate. This will stimulate market sentiment and the market is likely to remain volatile in a short term.

Hong Kong is expected to retain its position as one of the world's largest IPO market in 2019. The listing reform is still in progress. In July 2019, those companies with weighted voting rights listed on the main board will be generated in Shanghai Connect and Shenzhen Connect. This means the companies have more opportunities to raise capital from international and mainland Chinese investors. The IPO sentiment in Shanghai and Shenzhen will likely be supported by measures like the technology board, Shanghai-London Stock Connect and potential inclusion of more A-shares into the MSCI. Despite the short-term impact of technology board in A-shares, Hong Kong is still one of the preferred market for new economy companies, including technology firms, pharmaceutical and pre-revenue biotech, and education companies which are likely attract the greatest market attention.

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-rounded business position in Hong Kong and beyond. The Group will continue to explore the business opportunities in the PRC market. At the same time, the Group also keeps a firm grasp on the business opportunities with comparably positive growth and return in the local financial market and more resources will then be devoted.

FINANCIAL REVIEW

For the six months ended 30 June 2019, the Group's consolidated revenue was approximately HK$21.5 million, which decreased by about 20% as compared with approximately HK$26.7 million for the same period in 2018. The Group recorded a consolidated loss attributable to shareholders amounted to approximately HK$68.3 million for the six months ended 30 June 2019 against a loss of approximately HK$320.3 million for the same period in 2018, representing a substantial drop of about 79%.

The significant decrease in the Group's consolidated loss attributable to shareholders for the six months ended 30 June 2019 was mainly attributable to (i) absence of loss on acquisition of financial assets at fair value through profit or loss of approximately HK$47.4 million for the six months ended 30 June 2018; (ii) decrease in loss arising from fair value change on financial assets at fair value through profit or loss of approximately HK$114.5 million; (iii) decrease in net realised and unrealised loss on financial assets held for trading of approximately HK$32.0 million; (iv) decrease in staff costs of approximately HK$37.0 million; and (v) decrease in finance costs of approximately HK$11.7 million.

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

Revenue Analysis

	Six months ended 30 June 2019		Six months ended 30 June 2018		
		Proportion of total revenue		Proportion of total revenue	Increase (decrease)
	HK$'000	**%**	*HK$'000*	%	%
Revenue from:					
Brokerage and Financing	**16,123**	**75%**	20,748	78%	(22%)
Brokerage commission and other related fees	**6,203**	**29%**	11,577	44%	(46%)
Underwriting, sub-underwriting, placing and sub-placing commission	**560**	**3%**	–	–	100%
Interest income from brokerage clients	**6,064**	**28%**	4,319	16%	40%
Interest income from money lending clients	**3,296**	**15%**	4,852	18%	(32%)
Corporate Finance and Other Advisory Services	**5,362**	**25%**	5,961	22%	(10%)
Asset Management	**–**	**–**	–	–	–
Insurance Brokerage	**–**	**–**	–	–	–
Proprietary Trading	**–**	**–**	–	–	–
Total revenue	**21,485**	**100%**	26,709	100%	(20%)

Segment Analysis

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
Segment results:		
Brokerage and Financing	**9,678**	(2,362)
Corporate Finance and Other Advisory Services	**(1,528)**	(1,061)
Asset Management	**(793)**	(778)
Insurance Brokerage	**(111)**	–
Proprietary Trading	**(31,677)**	(66,752)
Group segment loss	**(24,431)**	(70,953)
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	**(10,397)**	(124,887)
Unallocated administrative costs	**(32,855)**	(78,160)
Share of loss of an associate	**(10)**	–
Loss before tax	**(67,693)**	(321,436)
Income tax (expense) credit	**(636)**	1,151
Loss for the period attributable to shareholders of the Company	**(68,329)**	(320,285)

Brokerage and Financing

During the six months ended 30 June 2019, 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 an indirect wholly owned subsidiary, VC Finance Limited, provides money lending services. For the six months ended 30 June 2019, the brokerage and financing businesses recorded total revenue of approximately HK$16.1 million as compared with approximately HK$20.7 million for the same period last year, representing a decrease of about 22%, and accounted for about 75% of the Group's total revenue.

The Group's one of the major revenue streams, namely, brokerage commission and other related fees from dealing in securities, futures and options contracts for the six months ended 30 June 2019 decreased to approximately HK$6.2 million from approximately HK$11.6 million for the same period last year, representing a decrease of about 46%, and accounted for about 29% of the Group's total revenue. The Group recorded a decrease in brokerage transactions for the first half of 2019 as the average daily trading turnover decreased by about 44% as compared to the same period last year.

Meanwhile, the Group's total interest income from financing for the six months ended 30 June 2019 increased by about 2% to approximately HK$9.4 million from approximately HK$9.2 million for the same period last year, and accounted for about 43% of the Group's total revenue. The revenue included interest income derived from both the brokerage business and the money lending business. Among these, the Group's interest income from our brokerage clients recorded approximately HK$6.1 million for the six months ended 30 June 2019, representing a rise of about 40% as compared with the same period last year. The rise was mainly attributable to the increase of average loan portfolio of our brokerage clients by about 39% for the six months ended 30 June 2019 as compared with the same period last year.

As abovementioned, the Group also provides money lending services to our clients. This aims at broadening our revenue base and also offering our clients with more financial flexibility to meet their personal and business needs. The Group's interest income from money lending services was approximately HK$3.3 million for the six months ended 30 June 2019, representing a drop of about 32% as compared with approximately HK$4.9 million during the same period last year. It was mainly due to the decrease of average loan portfolio of the money lending business by about 20% for the six months ended 30 June 2019 as compared with the same period last year.

The Group has put efforts on implementing our credit control policies and procedures to review our clients' creditworthiness and credit limits from time to time so as to minimize our credit risk exposure. The Group's credit control policies and procedures are principally based on the doubtful unsecured exposure having assessed the fair value of the clients' collaterals held, the evaluation of collectability and aging analysis of the client accounts. As the local economy is volatile from time to time, the Group will take a much more cautious approach in provision of the financing services. For the six months ended 30 June 2019, there was an additional impairment loss of approximately HK$2.5 million on client receivables from the brokerage and financing businesses (31 December 2018: impairment loss of HK$46.1 million) in accordance with the Group's credit control policies and procedures. The Group will take all necessary legal actions against the relevant clients to follow up the outstanding loans. Details of the impairment loss on the client receivables had been disclosed in Note 16 to the unaudited condensed consolidated financial statements.

Meanwhile, the Group offers placing and underwriting services to our clients, and acts as placing agent and underwriter for Hong Kong listed companies' fund raising activities. For the six months ended 30 June 2019, the Group recorded approximately HK$560,000 placing and underwriting commission (six months ended 30 June 2018: Nil). The Group will continue to put efforts to capture the opportunities towards the local initial public offerings and other fund raising exercises.

Overall, the operating performance of the brokerage and financing businesses for the six months ended 30 June 2019 recorded an operating profit after tax of approximately HK$8.8 million against a loss of approximately HK$2.9 million for the same period last year.

Corporate Finance and Other Advisory Services

The Company through one of its indirect wholly owned subsidiary, VC Capital Limited ("VC Capital"), provides corporate finance advisory services to its clients. For the six months ended 30 June 2019, VC Capital was appointed as the financial adviser of several Hong Kong listed companies for a number of corporate transactions.

In addition, 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.

Overall, the operating performance of the corporate finance and other advisory services business for the six months ended 30 June 2019 was close to that of the same period last year, which recorded revenue and operating loss after tax of approximately HK$5.4 million and HK$1.5 million as compared with approximately HK$6 million and loss of HK$1.1 million for the same period last year respectively.

Asset Management

For the six months ended 30 June 2019, the Company's asset management business, through its indirect wholly owned subsidiary, VC Asset Management Limited, recorded an operating loss after tax of approximately HK$0.8 million as compared with a loss of approximately HK$0.8 million for the same period last year, which mainly included the general operating expenses such as staff costs and professional costs.

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

Insurance Brokerage

On 3 April 2019, the Group completed the acquisition of the entire equity interest in Experts Management Limited, an insurance broker company. Experts Management Limited became an indirect wholly owned subsidiary of the Company and its results are consolidated in the Group's unaudited condensed consolidated financial statements from the acquisition date. During the period under review, the insurance brokerage business did not record any revenue. Nevertheless, the Group believes that the tapping into insurance brokerage can complement the existing financial services provided by the Group with synergy effect on the existing business portfolios.

The insurance brokerage business recorded an operating loss after tax of approximately HK$0.1 million from the acquisition date to the period ended 30 June 2019, which mainly included the general operating expenses such as staff costs.

Proprietary Trading

As at 30 June 2019, the Group held equity securities listed in Hong Kong of approximately HK$174.8 million (31 December 2018: HK$240.3 million) as financial assets held for trading, which was stated at market value. The fair value of these listed equity securities represents about 16% of the Group's total assets as at 30 June 2019 (31 December 2018: 21%). The Group decided to diversify its business into other areas and therefore resources reserved on proprietary trading would be gradually scaling down.

The Group invests mainly through purchases in the secondary market. The management follows strictly the internal securities investment policy and seeks the approval from the Board, when necessary, so as to enhance the financial returns to the shareholders and limit the risk exposure associated therewith. During the first half of 2019, there was net disposal of securities investment of approximately HK$50.1 million.

For the six months ended 30 June 2019 and 2018, no revenue was recorded for the proprietary trading business. Meanwhile, the Group recognised a net loss of approximately HK$29.5 million (including a realised loss of approximately HK$14.2 million and an unrealised loss of approximately HK$15.3 million) on the trading investments for the six months ended 30 June 2019 as compared with a net loss of approximately HK$61.5 million (including a realised gain of approximately HK$2.8 million and an unrealised loss of approximately HK$64.3 million) for the same period in 2018.

Below is an analysis of the financial assets held for trading held by the Group as at 30 June 2019:

Industries	**Market value as at 30 June 2019**	**Percentage to the Group's total assets**	**Unrealised gain/(loss) for the six months ended 30 June 2019**
	HK$'000		*HK$'000*
Energy	42,088	4.0%	(1,652)
Information Technology	56,726	5.3%	(1,493)
Consumer goods and services	17,984	1.7%	(11,283)
Properties and construction	17,035	1.6%	(2,092)
Materials	17,893	1.7%	1,778
Financials	10,386	1.0%	(2,066)
Industrials	12,709	1.2%	1,459
	174,821	16.5%	(15,349)

While the performance of different industries did vary, the Group cautiously envisages the investment portfolio and shall be determined to make any strategic moves.

Overall, the Group's proprietary trading business recorded an operating loss of approximately HK$31.7 million for the six months ended 30 June 2019 against a loss of approximately HK$66.8 million for the same period last year.

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

During the six months ended 30 June 2019, the impairment loss on financial assets at fair value through profit or loss represents the change in fair value of the convertible bonds issued by China Fortune Financial Group Limited (the "China Fortune Convertible Bonds") acquired by the Company in January 2018. The fair value as at 30 June 2019 was based on a valuation report prepared by an independent professional valuer, being the fair values of the China Fortune Convertible Bonds and the put option of approximately HK$188.1 million and HK$105.6 million respectively. The Group recognised a net decrease in fair value change on the China Fortune Convertible Bonds of approximately HK$10.4 million in profit or loss.

Unallocated administrative costs

For the six months ended 30 June 2019, the Group's unallocated administrative costs amounted to approximately HK$32.9 million as compared with approximately HK$78.2 million for the same period last year, which mainly included the unallocated corporate operating expenses. The substantial decrease in the unallocated administrative costs of approximately HK$45.3 million during the first half of 2019 was mainly attributable to the decrease in (i) the corporate portion of the equity-settled share option expense of approximately HK$31 million on the 66,256,000 share options granted in January 2018; (ii) the effective interest expenses on convertible bonds issued in January and June 2018; and (iii) the corporate operating expenses incurred for the Group's business development such as staff costs, entertainment and travel expenses.

Income tax expense/credit

During the six months ended 30 June 2019, the Group recognised an income tax expense of approximately HK$0.6 million (six months ended 30 June 2018: tax credit of HK$1.2 million) which included net current tax expense of approximately HK$0.8 million for Hong Kong Profits Tax and the PRC Enterprise Income Tax for the PRC representative office of the Group and deferred tax credit of approximately HK$0.2 million (six months ended 30 June 2018: tax expense of HK$0.6 million and deferred tax credit of HK$1.8 million).

Finance costs

For the six months ended 30 June 2019, the finance costs of the Group amounted to approximately HK$2.0 million as compared with approximately HK$13.7 million for the same period last year. The finance costs mainly consisted of (i) imputed interests on convertible bonds issued by the Company; and (ii) imputed interest on lease liabilities upon adoption of HKFRS 16 on 1 January 2019. The significant decrease of finance costs during the period was due to gradual conversion of convertible bonds by the bondholders, resulting in diminishing in related imputed interests.

Headcount and employees information

As at 30 June 2019, the Group employed a total of 66 employees (31 December 2018: 81), which excluded 18 self-employed account executives for brokerage services (31 December 2018: 18), and 62 and 4 were located in Hong Kong and the PRC respectively (31 December 2018: 75 and 6). Salaries and staff benefit costs (including the Directors' emoluments) and staff commission amounted to approximately HK$20.5 million and HK$1.2 million respectively for the six months ended 30 June 2019 as compared with approximately HK$53.7 million and HK$5 million respectively for the same period last year. Details had been disclosed in Note 6 to the unaudited condensed consolidated financial statements. The decrease in the salaries and staff benefits costs of approximately HK$33.2 million during the first half of 2019 was mainly attributable to the absence of equity-settled share option expense of approximately HK$19.8 million for the share options granted in January 2018 and the increase in payment for the termination of employment contracts in 2018.

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

Liquidity and financial resources/capital structure

For the six months ended 30 June 2019, the Group financed its business operations and investments mainly with internal resources and cash revenues generated from operating activities.

The Group adopts a prudent treasury policy. As at 30 June 2019, the Group recorded no borrowing and almost all the bank balances and cash were denominated in Hong Kong dollars. The Group intends to maintain minimum exposure to foreign exchange risks. Further, all the bank balances and cash were put in time deposits, saving deposits and current accounts as at 30 June 2019.

As at 30 June 2019, the Group did not maintain any banking facilities (31 December 2018: HK$100 million granted from a bank to VC Brokerage, which was required to be secured by bank deposits of HK$40 million and corporate guarantee of HK$100 million provided by the Company. Among the available banking facilities, HK$40 million was general short-term money market loan and current account overdraft. The other HK$50 million was short-term money market loan for margin financing business, which was required to be secured by VC Brokerage's margin clients' listed securities when utilised. The balance of HK$10 million was used for drawings against uncleared cheques.).

As at 30 June 2019, the Group's bank balances and cash, net current assets and shareholders' equity (other than clients' segregated accounts) amounted to approximately HK$113.3 million (31 December 2018: HK$138.0 million), HK$767.1 million (31 December 2018: HK$536.9 million) and HK$970.9 million (31 December 2018: HK$1,039.3 million) respectively, representing a decrease of about 18%, an increase of about 43% and a decrease of about 7% respectively as compared with that of 31 December 2018. Current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of about 16.9 times as at 30 June 2019 (31 December 2018: 8.5 times). These showed that the Group still maintained a solid financial position as at 30 June 2019.

As at 30 June 2019, the total number of issued ordinary shares of the Company was 1,230,951,598 (31 December 2018: 1,230,951,598 shares).

Charges on group assets

The Group did not have any charged assets as at 30 June 2019 (31 December 2018: HK$40 million charge over its bank deposits to a bank for securing the banking facilities granted to VC Brokerage).

Foreign exchange exposure

It is the Group's policy for all operating entities to use corresponding local currency as much as possible so as to minimize exchange related risks. For the six months ended 30 June 2019, almost all of the Group's principal businesses were conducted and recorded in Hong Kong dollars. Impact from foreign exchange exposure was thus minimal and no hedging against foreign currency exposure had been necessary. In view of the operational needs, the Group will continue to monitor the foreign currency exposure from time to time and take necessary action to minimize the exchange related risks.

Contingent liabilities

As at 30 June 2019, the Group did not have any significant contingent liabilities. As at 31 December 2018, the Company had given financial guarantees of HK$100 million to a bank in respect of banking facilities of HK$100 million provided to VC Brokerage as mentioned in the section "*Liquidity and financial resources/capital structure*" above.

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

Gearing ratio

As at 30 June 2019, the Group's gearing ratio, expressed as total borrowings (being the bank borrowings and liability portion of convertible bonds) over shareholders' equity, was approximately 0.03 time (31 December 2018: 0.06 time).

Significant investments held, their performance and future prospects

For the six months ended 30 June 2019, details of the Group's significant investments held, their performance and future prospects are disclosed in the sections "*Fair value change on financial assets at fair value through profit or loss*" and "*Proprietary Trading*" above.

Material acquisitions and disposal of subsidiaries, associates and joint ventures

For the six months ended 30 June 2019, save as the acquisition of a subsidiary as mentioned in the section "*Establishment of insurance brokerage business*" above, the Group did not complete any other material acquisition or disposals.

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

As at 30 June 2019, 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 as disclosed in the "*Event 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 30 June 2019, 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 capital commitments are disclosed in Note 22 to the unaudited condensed consolidated financial statements.

Event after the reporting period

On 1 July 2019, the Company and Macarthur Court Acquisition Corp. (the "Subscriber") entered into a subscription agreement (the "Subscription Agreement") pursuant to which, the Company agreed to offer for subscription and the Subscriber (i) agreed to subscribe for 220,000,000 initial subscription shares at the initial subscription money of HK$99,000,000 (the "Initial Subscription Shares"); and (ii) has the option but not the obligation to subscribe for 80,000,000 further subscription shares at the further subscription money of HK$36,000,000 (the "Further Subscription Shares") and convertible bonds at its aggregate principal amount of HK$99,000,000 (the "Convertible Bonds") within one year of completion of the subscription and the proposed allotment and issue of the Initial Subscription Shares (the "Initial Share Subscription").

Subject to the terms and conditions of the Subscription Agreement, the Subscriber (or through its nominee(s)) shall subscribe for, and the Company shall allot and issue the Initial Subscription Shares to the Subscriber (or its nominee(s)) at the subscription price of HK$0.45 per subscription share (the "Subscription Price"). The Initial Subscription Shares represent approximately (i) 17.87% of the existing issued share capital of the Company; and (ii) 15.16% of the issued share capital of the Company as enlarged by the issue of the Initial Subscription Shares.

Subject to the completion of Initial Share Subscription and the terms and conditions of the Subscription Agreement, the Subscriber (or through its nominee(s)) shall have the option but not the obligation to subscribe for Further Subscription Shares at the Subscription Price and the Convertible Bonds at its aggregate principal amount within one year of completion of the Initial Share Subscription. The resulting conversion shares pursuant to conversion of the Convertible Bonds and the Further Subscription Shares in aggregate represent approximately (i) 24.37% of the existing issued share capital of the Company; and (ii) 19.60% of the issued share capital of the Company as enlarged by the issue of the conversion shares upon full conversion of the Convertible Bonds and the Further Subscription Shares.

As at the date of this announcement, the Initial Share Subscription was not yet completed.

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

Hong Kong
30 August 2019

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	4	**21,485**	26,709
Other income	4	**2,269**	1,752
Other gains and losses	5	**(229)**	(28)
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		**(10,397)**	(124,887)
Net realised and unrealised loss on financial assets held for trading		**(29,524)**	(61,549)
Impairment loss on accounts receivable, net		**(2,464)**	(6,008)
Staff costs	6	**(21,676)**	(58,694)
Commission expenses		**(2,594)**	(2,096)
Depreciation of property and equipment	12	**(1,704)**	(1,144)
Depreciation of right-of-use assets	13	**(2,817)**	–
Finance costs	7	**(1,958)**	(13,689)
Other operating expenses		**(18,074)**	(34,366)
Share of loss of an associate		**(10)**	–
Loss before tax		**(67,693)**	(321,436)
Income tax (expense) credit	8	**(636)**	1,151
Loss and total comprehensive expense for the period	9	**(68,329)**	(320,285)
Loss per share (HK cents)			
Basic	11	**(5.55)**	(37.98)
Diluted	11	**(5.55)**	(37.98)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	30 June 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
Non-current assets			
Goodwill		**2,016**	–
Trading rights		**–**	–
Other intangible assets		**1,246**	1,246
Interest in an associate		**9,979**	9,989
Property and equipment	12	**7,272**	2,844
Statutory deposits		**3,015**	2,988
Rental and utility deposits		**1,868**	1,578
Right-of-use assets	13	**14,109**	–
Financial assets at fair value through profit or loss	15	**–**	304,081
Financial assets at fair value through other comprehensive income	14	**207,084**	207,084
		246,589	529,810
Current assets			
Accounts receivable	16	**217,454**	167,927
Prepayments, deposits and other receivables		**16,267**	22,429
Financial assets at fair value through profit or loss	15	**468,505**	240,282
Pledged bank deposits		**–**	40,000
Bank balances and cash	17	**113,298**	138,032
		815,524	608,670
Current liabilities			
Accounts payable	18	**39,362**	24,390
Accrued liabilities and other payables		**7,798**	6,893
Tax payable		**1,216**	537
Short-term bank borrowings	19	**–**	40,000
		48,376	71,820
Net current assets		**767,148**	536,850
Total assets less current liabilities		**1,013,737**	1,066,660

	Notes	**30 June 2019** **HK$'000** **(Unaudited)**	31 December 2018 *HK$'000* (Audited)
Non-current liabilities			
Convertible bonds	20	**27,515**	26,116
Deferred tax liabilities		**1,050**	1,282
Lease liabilities	13	**14,239**	–
		42,804	27,398
Net assets		**970,933**	1,039,262
Capital and reserves			
Share capital	21	**1,585,239**	1,585,239
Reserves		**(614,306)**	(545,977)
Total equity		**970,933**	1,039,262

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	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 2019 (Audited)	**1,585,239**	**123,758**	**17,536**	**(550)**	**51,631**	**(767)**	**(737,585)**	**1,039,262**
Loss and total comprehensive expense for the period	**–**	**–**	**–**	**–**	**–**	**–**	**(68,329)**	**(68,329)**
At 30 June 2019 (Unaudited)	**1,585,239**	**123,758**	**17,536**	**(550)**	**51,631**	**(767)**	**(805,914)**	**970,933**

	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 (Audited)	855,363	123,758	–	–	20,406	(767)	(246,575)	752,185
Impact on initial application of HKFRS 9	–	–	–	(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 period	–	–	–	–	–	–	(320,285)	(320,285)
Recognition of equity-settled share option expense	–	–	–	–	31,322	–	–	31,322
Issue of shares upon exercise of share options	431	–	–	–	(97)	–	–	334
Recognition of equity component of convertible bonds	–	–	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	167,473	–	(78,218)	–	–	–	–	89,255
Release of deferred tax liabilities on conversion of convertible bonds	–	–	6,335	–	–	–	–	6,335
At 30 June 2018 (Unaudited)	1,023,267	123,758	214,343	(550)	51,631	(767)	(571,554)	840,128

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

(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 9.9% and 8.84% in VC Capital Limited and VC Asset Management Limited respectively completed in 2012.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash from (used in) operating activities	**26,176**	(28,064)
Net cash used in investing activities	**(8,400)**	(41,600)
Net cash (used in) from financing activities	**(42,510)**	306
Net decrease in cash and cash equivalents	**(24,734)**	(69,358)
Cash and cash equivalents at the beginning of the period	**138,032**	228,190
Cash and cash equivalents at the end of the period, represented by bank balances and cash	**113,298**	158,832

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company is 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.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange.

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

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

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

The financial information relating to the year ended 31 December 2018 that is included in the unaudited condensed consolidated financial statements as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) (the "Companies Ordinance") is as follows:

The Company has delivered the audited consolidated financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to HKFRSs, the accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's audited annual consolidated financial statements for the year ended 31 December 2018.

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA that are mandatorily effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's unaudited condensed consolidated financial statements:

HKFRS 16	Leases
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments

Except as described below, the application of the other new and amendments to HKFRSs in the current interim period has had no material effect on the amounts reported and/or the disclosures set out in these unaudited condensed consolidated financial statements.

HKFRS 16 Leases

HKFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new accounting policies are described below. The Group has applied HKFRS 16 retrospectively with the cumulative effect of initial application as an adjustment to the opening balance of equity, where appropriate, at 1 January 2019, and has not restated comparatives for the 2018 reporting period as permitted under the specific transitional provisions in the standard. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 17 Leases.

On transition to HKFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which arrangements are, or contain, leases. It applied HKFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

The major impacts of the adoption of HKFRS 16 on the Group's unaudited condensed consolidated financial statements are described below.

(i) *Impact on adoption of HKFRS 16*

The Group as lessee

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 (except for lease of low value assets and lease with remaining lease term of twelve months or less). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

The Group recognises right-of-use assets and measures them at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The following table summarises the impact of transition to HKFRS 16 at 1 January 2019. Line items that were not affected by the adjustments have not been included.

	Carrying amount at 31 December 2018	**Impact on adoption of HKFRS 16**	**Carrying amount at 1 January 2019**
	HK$'000	*HK$'000*	*HK$'000*
Right-of-use assets *(note a)*	–	13,622	13,622
Prepayments, deposits and other receivables *(note b)*	22,429	(442)	21,987
Lease liabilities *(note c)*	–	(13,180)	(13,180)

Notes:

(a) As at 1 January 2019, right-of-use assets were measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease at the date of initial application of HKFRS 16.

(b) Prepaid rental of approximately HK$442,000 as at 31 December 2018 was adjusted to right-of-use assets.

(c) The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.375%.

Difference between operating lease commitment as at 31 December 2018, the date immediately preceding the date of initial application, discounted using the incremental borrowing rate, and the lease liabilities recognised as at 1 January 2019 are as follows:

	HK$'000
Operating lease commitment disclosed as at 31 December 2018	16,665
Less: Short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(2,043)
Less: Prepaid rental	(442)
	14,180
Discounted using the incremental borrowing rate at 1 January 2019	13,180
Lease liabilities recognised as at 1 January 2019	13,180

(ii) Practical expedients applied

On the date of initial application of HKFRS 16, the Group has used the following practical expedients permitted by the standard:

- not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying HKAS 17 and HK(IFRIC)-Int 4;
- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous by applying HKAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative to performing an impairment review;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

(iii) Summary of new accounting policies

Leases

Definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities

At the commencement date, the Group measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

The lease liability is presented as a separate line in the unaudited condensed consolidated statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Lease liability is remeasured (and with a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

Right-of-use assets
The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, provision is recognised and measured under HKAS 37 Provision, Contingent Liabilities and Contingent Assets. The costs are included in the related right-of-use asset. The Group applies HKAS 36 Impairment of Assets to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses, if any. They are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the unaudited condensed consolidated statement of financial position.

Lease modification
The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increase by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

4. REVENUE AND SEGMENT INFORMATION

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

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Revenue		
Revenue from contracts with customers		
Disaggregated by major services lines		
– Brokerage commission and other related fees from dealing in securities and futures and options contracts	**6,203**	11,577
– Underwriting, sub-underwriting, placing and sub-placing commission	**560**	–
– Arrangement, referral, advisory and other fee income	**5,362**	5,961
	12,125	17,538
Revenue from other sources		
– Interest income from clients	**9,360**	9,171
	21,485	26,709
Other income		
Interest income from authorised institutions	**486**	287
Interest income from convertible bonds	**1,523**	1,464
Sundry income	**260**	1
	2,269	1,752
Total income	**23,754**	28,461

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 five operating segments, namely brokerage and financing businesses, corporate finance and other advisory services, asset management, insurance brokerage and proprietary trading and reports to the Group's Executive Committee (being the Group's Chief Operating Decision Maker) accordingly. Details of these five 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;

(iv) the insurance brokerage segment engages in the provision of insurance brokerage services; and

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

The following tables represent revenue and results information of these operating segments for the six months ended 30 June 2019 and 2018.

Six months ended 30 June 2019 (Unaudited)

	Brokerage and financing *HK$'000*	Corporate finance and other advisory services *HK$'000*	Asset management *HK$'000*	Insurance brokerage *HK$'000*	Proprietary trading *HK$'000*	Segment total *HK$'000*	Eliminations *HK$'000*	Total *HK$'000*
Segment revenue	**16,123**	**5,362**	**–**	**–**	**–**	**21,485**	**–**	**21,485**
Inter-segment sales	**16**	**926**	**–**	**–**	**–**	**942**	**(942)**	**–**
	16,139	**6,288**	**–**	**–**	**–**	**22,427**	**(942)**	**21,485**
Segment profit (loss)	**9,678**	**(1,528)**	**(793)**	**(111)**	**(31,677)**	**(24,431)**	**–**	**(24,431)**
Unallocated administrative costs								**(32,855)**
Fair value change on financial assets at fair value through profit or loss ("FVTPL")								**(10,397)**
Share of loss of an associate								**(10)**
Loss before tax for the period								**(67,693)**

Six months ended 30 June 2018 (Unaudited)

	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	20,748	5,961	–	–	26,709	–	26,709
Inter-segment sales	194	54	–	–	248	(248)	–
	20,942	6,015	–	–	26,957	(248)	26,709
Segment loss	(2,362)	(1,061)	(778)	(66,752)	(70,953)	–	(70,953)
Unallocated administrative costs							(78,160)
Loss on acquisition of financial assets at FVTPL							(47,436)
Fair value change on financial assets at FVTPL							(124,887)
Loss before tax for the period							(321,436)

Segment profit or loss represents the profit earned by/loss from each segment, before the adjustments of unallocated administrative costs, fair value change on financial assets at FVTPL, share of loss of an associate and loss on acquisition of financial assets at FVTPL. This is the measure reported to the Group's Executive Committee for the purposes of resource allocation and performance assessment.

For the six months ended 30 June 2019, no single customer contributed 10% or more of the Group's revenue (six months ended 30 June 2018: one customer with revenue of approximately HK$2,959,000). 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 the six months ended 30 June 2019 and 2018. 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.

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss on disposal of property and equipment	**(225)**	(149)
Net exchange (loss) gain	**(4)**	121
	(229)	(28)

6. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Staff commission	**1,208**	5,037
Salaries and wages	**17,562**	30,425
Staff welfare	**733**	1,392
Recruitment costs	**6**	53
Provision of long service payment/annual leave benefits	**188**	718
Retirement benefits scheme contributions	**475**	708
Discretionary and performance related incentive payments and provision of gratuity	**1,504**	591
Equity-settled share option expense	**–**	19,770
	21,676	58,694

7. FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest on:		
Convertible bonds	**1,577**	13,661
Bank loans	**11**	28
Lease liabilities *(Note 13)*	**370**	–
	1,958	13,689

8. INCOME TAX EXPENSE (CREDIT)

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax		
Hong Kong Profits Tax	**836**	624
The People's Republic of China (the "PRC") Enterprise Income Tax	**27**	9
Under (over) provision in prior year		
PRC Enterprise Income Tax	**4**	(1)
Deferred tax		
Current period	**(231)**	(1,783)
	636	(1,151)

Hong Kong Profits Tax is calculated in accordance with the two-tiered profits tax rates regime (8.25% and 16.5%) of the estimated assessable profits for both periods. The PRC representative offices are subject to the PRC Enterprise Income Tax at 25% for the six months ended 30 June 2019 (six months ended 30 June 2018: 25%).

At 30 June 2019, the Group has estimated unused tax losses of approximately HK$448,196,000 (31 December 2018: HK$427,935,000) available for offset against future profits. As at 30 June 2019, deferred tax asset and liability have been recognised in respect of tax losses of approximately HK$4,485,000 (31 December 2018: HK$4,485,000) and taxable temporary difference of approximately HK$5,366,000 (31 December 2018: HK$5,366,000) respectively. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK$443,711,000 (31 December 2018: HK$423,450,000) due to the unpredictability of future profit streams. The estimated unused tax losses have no expiry date but are subject to further approval of the Hong Kong Inland Revenue Department.

9. LOSS FOR THE PERIOD

Loss for the period has been arrived at after charging:

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Included in other operating expenses:		
Auditor's remuneration	**540**	630
Operating leases in respect of rental premises	**2,657**	4,970
Entertainment and travel expenses (mainly incurred for business development)	**3,331**	4,918

10. DIVIDENDS

No dividends have been paid or declared or proposed by the Company during the six months ended 30 June 2019 (six months ended 30 June 2018: Nil). The directors of the Company have determined that no dividend will be paid for the six months ended 30 June 2019.

11. LOSS PER SHARE

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

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss		
Loss for the purposes of basic and diluted loss per share (Loss for the period attributable to owners of the Company)	**(68,329)**	(320,285)
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**1,230,952**	843,356

The computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible bonds since the exercise of the convertible bonds would result in a decrease in loss per share for the six months ended 30 June 2019 and 2018. The computation of diluted loss per share does not assume the exercise of the Company's share options since the exercise price of those share options was higher than the average market price for shares for the six months ended 30 June 2019 and 2018.

12. PROPERTY AND EQUIPMENT

	As at 30 June 2019	As at 31 December 2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Carrying value, at beginning of the period/year	**2,844**	4,704
Additions	**6,710**	869
Depreciation	**(1,704)**	(2,108)
Written off/Disposal	**(578)**	(621)
Carrying value, at end of the period/year	**7,272**	2,844

13. RIGHT-OF-USE ASSETS/LEASE LIABILITIES

(a) Right-of-use assets

Upon adoption of HKFRS 16, on 1 January 2019, the Group recognised right-of-use assets of approximately HK$13,622,000 in respect of the leased properties. As at 30 June 2019, the carrying amount of right-of-use assets was approximately HK$14,109,000 in respect of the leased properties.

During the six months ended 30 June 2019, the Group entered into a lease agreement for staff apartment and lease contains minimum lease payment terms during the lease contract period.

(b) Lease liabilities

Upon adoption of HKFRS 16, on 1 January 2019, the Group recognised lease liabilities of approximately HK$13,180,000. As at 30 June 2019, the carrying amount of lease liabilities was approximately HK$14,239,000.

(c) Amounts recognised in the unaudited condensed consolidated statement of financial position and profit or loss

The movements of the carrying amounts of the Group's right-of-use assets and lease liabilities during the six months ended 30 June 2019 are set out as follows:

	Right-of-use assets	**Lease liabilities**
	HK$'000	*HK$'000*
At 1 January 2019 (Unaudited)	13,622	13,180
Additions	3,304	3,188
Depreciation expense recognised in profit or loss	(2,817)	–
Interest expense recognised in profit or loss	–	370
Payments for leases	–	(2,499)
At 30 June 2019 (Unaudited)	14,109	14,239

During the six months ended 30 June 2019, the Group recognised rental expenses of approximately HK$2,657,000 in profit or loss in respect of short-term leases.

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at 30 June 2019 HK$'000 (Unaudited)	As at 31 December 2018 HK$'000 (Audited)
Unlisted equity securities *(notes a & b)*	**207,084**	207,084
Analysed for reporting purpose as non-current assets	**207,084**	207,084

Notes:

(a) On 8 June 2018, the Company issued convertible bonds with 2% coupon rate at a total principal amount of HK$160,000,000 to an independent third party, 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. The investment was classified as financial assets at fair value through other comprehensive income ("FVTOCI") on initial recognition and subsequently measured at fair value with fair value gains and losses recognised in other comprehensive income and accumulated in the investments revaluation reserve.

(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 Hong Kong respectively. The fair value of investments were approximately HK$nil as at 30 June 2019 and 31 December 2018.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2019 HK$'000 (Unaudited)	As at 31 December 2018 HK$'000 (Audited)
Convertible bonds *(note)*	**188,079**	224,573
Derivative financial asset *(note)*	**105,605**	79,508
Financial assets held for trading		
– equity securities listed in Hong Kong	**174,821**	240,282
	468,505	544,363
Analysed for reporting purpose:		
Non-current assets	**–**	304,081
Current assets	**468,505**	240,282
	468,505	544,363

Note: 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$188,079,000 and HK$105,605,000 respectively as at 30 June 2019 and were calculated using the binomial option pricing model ("Binomial Model") by an independent professional valuer, in which the parameters were summarised as follows:

	30 June 2019
Share price of the issuer	HK$0.066
Effective interest rate of the issuer	13%
Risk free rate	1.69%
Expected volatility of the issuer	54%
Dividend yield of the issuer	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 date of 30 June 2019. 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 date of 30 June 2019.

16. ACCOUNTS RECEIVABLE

	As at 30 June 2019 *HK$'000* (Unaudited)	As at 31 December 2018 *HK$'000* (Audited)
Accounts receivable arising from the ordinary course of business of dealing in:		
Securities transactions *(note a)*:		
Clearing house	**884**	763
Cash clients	**24,477**	15,821
Futures and options contracts transactions *(note a):*		
Clearing house	**18**	17
Accounts receivable arising from the ordinary course of business of provision of corporate finance and other advisory services *(note a)*	**4,056**	5,673
	29,435	22,274
Accounts receivable arising from the ordinary course of business of money lending services *(note b)*	**103,082**	60,552
Less: Impairment loss	**(37,251)**	(40,469)
	65,831	20,083
Accounts receivable arising from the ordinary course of business of dealing in *(note c)*:		
Securities transactions:		
Margin clients	**133,456**	131,157
Less: Impairment loss	**(11,268)**	(5,587)
	122,188	125,570
	217,454	167,927

The Group measures the loss allowance for accounts receivable at an amount equal to 12-month expected credit losses ("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:

	As at 30 June 2019 ***HK$'000*** **(Unaudited)**	As at 31 December 2018 *HK$'000* (Audited)
Within 30 days	**24,849**	16,158
31-90 days	**220**	101
Over 90 days	**310**	342
	25,379	16,601

As at 30 June 2019, accounts receivable of approximately HK$55,000 (31 December 2018: Nil) are due from directors of the Group in respect of transactions in securities undertaken for their 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:

	As at 30 June 2019 ***HK$'000*** **(Unaudited)**	As at 31 December 2018 *HK$'000* (Audited)
Within 30 days	**353**	2,859
31-90 days	**729**	1,387
Over 90 days	**2,974**	1,427
	4,056	5,673

(b) As at 30 June 2019, accounts receivable arising from money lending services bear fixed-rate interest at 1.5% per month or 12% per annum (31 December 2018: 1.5% 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 30 June 2019, accounts receivable with net carrying amount of approximately HK$11 million (31 December 2018: HK$3 million) were secured by the client's pledged listed securities.

Analysis of the gross carrying amount as at the end of the reporting period by the Group's internal credit rating and classification is as follows:

Internal credit rating	**12-month ECL (Stage 1)**	**Lifetime ECL not credit-impaired (Stage 2)**	**Lifetime ECL credit-impaired (Stage 3)**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
As at 30 June 2019 (Unaudited)				
Performing	**–**	**–**	**–**	**–**
Doubtful	**–**	**75,862**	**–**	**75,862**
Default	**–**	**–**	**27,220**	**27,220**
	–	**75,862**	**27,220**	**103,082**

Internal credit rating	12-month ECL (Stage 1)	Lifetime ECL not credit-impaired (Stage 2)	Lifetime ECL credit-impaired (Stage 3)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2018 (Audited)				
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 period are as follows:

	12-month 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 (Audited)	–	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 (Audited)	–	3,249	37,220	40,469
Impairment reversed during the period	–	(33)	(10,000)	(10,033)
Impairment recognised during the period	–	6,815	–	6,815
At 30 June 2019 (Unaudited)	–	10,031	27,220	37,251

(c) The accounts receivable due from margin clients of approximately HK$133,456,000 (31 December 2018: HK$131,157,000) were secured by the clients' pledged listed securities which carried a fair value of approximately HK$472,935,000 (31 December 2018: HK$520,490,000). The management of the Group has assessed the market value of pledged securities of each individual customer that has margin shortfall as at the end of each reporting period and the recognition of impairment allowance when necessary.

Securities are assigned with specific margin ratios for calculating their margin values. Additional funds or collaterals are required if the amount of accounts receivable from margin clients outstanding exceeds the eligible margin value of the securities deposited. The collateral held can be repledged up to 140% of the margin receivable amounts and the corresponding collateral held can be sold at the Group's discretion to settle any outstanding amounts owed by the margin clients. Accounts receivable due from margin clients are repayable on demand and bear interest at commercial rates.

As at 30 June 2019, an impairment of approximately HK$11,268,000 (31 December 2018: HK$5,587,000) was recognised in respect of the accounts receivable due from margin clients of approximately HK$23,838,000 and secured by the pledged list securities which carried a fair value of approximately HK$12,327,000. Such accounts receivable due from margin clients were assessed to be credit impaired.

Analysis of the gross carrying amount as at the end of the reporting period by the Group's internal credit rating and classification is as follows:

Internal credit rating	**12-month 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*
As at 30 June 2019 (Unaudited)				
Performing	**109,618**	**–**	**–**	**109,618**
Doubtful	**–**	**–**	**–**	**–**
Default	**–**	**–**	**23,838**	**23,838**
	109,618	**–**	**23,838**	**133,456**

Internal credit rating	12-month 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*
As at 31 December 2018 (Audited)				
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 period are as follows:

	12-month 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 (Audited)	–	–	–	–
Impairment recognised during the year	–	–	5,587	5,587
At 31 December 2018 (Audited)	–	–	5,587	5,587
Amounts written off	–	–	(1)	(1)
Impairment recognised during the period	–	–	5,682	5,682
At 30 June 2019 (Unaudited)	–	–	11,268	11,268

17. BANK BALANCES AND CASH

As at 30 June 2019, bank balances and cash comprise of cash and short-term bank deposits held by the Group at market interest rates ranging from 0.0625% to 2.4% (31 December 2018: 0.001% to 2.05%) per annum with an original maturity of three months or less.

In the course of the conduct of the regulated activities of its ordinary business, VC Brokerage Limited ("VC Brokerage"), VC Futures Limited and VC Capital Limited act as trustees that result in the holding of clients' monies on behalf of clients and other institutions. These assets are not assets of the Group and, therefore, are not included in its unaudited condensed consolidated statement of financial position. As at 30 June 2019, the Group maintained segregated accounts at a clearing house of approximately HK$2,760,000 (31 December 2018: HK$3,463,000) and at other authorised institutions of approximately HK$143,862,000 (31 December 2018: HK$162,367,000) in conjunction with its securities, futures and options brokering and dealing business, and corporate financial advisory business as a result of the normal business transactions, which are not otherwise dealt with in the unaudited condensed consolidated financial statements.

18. ACCOUNTS PAYABLE

	As at 30 June 2019	As at 31 December 2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Accounts payable arising from the ordinary course of business of dealing in securities transactions:		
Clearing house	**8,907**	23,313
Cash clients	**29,257**	973
Margin clients	**1,198**	104
	39,362	24,390

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

As at 30 June 2019, accounts payable of approximately HK$367,000 (31 December 2018: Nil) 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.

19. SHORT-TERM BANK BORROWINGS

	As at 30 June 2019 *HK$'000* **(Unaudited)**	As at 31 December 2018 *HK$'000* (Audited)
Secured and guaranteed	**–**	40,000

As at 30 June 2019, the Group does not have any short-term bank borrowings and banking facilities granted from the bank.

As at 31 December 2018, the short-term bank borrowings, which were secured by the pledged bank deposits of HK$40,000,000 and the Company's corporate guarantee, bore an interest rate at the bank's cost of funding plus 2% per annum. The short-term bank borrowings were repaid on 3 January 2019.

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

20. CONVERTIBLE BONDS

On 8 January 2018, the Company issued convertible bonds (the "CB1") with zero coupon rate at a total principal amount 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.

On 8 June 2018, the Company issued convertible bonds (the "CB2") with 2% coupon rate at a total principal amount 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 bonds and the maturity date at the bondholder's option at initial conversion price of HK$1.3 per conversion share.

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.

During the six months ended 30 June 2019, there were no conversions of the CB1 and CB2 exercised by the bondholders.

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 and 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 amounts of approximately HK$198,397,000 and HK$70,293,000 were recognised in convertible bonds reserve upon the conversion of the CB1 and CB2 respectively.

	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 (Audited)	–	–	–
Liability component on initial recognition	249,415	121,534	370,949
Effective interest expenses *(Note 7)*	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 (Audited)	11,717	14,399	26,116
Effective interest expenses *(Note 7)*	754	823	1,577
Interest payable	–	(178)	(178)
Liability component at 30 June 2019 (Unaudited)	12,471	15,044	27,515

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

21. SHARE CAPITAL

	Issued and fully paid ordinary shares	
	Number of shares	**Amount**
	'000	*HK$'000*
At 1 January 2018 (Audited)	794,617	855,363
Issue of shares upon conversion of convertible bonds	385,231	656,821
Issue of shares upon top-up placement and subscription	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	200	431
At 31 December 2018 (Audited) and 30 June 2019 (Unaudited)	1,230,952	1,585,239

22. 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:

	As at 30 June 2019 ***HK$'000*** **(Unaudited)**	As at 31 December 2018 *HK$'000* (Audited)
Capital contribution to a joint venture *(note)*	**503,518**	502,850
Purchase of property and equipment	**–**	1,979
	503,518	504,829

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$504 million (31 December 2018: equivalent to approximately HK$503 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.

On 21 May 2019, being the expiry date of the extended placing period, the Company was unable to reach agreement with the placing agent to further extend the placing period, the Placing Agreement had lapsed on that date.

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.

23. RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2019 and 2018, the Group entered into the following transactions with related parties:

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Brokerage commission income/interest income earned from certain directors of the Group or close family members of these directors	**42**	81

The balances with related parties are set out in notes 16 and 18.

24. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The following table provides an analysis of financial instruments that are measured at fair value at the end of the reporting period, grouped into Levels 1 to 3 based on the degree to which the fair value is observable in accordance to the Group's accounting policy.

	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
As at 30 June 2019 (Unaudited)				
Financial assets at FVTPL				
Convertible bonds	**–**	**–**	**188,079**	**188,079**
Derivative financial asset	**–**	**–**	**105,605**	**105,605**
Listed equity securities	**174,821**	**–**	**–**	**174,821**
Financial assets at FVTOCI				
Unlisted equity securities	**–**	**–**	**207,084**	**207,084**
	174,821	**–**	**500,768**	**675,589**

	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2018 (Audited)				
Financial assets at FVTPL				
Convertible bonds	–	–	224,573	224,573
Derivative financial asset	–	–	79,508	79,508
Listed equity securities	240,282	–	–	240,282
Financial assets at FVTOCI				
Unlisted equity securities	–	–	207,084	207,084
	240,282	–	511,165	751,447

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

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

The fair value of convertible bonds and derivative financial asset is calculated using the Binomial Model by an independent professional valuer. The fair value of listed equity securities is determined based on the quoted market price available on the Stock Exchange. Details of these financial assets are disclosed in note 15.

Reconciliation of Level 3 fair value measurements of financial assets on recurring basis is as follows:

	Convertible bonds	**Derivative financial asset**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2018 (Audited)	–	–	–
Purchases	439,213	28,035	467,248
Fair value (loss) gain recognised in profit or loss	(214,640)	51,473	(163,167)
At 31 December 2018 (Audited)	224,573	79,508	304,081
Fair value (loss) gain recognised in profit or loss	(36,494)	26,097	(10,397)
At 30 June 2019 (Unaudited)	188,079	105,605	293,684

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

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

25. EVENT AFTER THE REPORTING PERIOD

On 1 July 2019, the Company and Macarthur Court Acquisition Corp. (the "Subscriber") entered into a subscription agreement (the "Subscription Agreement") pursuant to which, the Company agreed to offer for subscription and the Subscriber (i) agreed to subscribe for 220,000,000 initial subscription shares at the initial subscription money of HK$99,000,000 (the "Initial Subscription Shares"); and (ii) has the option but not the obligation to subscribe for 80,000,000 further subscription shares at the further subscription money of HK$36,000,000 (the "Further Subscription Shares") and convertible bonds at its aggregate principal amount of HK$99,000,000 (the "Convertible Bonds") within one year of completion of the subscription and the proposed allotment and issue of the Initial Subscription Shares (the "Initial Share Subscription").

Subject to the terms and conditions of the Subscription Agreement, the Subscriber (or through its nominee(s)) shall subscribe for, and the Company shall allot and issue the Initial Subscription Shares to the Subscriber (or its nominee(s)) at the subscription price of HK$0.45 per subscription share (the "Subscription Price"). The Initial Subscription Shares represent approximately (i) 17.87% of the existing issued share capital of the Company; and (ii) 15.16% of the issued share capital of the Company as enlarged by the issue of the Initial Subscription Shares.

Subject to the completion of Initial Share Subscription and the terms and conditions of the Subscription Agreement, the Subscriber (or through its nominee(s)) shall have the option but not the obligation to subscribe for Further Subscription Shares at the Subscription Price and the Convertible Bonds at its aggregate principal amount within one year of completion of the Initial Share Subscription. The resulting conversion shares pursuant to conversion of the Convertible Bonds and the Further Subscription Shares in aggregate represent approximately (i) 24.37% of the existing issued share capital of the Company; and (ii) 19.60% of the issued share capital of the Company as enlarged by the issue of the conversion shares upon full conversion of the Convertible Bonds and the Further Subscription Shares.

As at the date of this announcement, the Initial Share Subscription was not yet completed.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

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

The Company has not redeemed any of its shares during the six months ended 30 June 2019. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the six months ended 30 June 2019.

CORPORATE GOVERNANCE

The Company is committed to achieving and maintaining a high standard of corporate governance so as to ensure better transparency and protection of shareholders' interests. The Company has complied with the code provisions set out in the Corporate Governance Code (the "CG Code") for the six months ended 30 June 2019, which were contained in Appendix 14 of the Listing Rules, with the deviations mentioned below:

Code provision A.2.1

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. Following the resignation of Mr. Tin Ka Pak, Timmy as the Chief Executive Officer of the Company on 1 January 2019, the role of chief executive was vacant since then. The Board is identifying suitable candidate to fill up the vacancy.

Code provision A.4.1

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

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

a. Executive Committee;
b. Audit Committee;
c. Remuneration Committee; and
d. Nomination Committee.

The terms of reference of all the aforesaid board committees are given at the Company's website under the section "Corporate Governance".

AUDIT COMMITTEE

The Company's Audit Committee is currently composed of three Independent Non-executive Directors of the Company, namely, Mr. Wong Chung Kin, Quentin (Chairman), Mr. Wong Kam Choi, Kerry, MH and Mr. Siu Miu Man, Simon, MH. 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 and risk management systems of the Group. The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements and results for the six months ended 30 June 2019 and satisfied that these have been prepared in accordance with the applicable accounting standards and fairly present the Group's financial positions and results for the six months ended 30 June 2019.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.vcgroup.com.hk. The Company's interim report for the six months ended 30 June 2019 will be available at the same websites and will be dispatched to the Company's shareholders in due course.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises four Executive Directors, namely, Mr. Fu Yiu Man, Peter (Chairman), Mr. Tin Ka Pak, Timmy, Mr. Lin Hoi Kwong, Aristo and Mr. Zhang Min; and three Independent Non-executive Directors, namely, Mr. Wong Chung Kin, Quentin, Mr. Wong Kam Choi, Kerry, MH and Mr. Siu Miu Man, Simon, MH.

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

Hong Kong
30 August 2019