



VC GROUP
滙盈集團

Value Convergence Holdings Limited

A Hong Kong listed company with stock code: 821

www.vcgroup.com.hk

Annual
Report
2010



Delivering **Value**
Through **Excellence**

A word cloud at the bottom of the page featuring the words "Value", "Delivering", "Through", and "Excellence" in various sizes and orientations, creating a dense, textured background.

Corporate Information

Directors

Dr. LEE Jun Sing* (*Chairman*)
Mr. CHAU King Fai, Philip#
Mr. CHENG Tze Kit, Larry# (*Chief Investment Officer*)
Ms. SO Wai Yee, Betty# (*Chief Financial Officer*)
Ms. LAM Yuk Ying, Elsa#
Mr. ZHOU Wentao#
Mr. LAM Cho Ying, Terence Joe*
Ms. WANG Ying*
Mr. LAM Kwok Hing, Wilfred^
Mr. TSE On Kin^
Mr. LAM Ka Wai, Graham^

Executive Director

* Non-executive Director

^ Independent Non-executive Director

Executive Committee

Mr. CHAU King Fai, Philip
Mr. CHENG Tze Kit, Larry
Ms. SO Wai Yee, Betty
Ms. LAM Yuk Ying, Elsa
Mr. ZHOU Wentao
Mr. NG Man Hoi, Paul^Δ
Mr. WONG Man Hin, Charles^Δ
Ms. FUNG Wai Har, Amanda^Δ

^Δ non-voting co-opted member

Audit Committee

Mr. LAM Ka Wai, Graham (*Chairman*)
Mr. LAM Kwok Hing, Wilfred
Mr. TSE On Kin

Remuneration Committee

Mr. LAM Kwok Hing, Wilfred (*Chairman*)
Mr. TSE On Kin
Mr. LAM Ka Wai, Graham

Nomination Committee

Mr. TSE On Kin (*Chairman*)
Mr. CHAU King Fai, Philip
Mr. LAM Cho Ying, Terence Joe
Mr. LAM Kwok Hing, Wilfred
Mr. LAM Kai Wai, Graham

Finance Committee

Ms. SO Wai Yee, Betty (*Chairman*)
Mr. CHAU King Fai, Philip
Mr. NG Man Hoi, Paul^Δ
Ms. FUNG Wai Har, Amanda^Δ

^Δ non-voting co-opted member

Regulatory Compliance Committee

Mr. CHAU King Fai, Philip (*Chairman*)
Ms. SO Wai Yee, Betty
Mr. LAM Cho Ying, Terence Joe
Mr. NG Man Hoi, Paul
Ms. FUNG Wai Har, Amanda

Authorised Representatives

Mr. CHAU King Fai, Philip
Ms. WONG Yee Wah

Company Secretary

Ms. WONG Yee Wah

Registered Office

28th Floor, The Centrium
60 Wyndham Street
Central, Hong Kong

External Auditor

Deloitte Touche Tohmatsu

Principal Banker

Standard Chartered Bank (Hong Kong) Limited

Share Registrar and Transfer Officer

Tricor Abacus Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wahchai, Hong Kong

Stock Code

The Stock Exchange of Hong Kong Limited: 821

Company Homepage/Website

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

Contents

	<i>Page</i>
Chairman's Statement	2
Management Discussion and Analysis	4
Biographical Details of Directors and Senior Management	14
Corporate Governance Report	19
Directors' Report	30
Independent Auditor's Report	45
Consolidated Statement of Comprehensive Income	47
Consolidated Statement of Financial Position	48
Statement of Financial Position	50
Consolidated Statement of Changes in Equity	51
Consolidated Statement of Cash Flows	53
Notes to the Consolidated Financial Statements	55
Five Years' Financial Summary	116

Chairman's Statement

If 2009 was about bracing for the impact of the previous year's financial tsunami, then 2010 was about weathering the ongoing storm, while preparing for the opportunities of eventual calmer seas.


2

While the financial tsunami had demonstrated its biggest impact in 2008 and 2009, its significant aftershocks still rippled through 2010. Waves of disruption continued to unsettle world economies, in a domino effect that impacted Dubai, Portugal, Ireland, Italy, Greece, Spain and Eastern Europe. These events continued to suppress investor confidence and restrict economic progress. In response, governments and central banks in various countries launched rescue packages that included substantial funding injections into the financial systems, financial guarantees and even some share acquisition plans to stimulate domestic demand and ensure and sustain economic growth.

While the brunt of the financial tsunami was felt in 2009, under these stimulus plans and improving key economic figures, in 2010 the world's stock markets continued their slow recovery. However, 2010 also showed signs of inflation that some countries, including China's, are now turning to handle. The situation in the US also remained challenging, with poor unemployment rate and potential for stagflation.

In 2010, Hong Kong market was still in the process of recovery, although investor confidence had improved gradually. As one of the major service providers in the local financial sector, the business performance of our Group was inevitably affected by the momentum of the financial tsunami, although we have made great strides toward minimizing negative impact and preparing for future opportunity.

Looking ahead, the Group expects 2011 to remain challenging to the financial sector. The world's financial markets still face unknown factors. The financial crises in Europe and elsewhere have created uncertainties, and the results of government action to battle inflation are still to be determined.



Nevertheless, the picture in China looks very promising. The expectation of further appreciation of the yuan might also attract capital inflows into Hong Kong. Given the strong economic ties between Hong Kong and the Mainland and the solid foundation of the Hong Kong financial service market, we are expected to benefit from the relatively faster recovery of its motherland.

3

The Group will continue to focus on applying our excellent operational capabilities to serve customers, pursuing diversification and acquisition and pushing for innovation so as to make sure we will be able to reap benefits when the financial market rebounds fully in the near future.

On behalf of the Board of Directors, I would like to express my gratitude to our business partners, valued customers and shareholders for their steadfast support in the past year. We also owed it to our dedicated and professional management team and staff for the achievements we made during the year and we hope to be able to continue to count on their devotion to take our business to new heights in the years ahead. I believe that with the Group's diversified financial services and the professionally knowledgeable management team and the solid and continuous backup of our business partners, we are able to seize any opportunities that promise to deliver greater returns for our shareholders.

Dr. Lee Jun Sing

Chairman

Hong Kong, 24 March 2011

Management Discussion and Analysis

Value Convergence Holdings Limited (“VC” or the “Company”) is an established financial services group committed to delivering premier financial services and products that can fulfill the various investment and wealth management needs of clients in the Greater China region. The Group’s (the Company and its subsidiaries) expertise includes securities, futures and options brokering, asset management, as well as corporate finance services in relation to sponsoring and underwriting initial public offerings and mergers and acquisitions.

SIGNIFICANT EVENTS AND DEVELOPMENTS

4

On 28 January 2011, the Company entered into a placing agreement (the “Placing Agreement”) with a placing agent whereby the Company agreed to place, through the placing agent, on a best effort basis, a minimum of 20,000,000 new shares and up to a maximum of 79,000,000 new shares to not less than six placees at a price of HK\$1.50 per placing share, which represented approximately 4.76% and 16.5% of the issued share capital of the Company as enlarged by the issue of the respective placing shares. If a maximum of 79,000,000 new shares are successfully placed by the placing agent, the gross proceeds from the placing will be approximately HK\$118.5 million. The Company intends to use the net proceeds of approximately HK\$115.4 million from the placing for general working capital of the Group and/or possible investment in the future when opportunities arise. The placing period will commence from the date of the Placing Agreement, i.e. 28 January 2011 and terminate on 31 May 2011, unless terminated earlier in writing pursuant to the terms of the Placing Agreement. As at the date of this annual report, the placing has not yet completed.

On 5 August 2010, the Group’s jointly controlled entities (the “JCE”), of which the Company held 50% effective interest indirectly, entered into a sale and purchase agreement (the “Sale and Purchase Agreement”), which was subsequently supplemented by the supplemental agreement, with two

independent third parties for disposal of the entire issued share capital of Guia Hill (Macau) Investments Limited (“Guia Hill Macau”), an indirect wholly owned subsidiary of JCE which held a land in Macau (the “Macau Land”) directly, at a cash consideration of HK\$256 million (the “Disposal”). The completion of the Sale and Purchase Agreement is conditional upon the satisfaction of certain conditions precedent. On 3 November 2010, all the conditions for the completion had been fulfilled. From the Disposal, the Group recognised a loss of approximately HK\$36.9 million and received a net cash amount of approximately HK\$53.6 million for partial settlement of shareholder’s loan of approximately HK\$41.3 million and the current account of approximately HK\$12.3 million, which will be used for the Group’s general working capital.

On 1 March 2010, the remaining HK\$290 million of the convertible bonds (out of HK\$300 million) had been repudiated by the Company as the relevant subscribers failed to comply with their obligations on completion under their respective subscription agreements entered with the Company on 18 September 2009. However, this did not have any material adverse impact on the Group’s existing liquidity or financial position.

On 27 January 2010, VC Financial Group Limited (“VC Financial Group”), a wholly owned subsidiary of the Company, entered into two separate sale and purchase agreements with a third party purchaser to dispose of 9.9% issued share capital of VC Capital Limited (“VC Capital”) and VC Asset Management Limited (“VC Asset Management”), of which both companies are the wholly owned subsidiaries of VC Financial Group, at a cash consideration of HK\$1,600,000 and HK\$600,000 respectively. Both the transactions had been completed on 10 February 2010.

BUSINESS REVIEW

While the financial tsunami had demonstrated its biggest impact in 2008 and 2009, its significant aftershocks still rippled through 2010. Waves of disruption continued to unsettle world economies, in a domino effect that impacted Dubai, Portugal, Ireland, Italy, Greece, Spain and Eastern Europe. These and other events continue to negatively impact investor confidence, and keep sentiment suppressed.

Yet, China continues to look very promising, achieved approximately 10.3% GDP growth in the year 2010. Powered by strong domestic demand, China's economy is expected to attain approximately 9.8% GDP growth in the year 2011. The expectation of further appreciation of the yuan might attract capital inflows into Hong Kong. This will benefit the Group, considering the strong economic ties between Hong Kong and the Mainland and the solid foundation of the Hong Kong financial services market. As Hong Kong's motherland recovers, opportunities will correspondingly increase for our businesses.

The Group will continue to focus on applying our excellent operational capabilities to serve customers, pursuing diversification and acquisition, and pushing for innovation, to ensure we will be able to reap benefits when the financial market fully rebounds in the near future.

FINANCIAL REVIEW

Affected by poor market sentiments, for the year ended 31 December 2010, the Group's consolidated revenue was approximately HK\$115.6 million, which had decreased by about 14.8% as compared with the same period in 2009. The Group recorded a consolidated loss attributable to shareholders amounting to approximately HK\$88 million for the year ended 31 December 2010 against a loss of approximately HK\$22.5 million for the same period in 2009. However, the loss for the current year was mainly attributable to the recognition of (1) the increase in fair value changes of approximately HK\$34 million in relation to the HK\$10 million convertible bonds and the option of the HK\$10 million optional bonds issued on 30 November 2009 and 9 April 2010 respectively; (2) the loss of approximately HK\$36.9 million arising from the disposal of the Macau Land held by the Group's JCE; (3) the goodwill impairment of approximately HK\$8.2 million in relation to the corporate finance business segment as well as the reversal of the deferred tax asset of HK\$1.1 million; and (4) the fair value of approximately HK\$4.4 million in relation to the 3,400,000 share options and 947,869 awarded shares granted on 18 January 2010 and 25 January 2010 respectively. Excluding these major non-cash and/or non-recurring nature items, the Group generated an attributable loss of approximately HK\$3.4 million for the year ended 31 December 2010.

Management Discussion and Analysis

To facilitate the review, the segmental information shown in note 7 to the consolidated financial statements is reproduced below after some re-arrangements:

	Year ended 31 December 2010 HK\$'000	Year ended 31 December 2009 HK\$'000
Segmental results:		
Brokerage	16,765	18,011
Corporate Finance	(8,193)	(7,857)
Asset Management	(1,301)	(4,656)
Group operating profit	7,271	5,498
Share of loss of jointly controlled entities	(37,832)	(13,494)
Fair value changes on financial liabilities designated at fair value through profit or loss	(22,950)	(1,184)
Fair value changes on derivative financial liabilities	(11,033)	–
Impairment of goodwill	(8,151)	–
Unallocated costs	(12,575)	(9,004)
Loss before taxation	(85,270)	(18,184)
Income tax expense	(3,666)	(4,330)
Loss for the year	(88,936)	(22,514)
Non-controlling interests	951	–
Loss for the year attributable to owners of the Company	(87,985)	(22,514)

Brokerage

For the year ended 31 December 2010, the Group's brokerage business, through VC Brokerage Limited ("VC Brokerage") and VC Futures Limited, recorded revenue of approximately HK\$110.8 million, representing a decrease of 15% from HK\$130.3 million for the same period last year. The drop in brokerage revenue was mainly due to the substantial decrease in brokerage commission from approximately HK\$94.5 million to HK\$65.9 million in 2010, representing a decrease of approximately 30.3% compared with the same period last year. Net brokerage commission income decreased by 28.6% from approximately HK\$35 million to HK\$25 million. Nevertheless, some of our business shortfalls were offset by the positive growth in other revenue streams including, in particular, the financing business and the placing and underwriting services during the year.

The Group's interest income from financing business increased substantially by approximately HK\$7.3 million to HK\$35 million in 2010, representing a rise of approximately 26.1% compared with the same period last year. Our average loan portfolio was increased by approximately 37.4% to HK\$414.6 million in 2010 from approximately HK\$301.8 million for the same period last year, resulting in the significant growth in revenue from interest income.

Further, the Group also offers placing and underwriting services to customers, and acts as placing agents and underwriters for many Hong Kong listed companies. During the year ended 31 December 2010, the Group had put more efforts to capture the opportunities from the improved sentiments towards initial public offerings and other fund raising exercises in Hong Kong and therefore generated gross revenue of approximately HK\$9.8 million (2009: HK\$5.8 million).

Overall, the operating profit before taxation generated from the brokerage business was approximately HK\$16.8 million (2009: HK\$18 million), and its operating profit after taxation was approximately HK\$14.2 million (2009: HK\$13.7 million), which was almost the same as previous year.

Corporate Finance

During the year ended 31 December 2010, VC Capital, a non-wholly owned subsidiary of the Company, had been appointed as the financial advisers of several Hong Kong listed companies for a number of corporate transactions and had also successfully helped a company to seek for listing on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited by way of placing of shares, in which VC Capital was appointed as one of the joint sponsors.

The Group's corporate financial advisory and related businesses recorded revenues totaling approximately HK\$4.9 million (2009: HK\$6.2 million) and operating loss before taxation of approximately HK\$8.2 million for the year ended 31 December 2010 (2009: HK\$7.9 million). Its operating loss after taxation was approximately HK\$9.3 million after deducting the reversal of the deferred tax asset of HK\$1.1 million in relation to its goodwill written off during the year (2009: HK\$7.9 million). Its performance was not better than expected. Though there are many initial public offerings in the pipelines in Hong Kong and we can see many listed companies become more active in their merger and acquisition transactions since the resumption of the capital market activities in Hong Kong from last quarter of 2009, it takes us a longer period to capture the economic benefits from the growth. It is expected that the Group can capture the growing business opportunities from the favourable market condition in the near future.

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

Asset Management

In 2008, VC Financial Group entered into a shareholders' agreement with Macquarie Macau to establish the 50:50 JCE, which had acquired the Macau Land through Guia Hill Macau. The JCE intended to bring in third party investors and transform this asset into a private equity real estate fund or a syndicated property management project, which will focus on developing middle to high end residential properties in Macau. With the hit of the financial tsunami, fund raising had become more challenging. Meanwhile, in order to focus the management time and resources in our core business, the Group selected an alternative exit plan for this land project in Macau during the year.

On 5 August 2010, the JCE entered into the Sale and Purchase Agreement as supplemented by the supplemental agreement with two independent third parties to dispose of the entire issued share capital of Guia Hill Macau at a cash consideration of HK\$256 million. On the same date, the JCE received the first installment of HK\$36 million for the Disposal from the purchasers. The completion of the Sale and Purchase Agreement is conditional upon the satisfaction of certain conditions precedent.

Management Discussion and Analysis

On 3 November 2010, all the conditions for the completion had been fulfilled and the JCE received the remaining consideration of HK\$220 million, which was used to settle the bank borrowings, the shareholders' loans and current accounts and also the operating expenses. Details had been given in note 20 to the consolidated financial statements. Overall, the Group recognised a loss of approximately HK\$36.9 million arising from the Disposal, which was separately included in the share of loss of jointly controlled entities as mentioned below, and received a cash amount of approximately HK\$53.6 million for partial settlement of the shareholder's loan of approximately HK\$41.3 million and the current account of approximately HK\$12.3 million, which will be used for the Group's general working capital.

Nevertheless, the management remains optimistic about the long term prospects of the Group's financial services business. Given the prevalently strong Mainland China economy and the solid foundation of the financial service market in Hong Kong, the Group is actively pursuing new business opportunities to grow its asset management business so as to enhance our product and service offerings to cater for the diverse and growing needs of the customers.

For the year ended 31 December 2010, the asset management business, mainly through VC Asset Management, recorded an operating loss before and after taxation of approximately HK\$1.3 million (2009: HK\$4.7 million). The significant loss in 2009 was primarily incurred for the staff costs and professional fees relating to the establishment of the aforementioned fund or project.

Share of loss of jointly controlled entities

For the year ended 31 December 2010, the Group recognised a loss of approximately HK\$37.8 million from the JCE (2009: HK\$13.5 million), which was mainly arising from the disposal of the Macau Land amounting to approximately HK\$36.9 million as abovementioned and the share of the JCE's general operating expenses incurred in 2010 amounting to approximately HK\$0.9 million. In previous year, the Group had recognised a loss of approximately HK\$13.5 million which was mainly in relation to the impairment loss made on the capitalised property development costs of the Macau Land held by the JCE in accordance with a valuation report prepared by an independent valuer as at 31 December 2009.

Fair value changes on financial liabilities designated at fair value through profit or loss and derivative financial liabilities

The Company had issued the convertible bonds in a principal amount of HK\$10 million (the "Convertible Bonds") on 30 November 2009, which were classified as financial liabilities designated at fair value) through profit or loss and were measured at fair value. As at 31 December 2009, the carrying amount of the Convertible Bonds was approximately HK\$11.2 million in accordance with a valuation report prepared by an independent valuer. Upon the conversion of the Convertible Bonds into 10,000,000 ordinary shares of HK\$0.1 each of the Company on 9 April 2010, an option to subscribe for additional HK\$10,000,000 convertible bonds (the "HK\$10M Optional Bonds") with a conversion price of HK\$1 each per ordinary share of the Company was also issued to the bondholder in accordance with the terms of Convertible Bonds, which were classified as derivative financial liabilities and were measured at fair value. On 21 April 2010, the bondholder had exercised the option for the HK\$10M Optional Bonds and converted the convertible bonds into 10,000,000 ordinary shares of HK\$0.1 each of the Company on the same date.

For the year ended 31 December 2010, the Group recognised the increase in fair value of the Convertible Bonds of approximately HK\$23 million as at 9 April 2010 (2009: HK\$1.2 million) and also the increase in fair value of the option for the HK\$10M Optional Bonds of approximately HK\$11 million as at 21 April 2010 (2009: Nil) to the profit or loss in accordance with a valuation report prepared by an independent valuer as at each of the conversion dates. As at 31 December 2010, the Group did not have any outstanding Convertible Bonds. Details had been given in note 29 to the consolidated financial statements.

Impairment of goodwill

The goodwill attributable to the corporate finance segment amounting to approximately HK\$8.2 million was fully written off for the year ended 31 December 2010 as there was impairment indication after consideration of its cash flow projection. Details had been given in note 15 to the consolidated financial statements.

Unallocated costs

The unallocated costs of the Group was approximately HK\$12.6 million for the year ended 31 December 2010 compared to approximately HK\$9 million for the same period in 2009. The increase in unallocated costs for the year was primarily due to the increase of the corporate rental and utility expenses, salaries and allowances, and discretionary bonus, etc.

Finance costs

During the year ended 31 December 2010, the finance costs of the Group decreased to approximately HK\$1.1 million (2009: HK\$1.5 million), in which almost all were charged to the brokerage business. For the year ended 31 December 2009, it included an interest payment of approximately HK\$79,000 in relation to the loans from a former shareholder, which was settled in early 2009.

Income tax expense

During the year ended 31 December 2010, the estimated income tax expense of the Group amounted to approximately HK\$3.7 million (2009: HK\$4.3 million). The income tax expense for the year was primarily due to the provision of income tax charge in relation to the profitability generated from the brokerage business amounting to approximately HK\$2.6 million (2009: HK\$4.3 million) and the reversal of the deferred tax asset in relation to the goodwill written off of the corporate finance business amounting to HK\$1.1 million (2009: Nil).

Liquidity and financial resources/capital structure

The Group finances its business operations and investments with internal resources, cash revenues generated from operating activities, short-term bank loans and bank overdrafts.

The Group held banking facilities of HK\$130 million granted from a bank to a subsidiary, VC Brokerage, as at 31 December 2010 (2009: HK\$150 million from two banks), in which HK\$50 million (2009: HK\$50 million) and HK\$80 million (2009: HK\$80 million) of these banking facilities had to be secured by VC Brokerage's margin clients' listed securities whenever necessary and its bank deposits of HK\$40 million (2009: HK\$40 million) respectively. As at 31 December 2010, the Group had outstanding bank borrowings of HK\$40 million (2009: Nil).

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

During the year ended 31 December 2010, the Group did not make any material acquisitions and disposal of subsidiaries, significant investments nor capital commitment except those given in note 30 to the consolidated financial statements.

Future plans for material investments or capital assets

As at 31 December 2010, the Group had no known plans with regard to material investments or capital assets. Material capital expenditure will be incurred when the Group begins to pursue different investments or projects in the coming years. The Group will finance the respective investments or projects using its internal resources and/or different financing options available, whichever should be deemed appropriate.

As at 31 December 2010, the Group had not made any commitments contracted but not provided for in the financial statements in respect of purchase of property, plant and equipment in relation to the upgrade and enhancement of internet trading and internal infrastructure systems (2009: HK\$855,000).

Contingent liabilities

As at 31 December 2010, the Company had given financial guarantees of HK\$130 million (2009: HK\$130 million) to a bank in respect of banking facilities provided to VC Brokerage. As at 31 December 2010, banking facilities of an amount of HK\$40 million was utilised by VC Brokerage (2009: Nil).

Event after the reporting period

On 28 January 2011, the Company entered into the Placing Agreement with a placing agent whereby the Company agreed to place, through the placing agent, on a best effort basis, a minimum of 20,000,000 new shares and up to a maximum of 79,000,000 new shares to not less than six places at a price of HK\$1.50 per placing share, which represented approximately 4.76% and 16.5% of the issued share capital of the Company as enlarged by the issue of the respective placing shares. If a maximum of 79,000,000 new shares are successfully placed by the placing agent, the gross proceeds from the placing will be approximately HK\$118.5 million. The Company intends to use the net proceeds of approximately HK\$115.4 million from the placing for general working capital of the Group and/or possible investment in the future when opportunities arise. The placing period will commence from the date of the Placing Agreement, i.e. 28 January 2011 and terminate on 31 May 2011, unless terminated earlier in writing pursuant to the terms of the Placing Agreement. Details had been given in the announcement of the Company dated 28 January 2011. As at the date of this annual report, the placing has not yet completed.

Corporate governance

The Company has in place a Code on Corporate Governance Practices (the "Code"), which sets out the corporate standards and practices used by the Company in directing and managing its business affairs. The Code was prepared with reference to the principles, Code Provisions and Recommended Best Practices stipulated in the Code on Corporate Governance Practices issued by The Stock Exchange of Hong Kong Limited (the "HKSE Code") and came into effect on 1 January 2005. The Code not only formalizes the Company's existing corporate governance principles and practices, but has also served to assimilate the Company's practices with benchmarks prescribed by the HKSE Code, and ultimately ensuring that the Company runs a highly transparent operation and is accountable to the Company's shareholders.

Biographical Details of Directors and Senior Management

DIRECTORS

Dr. LEE Jun Sing

Non-executive Director (Chairman)

Dr. Lee, aged 64, one of the founders of the Company, joined the Group in January 2000 and was appointed as the non-executive Chairman of the Company on 23 September 2009. Before acting as Non-executive Director of the Company in August 2006, Dr. Lee served as an Executive Director of the Company. Dr. Lee is currently a director of numerous companies including iSinolaw Limited and Bio-Cancer Treatment International Limited.

Dr. Lee graduated with a Doctor of Philosophy in Physical Chemistry from Indiana University, the United States, and did his postdoctoral research at John Hopkins University, the United States.

Mr. CHAU King Fai, Philip

Executive Director

Mr. Chau, aged 49, joined the Group in May 2004 and was appointed as Executive Director of the Company in September 2009. Currently, Mr. Chau is the Managing Director of VC Capital Limited, a non-wholly owned subsidiary of the Company. He is also the Chairman of the Regulatory Compliance Committee, a member of the Executive Committee, Nomination Committee and Finance Committee and a director of certain subsidiaries of the Company.

Mr. Chau has over 20 years of experience in banking and corporate finance. He has held senior positions with several major international banks. Mr. Chau has been involved in numerous corporate finance transactions including floatation of various companies on stock exchanges in Hong Kong and the PRC, fund raising exercises of listed companies in the secondary market and financial advisory work of various nature for public and private companies in the Greater China region. Mr. Chau holds a bachelor degree in business administration majoring in finance from the Chinese University of Hong Kong.

Mr. CHENG Tze Kit, Larry

Chief Investment Officer & Executive Director

Mr. Cheng, aged 54, joined the Group as Non-executive Director in November 2009 and re-designated as Executive Director in December 2009. Currently, Mr. Cheng is the Chief Investment Officer and a member of the Executive Committee of the Company. Before joining the Group, Mr. Cheng was a director of Asia Consultants International Limited. Moreover, he was an independent non-executive director of Long Success International (Holdings) Limited (Stock Code: 8017), a company listed on the Growth Enterprises Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and an executive director of Anex International Holdings Limited (Stock Code: 723, now known as "Sustainable Forest Holdings Limited"), a company listed on the Main Board of the Stock Exchange.

Mr. Cheng has over 20 years of experience in real estate development and mergers and acquisitions in Hong Kong, Canada and the PRC. He holds a Bachelor of Science (Hons) in Engineering from City University, London and a Master of Business Administration from the University of Management and Technology, Washington, D.C.. Mr. Cheng is a Chartered Engineer of United Kingdom and a member of the Institution of Mechanical Engineers, the Institution of Engineering and Technology and the Chartered Institution of Building Services Engineers.

Biographical Details of Directors and Senior Management

Ms. SO Wai Yee, Betty

Chief Financial Officer & Executive Director

Ms. So, aged 29, joined the Group as Non-executive Director in November 2009 and re-designated as Executive Director in January 2010. Currently, she is the Chief Financial Officer, the chairman of Finance Committee, a member of the Executive Committee and Regulatory Compliance Committee and a director of certain subsidiaries of the Company. Before joining the Group, Ms. So was an independent non-executive director and a member of the audit committee and the remuneration committee of China Public Procurement Limited (Stock Code: 1094, formerly known as "Sunny Global Holdings Limited"), a company listed on the Main Board of the Stock Exchange; and the financial controller of China Metal Resources Holdings Limited (Stock Code: 8071, now known as "China Netcom Technology Holdings Limited"), a company listed on the GEM of the Stock Exchange.

Ms. So has several years working experience in one of the major international accounting firms in Hong Kong. She graduated with a Bachelor of Business Administration (Accounting & Finance) degree from The University of Hong Kong. She is a member of the Hong Kong Institute of Certified Public Accountants.

Ms. LAM Yuk Ying, Elsa

Executive Director

Ms. Lam, aged 50, joined the Group in February 2010 and was appointed as Executive Director of the Company in February 2011. Currently, she is a member of the Executive Committee of the Company and a director of VC Asset Management Limited, a non-wholly owned subsidiary of the Company.

Ms. Lam has over 10 years of experience in securities industry and more than 15 years of experience in the treasury function in several major banks. Prior to joining the Group, Ms. Lam was an associate director of Excalibur Hong Kong and held senior positions at Glory Sky Global Markets Limited and Kingston Securities Limited. She was also the head of treasury department of KBC Bank N.V.. Ms. Lam holds Type 1 (Dealing in Securities), Type 2 (Dealing in Futures Contracts) and Type 9 (Asset Management) regulated activities licences issued by the Securities and Futures Commission of Hong Kong.

Mr. ZHOU Wentao

Executive Director

Mr. Zhou, aged 39, joined the Group as Executive Director in February 2011. Currently, he is a member of the Executive Committee of the Company.

Mr. Zhou graduated from Southwest University of Political Science & Law in China and obtained a bachelor's degree in law. He worked for People's Government of Shenzhen Municipality of China as deputy head, head and deputy director between 1994 and 2002. Prior to joining the Group, Mr. Zhou was the chief executive officer of Shenzhen Jiu Yu Investment Company Limited (深圳九夷投資有限公司), vice president of China Nuclear Assets Management Limited (香港中國核子資產管理有限公司) and executive director of Hong Kong China Enterprise Fund Management Company (香港中企基金管理有限公司).

Biographical Details of Directors and Senior Management

Mr. LAM Cho Ying, Terence Joe

Non-executive Director

Mr. Joe Lam, aged 49, joined the Group in April 2004. He was appointed as the Chief Executive Officer and Executive Director of the Company on 23 September 2009 and has been re-designated as Non-executive Director in May 2010. Before he has been appointed as a director of the Company, he was the Managing Director of VC Brokerage Limited, a wholly owned subsidiary of the Company. Currently, he is a member of the Nomination Committee and Regulatory Compliance Committee of the Company.

Mr. Joe Lam has been worked in the financial industries for more than 24 years. He started out his career at JP Morgan Chase, subsequently with Tai Fook Securities, Crosby Securities, Yuanta Securities and his last appointment was with Kim Eng Securities. Mr. Joe Lam holds a bachelor degree from University of Houston majoring in finance and marketing.

Ms. WANG Ying

Non-executive Director

Ms. Wang, aged 58, joined the Group as Non-executive Director in January 2010. Currently, Ms. Wang is the Founder and Senior Advisor of United Global Resources, LLC, which is engaged in worldwide energy technology and minerals acquisition. She is also the Director of the Board of Tianjin Commodity Exchange, the first privately owned commodity exchange in China and the President of China Business Consulting Inc. (USA) and Asia Consultants International Limited (HK).

From 1992 to 2002, Ms. Wang served as Vice President and Senior Advisor of the Cathay China Direct Investment Fund. She has participated in numerous joint ventures, initial public offering, trade and educational projects between the United States of America ("USA") and China. Ms. Wang also actively participates in non-profit programs. She serves as a member of the Board of the US Association for the UN University for Peace (UPEACE/US) and a member of the China Advisory Committee of the Grameen Foundation USA.

Ms. Wang received a Bachelor of Art from Tsinghua University, Beijing, China and a Master of Public Administration from Harvard University, USA. She has worked in the Chinese Government for 16 years. During her service in the Chinese Government, she was an English translator for top Chinese leaders, including the President and the Premier. She has served as Division Chief for Foreign Liaison and the Project Director for UNICEF WID. She also represented China on the Executive Board of UNICEF from 1989 to 1990.

Mr. LAM Kwok Hing, Wilfred

Independent Non-executive Director

Mr. Wilfred Lam, aged 51, joined the Group as Independent Non-executive Director in January 2010. Currently, Mr. Wilfred Lam is the Chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee of the Company. Mr. Wilfred Lam is the Justice of Peace of the Hong Kong Special Administrative Region of the People's Republic of China and has been awarded Queen's Badge of Honour in January 1997. He is also a senior associate of Philip KH Wong, Kennedy YH Wong & Co., Solicitors & Notaries. Moreover, he is the group vice president of 3D-GOLD Jewellery (HK) Ltd. and a director of Business Operations (China) Department and Aide-de-Camp of Brand Promotion of Hong Kong Resources Holdings Company Limited (Stock Code: 2882), a company listed

Biographical Details of Directors and Senior Management

on the Main Board of the Stock Exchange; the non-executive vice-chairman and non-executive director of National Arts Holdings Limited (Stock Code: 8228), a company listed on the GEM of the Stock Exchange and the independent non-executive director of The Hong Kong Building and Loan Agency Limited (Stock Code: 145), a company listed on the Main Board of the Stock Exchange.

Mr. Wilfred Lam holds a bachelor's degree in Law with honours from the University of Hong Kong and is a practising solicitor of Hong Kong. He also holds the professional qualification of Estate Agent's (Individual) Licence in Hong Kong. Being an active member in social and charity activities, Mr. Wilfred Lam is a Support Force Commander of the Civil Aid Service and Director of the Kwai Tsing District Community Development Fund in Hong Kong. He is also an executive member of the liaison association of the Chinese People's Political Consultative Conference, Guangdong Province.

Mr. TSE On Kin

Independent Non-executive Director

Mr. Tse, aged 49, joined the Group as Independent Non-executive Director in January 2010. Mr. Tse is the Chairman of the Nomination Committee and a member of the Audit Committee and Remuneration Committee of the Company. Currently, Mr. Tse is the chairman and an executive director of Kong Sun Holdings Limited (Stock Code: 295) and Climax International Company Limited (Stock Code: 439); and a non-executive director of Asia Energy Logistics Group Limited (Stock Code: 351), all companies being listed on the Main Board of the Stock Exchange. Mr. Tse was the former chairman of New Times Energy Corporation Limited (Stock Code: 166), China Grand Forestry Green Resources Group Limited (Stock Code: 910) and Asia Energy Logistics Group Limited; an executive director of Mexan Limited; (Stock Code: 22) and a non-executive director of Climax International Company Limited and New Times Energy Corporation Limited, all companies being listed on the Main Board of the Stock Exchange .

Mr. Tse has over 20 years of management experience covering corporate planning, restructuring, business development, project injection, merger and acquisition. He has a bachelor's degree in Public Policy and Administration from York University in Canada.

Mr. LAM Ka Wai, Graham

Independent Non-executive Director

Mr. Graham Lam, aged 43, joined the Group as Independent Non-executive Director in January 2010. Mr. Graham Lam is the Chairman of the Audit Committee and a member of the Nomination Committee and Remuneration Committee of the Company. Currently, Mr. Graham Lam is the Managing Director and Head of Corporate Finance of an investment bank. He is an independent non-executive director of Cheuk Nang (Holdings) Limited (Stock Code: 131), Applied Development Holdings Limited (Stock Code: 519), China Fortune Group Limited (Stock Code: 290), China Sonangol Resources Enterprise Limited (Stock Code: 1229, to be renamed as "International Resources Enterprise Limited") and Pearl Oriental Innovation Limited (Stock Code: 632), all companies being listed on the Main Board of the Stock Exchange; and China Railway Logistics Limited (Stock Code: 8089), Hao Wen Holdings Limited (Stock Code: 8019) and Trasy Gold Ex Limited (Stock Code: 8063), all companies being listed on the GEM of the Stock Exchange. Mr. Lam was an independent non-executive director of China Oriental Culture Group Limited (Stock Code: 2371, formerly known as "ZZNode Technologies Company Limited"), a company listed on the Main Board of the Stock Exchange, and Finet Group Limited (Stock Code: 8317), a company listed on the GEM of the Stock Exchange.

The management of the Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, successful business growth and enhancing shareholders' value. As such, the maintenance of a high standard of corporate governance has been and remains a top priority of the Group (Value Convergence Holdings Limited ("VC" or the "Company") and its subsidiaries). The Group is committed to promoting and maintaining the highest standard of corporate governance, with the objectives of (i) the maintenance of responsible decision making, (ii) the improvement in transparency and disclosure of information to shareholders, (iii) the continuance of respect for the rights of shareholders and the recognition of the legitimate interests of shareholders, and (iv) the improvement in management of risk and the enhancement of performance by the Group.

CORPORATE GOVERNANCE PRACTICES

(a) Application of Corporate Governance Principles and Promulgation of Company's Corporate Governance Code

The Company has applied the principles set out in the Code on Corporate Governance Practices (the "HKSE Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with the aforementioned objectives in mind. To this end, the Company has promulgated a set of Code on Corporate Governance (the "Company Code") which sets out the corporate standards and practices used by the Company to direct and manage its business affairs. It is prepared by referencing to the principles, Code Provisions and Recommended Best Practices set out in the HKSE Code, which came into effect on 1 January 2005. In addition to formalizing existing corporate governance principles and practices, the Company Code also serves the purpose of assimilating existing practices with benchmarks prescribed by the HKSE Code and ultimately ensuring high transparency and accountability to the Company's shareholders. The Company Code has been posted on the Company's website under the section "Corporate Governance".

(b) Compliance of the Code Provision of the Company Code and HKSE Code

The Company has complied with all provisions in the Company Code and the HKSE Code throughout the financial year ended 31 December 2010 with one deviation mentioned below:

Under the code provision A.4.1 of the HKSE Code, non-executive directors should be appointed for a specific term, subject to re-election. The Company has deviated from this provision in that all non-executive directors of the Company are not appointed for specific term. However, under the article 92 of the Articles of Association of the Company ("Articles of Association"), all Directors, including non-executive directors, of the Company are subject to retirement by rotation and re-election in the annual general meeting of the Company ("AGM") and each Director is effectively appointed under an average term of three years. The reasons for the deviation is that 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.

Outlined below are the policies, processes and practices adopted by the Company in compliance with the principles and spirit of the HKSE Code and the Company Code.

THE BOARD OF DIRECTORS – FUNCTION AND COMPOSITION

The Board is entrusted with the overall responsibility for promoting the success of the Company by the director and supervision of the Company's business and affairs and the ultimate responsibility for the day to day management of the Company, which is delegated to the Chief Executive Officer and the management. Lists of (1) duties and powers delegated to the Company's Chief Executive Officer and matters reserved for decision of the Board and (2) division of responsibilities between the Company's Chairman and Chief Executive Officer are given at the Company's website under the section "Corporate Governance".

The posts of Chairman and Chief Executive Officer are separated to ensure a clear division between the Chairman's responsibility to manage the Board and the Chief Executive Officer's responsibility to manage the Company's business. The separation ensures a balance of power and authority so that power is not concentrated in any one individual. On 27 May 2010, Mr. Lam Cho Ying, Terence Joe, due to health reasons, resigned as Chief Executive Officer of the Company and was re-designated as Non-executive Director of the Company on the same day. After the resignation of Mr. Lam Cho Ying, Terence Joe, the post of Chief Executive Office is still vacant and the daily duty of the Chief Executive Officer is shared by the Executive Committee of the Company.

The Board currently comprises a total of eleven Directors, with five Executive Directors, namely, Mr. Chau King Fai, Philip, Mr. Cheng Tze Kit, Larry (Chief Investment Officer), Ms. So Wai Yee, Betty (Chief Financial Officer), Ms. Lam Yuk Ying, Elsa and Mr. Zhou Wentao; three Non-executive Directors, namely, Dr. Lee Jun Sing (Chairman), Mr. Lam Cho Ying, Terence Joe and Ms. Wang Ying; and three Independent Non-executive Directors, namely, Mr. Lam Kwok Hing, Wilfred, Mr. Tse On Kin and Mr. Lam Ka Wai, Graham. The Non-executive Directors and Independent Non-executive Directors, all of whom are independent of the management of the Group's businesses, are highly experienced professionals with substantial experience in areas such as legal, accounting and financial management. Their mix of skills and business experience is a major contribution to the future development of the Company. They ensure that matters are fully debated and that no individual or group of individuals dominates the Board's decision making processes. In addition, they facilitate the Board to maintain a high standard of financial and other mandatory reporting and provide adequate checks and balances to safeguard the interests of shareholders and the Company as a whole.

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

Under the Article 101 of the Articles of Association, one third of the Directors must retire, thus becoming eligible for re-election at each annual general meeting. This year, Mr. Chau King Fai, Philip, Ms. Wang Ying and Mr. Lam Kwok Hing, Wilfred will retire at the forthcoming annual general meeting and being eligible to offer themselves for re-election.

Furthermore, under the Article 92 of the Articles of Association, any director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting. As such, Ms. Lam Yuk Ying, Elsa and Mr. Zhou Wentao (both appointed on 23 February 2011) shall also retire at the forthcoming annual general meeting and being eligible to offer themselves for re-election.

Biographical details of the retiring Directors have been set out in a circular to assist shareholders to make an informed decision on their re-elections.

BOARD MEETINGS

The Board conducts at least four regular Board meetings a year and additional meetings are held as and when required to discuss significant events or important issues. Sufficient notice is given for regular Board meetings to all Directors enabling them to attend and reasonable notice will be given in case of special Board meetings. The Group ensures that appropriate and sufficient information is provided to Board members in a timely manner to keep them abreast of the Group's latest developments thereby assisting them in discharge of their duties.

In 2010, the Board held a total of seven meetings. The Chief Financial Officer and the Company Secretary of the Company also attended the board meetings to advise on statutory compliance, accounting and financial matters. All businesses transacted at the meetings were documented and maintained in accordance with applicable laws and regulations.

Set out below is the attendance record of each member of the Board at the board meetings for 2010 which illustrate the attention given by the Board in overseeing the Company's affairs:

	No. of meetings attended/held in 2010	Attendance rate	Note
Current Directors			
Dr. Lee Jun Sing* (<i>Chairman</i>)	7/7	100%	–
Mr. Chau King Fai, Philip [#]	7/7	100%	–
Mr. Cheng Tze Kit, Larry [#] (<i>Chief Investment Officer</i>)	7/7	100%	–
Ms. So Wai Yee, Betty [#] (<i>Chief Financial Officer</i>)	6/7	86%	1
Ms. Lam Yuk Ying, Elsa [#]	N/A	N/A	2
Mr. Zhou Wentao [#]	N/A	N/A	3
Mr. Lam Cho Ying, Terence Joe*	6/7	86%	4
Ms. Wang Ying*	6/7	86%	5
Mr. Lam Kwok Hing, Wilfred [^]	7/7	100%	6
Mr. Tse On Kin [^]	5/7	71%	7
Mr. Lam Ka Wai, Graham [^]	6/7	86%	8
Ex-Directors			
Mr. Sham Sui Leung, Daniel [^]	N/A	N/A	9
Dr. Tyen Kanhee, Anthony [^]	N/A	N/A	10

[#] Executive Director

* Non-executive Director

[^] Independent Non-executive Director

DELEGATION BY THE BOARD

Management Functions

The Board delegates day-to-day operations of the Group to the management. Both the Board and the management have clearly defined authorities and responsibilities under various internal control and check-and-balance mechanisms. The Board has established in writing which issues require decision of the full Board and which can be delegated by the Board to board committees or management.

Board Committees

To assist the Board in execution of its duties and to facilitate effective management, certain functions of the Board have been delegated by the Board to various board committees, which review and make recommendations to the Board on specific areas.

Each committee has its defined scope of duties and terms of reference and the committee members are empowered to make decisions on matters within the terms of reference of each committee. The terms of reference of the board committees have been posted on the Company's website under the section "Corporate Governance".

(1) Executive Committee

The Executive Committee is made up of the Company's Executive Directors, namely, Mr. Chau King Fai, Philip, Mr. Cheng Tze Kit, Larry, Ms. So Wai Yee, Betty, Ms. Lam Yuk Ying, Elsa and Mr. Zhou Wentao and members of the Company's senior management (non-voting capacity), namely, Mr. Ng Man Hoi, Paul, Mr. Wong Man Hin, Charles and Ms. Fung Wai Har, Amanda. It oversees the implementation of the Company's strategic objectives and risk management policies and the business and operations of all of the business units of the Group. It holds meetings from time to time to discuss operational matters of the Company's business and new projects.

(2) Audit Committee

The Company's Audit Committee was established on 14 March 2001. The Audit Committee consists of three Independent Non-executive Directors, namely, Mr. Lam Ka Wai, Graham (Chairman), Mr. Lam Kwok Hing, Wilfred and Mr. Tse On Kin. One of the independent non-executive directors has the appropriate professional qualifications, accounting or related financial management expertise.

The primary duties of the Audit Committee are (a) to review the Group's financial statements and published reports; (b) to provide advice and comments thereon to the Board; and (c) to review and supervise the financial reporting process and internal control procedures of the Group. Other details of the roles and functions of the Audit Committee are available on the Company's website under the section "Corporate Governance".

Corporate Governance Report

In 2010, the Audit Committee held a total of two meetings. The attendance record of each of the members is set out below:

	No. of meetings attended/held in 2010	Attendance rate	Note
Current Audit Committee Members			
Mr. Lam Ka Wai, Graham (<i>Chairman</i>)	2/2	100%	1
Mr. Lam Kwok Hing, Wilfred	2/2	100%	2
Mr. Tse On Kin	1/2	50%	3
Ex-audit Committee Members			
Dr. Tyen Kanhee, Anthony (<i>Ex-chairman</i>)	N/A	N/A	4
Mr. Sham Sui Leung, Daniel	N/A	N/A	5

Notes:

1. Mr. Lam Ka Wai, Graham was appointed as the chairman of the Audit Committee of the Company on 4 January 2010.
2. Mr. Lam Kwok Hing, Wilfred was appointed as a member of the Audit Committee of the Company on 4 January 2010.
3. Mr. Tse On Kin was appointed as a member of the Audit Committee of the Company on 4 January 2010.
4. Dr. Tyen Kanhee, Anthony ceased as the chairman of the Audit Committee of the Company on 4 January 2010.
5. Mr. Sham Sui Leung, Daniel ceased as a member of the Audit Committee of the Company on 4 January 2010.

The Audit Committee had reviewed the Company's half-yearly and annual results and its system of internal control and had made suggestions to improve them. The Audit Committee also carried out and discharged its duties set out in the HKSE Code. In the course of doing so, the Audit Committee had met the Company's management and external auditors several times during 2010.

(3) Nomination Committee

The Nomination Committee is made up of the Company's Executive Director, Non-executive Director and Independent Non-executive Directors, namely, Mr. Tse On Kin (Chairman), Mr. Chau King Fai, Philip, Mr. Lam Cho Ying, Terence Joe, Mr. Lam Kwok Hing, Wilfred and Mr. Lam Ka Wai, Graham.

The Nomination Committee reviews the structure, size and composition (including the skills, knowledge and experience) of the Board; identifies individuals suitably qualified to become Board members and make recommendations to the Board on the selection of individuals nominated for directorship; and makes recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors.

In 2010, the Nomination Committee held one meeting for reviewing the structure, size and composition of the Board. The attendance record of each of the members is set out below:

	No. of meetings attended/held in 2010	Attendance rate	<i>Note</i>
Current Nomination Committee			
Members			
Mr. Tse On Kin (<i>Chairman</i>)	1/1	100%	1
Mr. Chau King Fai, Philip	1/1	100%	–
Mr. Lam Cho Ying, Terence Joe	1/1	100%	–
Mr. Lam Kwok Hing, Wilfred	1/1	100%	2
Mr. Lam Ka Wai, Graham	1/1	100%	3
Ex-nomination Committee Members			
Mr. Sham Sui Leung, Daniel (Ex-chairman)	N/A	N/A	4
Dr. Tyen Kanhee, Anthony	N/A	N/A	5

Notes:

1. Mr. Tse On Kin was appointed as the chairman of the Nomination Committee of the Company on 4 January 2010.
2. Mr. Lam Kwok Hing, Wilfred was appointed as a member of the Nomination Committee of the Company on 4 January 2010.
3. Mr. Lam Ka Wai, Graham was appointed as a member of the Nomination Committee of the Company on 4 January 2010.
4. Mr. Sham Sui Leung, Daniel ceased as the chairman of the Nomination Committee of the Company on 4 January 2010.
5. Dr. Tyen Kanhee, Anthony ceased as a member of the Nomination Committee of the Company on 4 January 2010.

Remuneration Policy

The formulation of the Group's remuneration strategy and policy is based on the principles of equity and market competitiveness so as to drive staff to work towards the mission of the Group and to retain talents. As a long-term incentive plan and with the aim of motivating Directors and employees in the continued pursuit of the Company's goal and objectives and to recognize their contributions to the Group, the Company has adopted the share option schemes under which the Company may grant share options to the Directors/selected employees/eligible persons to subscribe for the shares of the Company and two share incentive award schemes, namely, The VC Share Purchase Scheme Trust and The VC Share Award Scheme Trust, under which the Company may grant awarded shares to the Directors/selected employees.

Emoluments of Directors

The emoluments of the Directors are determined with regard to the performance of individuals, the Company's operating results and market standards. During the year, the Remuneration Committee has considered and approved bonus payments to directors/employees of the Group, salary increases for senior management and employees of the Group and the long-term equity grant to the management of the Group.

(5) Finance Committee

The Finance Committee is made up of the Company's Executive Directors, namely, Ms. So Wai Yee, Betty (Chairman) and Mr. Chau King Fai, Philip and members of the Company's senior management (non-voting capacity), namely, Mr. Ng Man Hoi, Paul and Ms. Fung Wai Har, Amanda.

It conducts review on matters such as the Group's financial, accounting, treasury and risk management policies, major financing transactions, corporate plans and budgets; and reviews major acquisitions and investments and their funding requirements. It holds meetings from time to time to discuss financial matters of the Company's new and existing business.

(6) Regulatory Compliance Committee

The Regulatory Compliance Committee is made up of the Company's Executive Directors, Non-executive Director and members of the Company's senior management, namely Mr. Chau King Fai, Philip (Chairman), Ms. So Wai Yee, Betty, Mr. Lam Cho Ying, Terence Joe, Mr. Ng Man Hoi, Paul and Ms. Fung Wai Har, Amanda.

It reviews and advises upon matters in respect of the present or future regulation of the Company's financial services businesses and compliance with applicable laws and regulations, including the Listing Rules. It holds meetings from time to time to discuss the ongoing compliance matters of the Group.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR ACCOUNTS

The Directors' responsibilities for preparing the financial statements and the reporting responsibilities of the external auditor are set out on page 45.

INTERNAL CONTROL

Responsibility

The Board has the responsibility to ensure a sound system of internal control and risk management is established and maintained. A sound system of internal control and risk management is designed to safeguard the shareholders' investments and the Group's assets; and to maintain proper accounting records for the provision of reliable financial information. It aims to provide reasonable but not absolute assurance against material misstatement, fraud or loss.

Management Supervision

The Board has assigned the Executive Committee to oversee the implementation of the Group's internal control and risk management and to monitor the business and operations.

The Executive Committee and management have defined the organizational structure of the Group with clear reporting lines and authorities. Competent personnel are recruited to facilitate the establishment and maintenance of the internal control system.

The management endorses policies, procedures, codes and guidelines to mitigate significant inherent risks embedded in the operational activities. The "Code of Business Conduct and Ethics" is formulated and communicated to all staffs with the aim of cultivating high integrity and ethical values within the Group.

The Executive Committee conducts regular meetings to review business performance, key operations statistics and internal control issues.

Internal Audit Function

The Group has an internal audit function which reports directly to the Audit Committee. The annual internal audit plan is approved during the Audit Committee meeting. The Internal Auditor independently reviews and assesses the design and the effectiveness of the Group's system of internal control by adopting a risk-based audit approach, focusing on major processes and activities which are quantitatively or qualitatively significant to the Group. The Internal Auditor reports all significant internal control and risk management matters to the Audit Committee; and monitors the management resolution status.

Audit Committee Supervision

The Board has assigned the Audit Committee to review and supervise the financial reporting process and internal control procedures of the Group.

The Audit Committee conducts regular meetings with Internal Auditor and external auditor to review the financial statements and auditor's reports on financial and internal control matters. The Audit Committee reports to the Board on significant internal control matters, suspected frauds or irregularities, alleged infringement of laws and regulations, which come to their attention.

The Audit Committee, through the Internal Auditor, has conducted comprehensive risk assessments and internal control reviews on the design and the effectiveness of the Group's system of internal control for the year ended 31 December 2010, which covers the key controls for mitigating the major risks associated with the significant processes.

The Audit Committee has considered that the system of internal control is appropriately designed and effective. The Audit Committee has also assessed the adequacy of resources, qualifications, experience, training programmes and budget of staff of the Group's Finance Department and considered that it is adequate.

AUDITOR'S REMUNERATION

Messrs. Deloitte Touche Tohmatsu has been appointed as the Company's external auditor since 2005. For the year ended 31 December 2010, the fees charged by the auditor for the audit of the Company and its subsidiaries amounted to HK\$1,000,000. In addition, HK\$194,000 was charged for non-audit services which include the review of accounting treatments of the convertible bonds issued by the Company during the year, the taxation services and the review of a subsidiary's provident fund scheme.

COMMUNICATION WITH SHAREHOLDERS

The Company regards the AGM an important event as it provides an opportunity for the Board to communicate with the shareholders. Notice of AGM and related papers are sent to the shareholders at least 20 clear business days before the meeting. The Company supports the Corporate Governance Code's principle to encourage shareholders' participation. Questioning by the shareholders at the AGM is encouraged and welcomed.

The Company Secretary responds to letters and telephone enquiries from shareholders and investors. Shareholders and investors are welcome to raise enquiries through our email contact info@vcgroup.com.hk or by mail to our Company Secretary at 28th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong. The website of the Company at <http://www.vcgroup.com.hk> also provides a medium to make information of the Company and the Group available to the shareholders with a section on "Corporate Governance" included.

SHAREHOLDERS' RIGHTS

Pursuant to Article 65 of the Articles of Association, the Board may, whenever it thinks fit, convene an extraordinary general meeting, and extraordinary general meetings shall also be convened on requisition, as provided by the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) ("Companies Ordinance"). In accordance with Section 113 of the Companies Ordinance, members holding at the date of the deposit of the requisition not less than one-twentieth of such of the paid-up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company can request the Company to convene an extraordinary general meeting. The requisition must state the objects of the meeting, and must be signed by the requisitionists and deposited at the registered office of the Company at 28th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong. To facilitate enforcement of shareholders' rights, substantially separate issues at general meetings are dealt with under separate resolutions.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Dr. LEE Jun Sing*, *Non-executive Chairman*

Mr. CHAU King Fai, Philip#

Mr. CHENG Tze Kit, Larry#, *Chief Investment Officer* (appointed as Chief Investment Officer on 1 January 2010)

Ms. SO Wai Yee, Betty#, *Chief Financial Officer* (re-designated from a Non-executive Director to an Executive Director and appointed as Chief Financial Officer on 18 January 2010)

Ms. LAM Yuk Ying, Elsa# (appointed as an Executive Director on 23 February 2011)

Mr. ZHOU Wentao# (appointed as an Executive Director on 23 February 2011)

Mr. LAM Cho Ying, Terence Joe* (re-designated from an Executive Director to a Non-executive Director on 27 May 2010 and resigned as Chief Executive Officer on the same date)

Ms. WANG Ying* (appointed as a Non-executive Director on 4 January 2010)

Mr. LAM Kwok Hing, Wilfred^ (appointed as an Independent Non-executive Director on 4 January 2010)

Mr. TSE On Kin^ (appointed as an Independent Non-executive Director on 4 January 2010)

Mr. LAM Ka Wai, Graham^ (appointed as an Independent Non-executive Director on 4 January 2010)

Mr. SHAM Sui Leung, Daniel^ (resigned as an Independent Non-executive Director on 4 January 2010)

Dr. TYEN Kanhee, Anthony^ (resigned as an Independent Non-executive Director on 4 January 2010)

Executive Director

* Non-executive Director

^ Independent Non-executive Director

In accordance with Article 92 of the Company's Articles of Association, any Director of the Company so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting. In accordance with this provision, Ms. Lam Yuk Ying, Elsa and Mr. Zhou Wentao shall retire at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

In accordance with Article 101 of the Company's Articles of Association, one-third of the Directors of the Company for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office. The Directors of the Company to retire every year shall be those who have been longest in office since their last election. In accordance with this provision, Mr. Chau King Fai, Philip, Ms. Wang Ying and Mr. Lam Kwok Hing, Wilfred shall retire at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

The Company has received annual confirmation from each of the Independent Non-executive Directors concerning their independence to the Company pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company considers all of the Independent Non-executive Directors are independent.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2010, the relevant interests or short positions of the Directors and the Chief Executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571, the Laws of Hong Kong) ("SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of part XV of the SFO (including interests and short positions which the Director is taken or deemed to have under such provisions of the SFO), or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Long Positions in the Shares and Underlying Shares of the Company

(a) *Ordinary shares of HK\$0.10 each of the Company*

Name of Director	Capacity	Nature of interest	Number of issued ordinary shares held	Approximate % of issued share capital
Dr. Lee Jun Sing	Held by controlled corporation	Corporate	3,299,702 (Note 2)	0.83%
Mr. Chau King Fai, Philip	Beneficial owner	Personal	2,369,869	0.59%
Mr. Lam Cho Ying, Terence Joe	Beneficial owner	Personal	236,000	0.06%

(b) *Share options granted to the Directors of the Company pursuant to the share option scheme adopted by the Company on 29 November 2001, which was terminated on 15 August 2008 (the "GEM Share Option Scheme")*

Name of Director	Number of share options			Outstanding at 31 December 2010	Approximate % of issued share capital	Date of grant	Exercisable period	Exercise price
	Outstanding at 1 January 2010	Granted during the year	Exercised during the year					
Dr. Lee Jun Sing	491,057	-	-	491,057	0.12%	9 July 2002	9 January 2003 – 8 July 2010	1.00
Mr. Chau King Fai, Philip	1,100,000	-	(1,100,000)	-	-	25 March 2004	25 September 2004 – 24 March 2014	0.64

Directors' Report

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2010, none of the Directors of the Company or their respective associates have any competing interests in any business, which compete or may compete, either directly or indirectly with the businesses of the Company pursuant to the Listing Rules.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2010, other than the interests of the Directors or Chief Executive of the Company as disclosed above, the following persons/corporations had interests in five per cent or more of the issued share capital of the Company as recorded in the register required to be kept under Section 336 of the SFO. Details of the interests in the shares or underlying shares of the Company as notified to the Company are set out below:

Long Positions in the Shares and Underlying Shares of the Company

Ordinary shares of HK\$0.10 each of the Company

Name	Capacity	Number of issued ordinary shares held	Approximate % of issued share capital	Notes
VMS Investment Group Limited	Beneficial owner	20,000,000	5.00%	2
Ms. Mak Siu Hang, Viola	Held by controlled corporation	20,000,000	5.00%	2
Highgrade Holding Limited	Beneficial owner	21,900,000	5.48%	3
Mr. Ting Pang Wan, Raymond	Held by controlled corporation	21,900,000	5.48%	3

Notes:

- As at 31 December 2010, the total number of issued ordinary shares of the Company was 399,736,829.
- Ms. Mak Siu Hang, Viola is taken to be interested in 20,000,000 ordinary shares of the Company as a result of her being beneficially interested in the entire issued share capital of VMS Investment Group Limited which in turn holds approximately 5.00% of the issued share capital of the Company.
- Mr. Ting Pang Wan, Raymond is taken to be interested in 21,900,000 ordinary shares of the Company as a result of him being beneficially interested in the entire issued share capital of Highgrade Holding Limited which in turn holds approximately 5.48% of the issued share capital of the Company.

Save as disclosed herein, as at 31 December 2010, the Company had not been notified of any other interests or short positions in the shares and underlying shares of the Company which had been recorded in the register required to be kept under Section 336 of the SFO.

SHARE OPTION SCHEMES

At an extraordinary general meeting of the Company held on 29 November 2001, the shareholders of the Company approved the adoption of a share option scheme (the "GEM Share Option Scheme") which superseded the previous share option scheme of the Company adopted on 14 March 2001.

The GEM Share Option Scheme was conditionally terminated by the Board on 7 August 2008. Upon the listing of shares of the Company was transferred from the Growth Enterprise Market of the Stock Exchange to the Main Board of the Stock Exchange on 15 August 2008, the termination of the GEM Share Option Scheme became effective. Thereafter, no further share options may be offered or granted under the GEM Share Option Scheme. Pursuant to the provisions of the GEM Share Option Scheme, share options previously granted but unexercised under the GEM Share Option Scheme will remain valid and exercisable in accordance with their terms of issue.

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 8 June 2009, the Company adopted a new share option scheme (the "2009 Share Option Scheme") (the GEM Share Option Scheme and the 2009 Share Option Scheme are collectively referred to as the "Schemes").

Summary of the Schemes

(a) Purpose of the Schemes

The purpose of the Schemes is to recognize the contribution made by the participants to the Group and also provide them an opportunity to have a personal stake in the Company with the view to motivating them to optimize their performance and efficiency for the benefit of the Group and to attract and retain or otherwise maintain ongoing business relationship with them whose contributions are beneficial to the long term growth of the Group.

(b) Participants of the Schemes

Pursuant to the Schemes, the Board may, at its discretion, to make an offer for the grant of share options to the employees or Directors of the Group or such other persons who are eligible for participation in the Schemes to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated in the Schemes. No further share options may be granted under the GEM Share Option Scheme upon its termination on 15 August 2008.

(c) Total number of shares available for issue under the Schemes

The maximum number of shares of the Company which may be issued upon exercise of outstanding share options granted and yet to be exercised under the Schemes must not exceed 30% of the total number of shares of the Company in issue from time to time.

Directors' Report

The total number of shares of the Company which may be issued upon exercise of all share options to be granted under the 2009 Share Option Scheme shall not in aggregate exceed 10% of the total number of shares of the Company in issue as at the date of approval of the 2009 Share Option Scheme (i.e. 37,116,977 shares of the Company, which represents 10% of the issued share capital of the Company as at 8 June 2009). The Company may seek approval of the Company's shareholders in a general meeting for refreshing the 10% limit under the 2009 Share Option Scheme save that the total number of shares of the Company which may be issued upon the exercise of all share options to be granted under the 2009 Share Option Scheme under the limit as "refreshed" may not exceed 10% of the total number of shares of the Company in issue as at the date of approval of the limit.

(d) Maximum entitlement of each participant

The total number of shares of the Company issued and to be issued upon exercise of the share options granted and to be granted to any participant (including both exercised, cancelled and outstanding share options) in any twelve months period up to the date of the grant to such participant shall not exceed 1% of the total number of shares of the Company in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting of the Company.

(e) Time of exercise of share option

Pursuant to the Schemes, any share option may be exercised in accordance with its terms at any time during a period to be determined and notified by the Board to each grantee, save that no share option may be exercised more than 10 years from the date on which the share option is deemed to have been granted and accepted in accordance with the terms of the Schemes. The Board may provide restrictions on the exercise of a share option during the option period.

(f) Payment on acceptance of share option

Pursuant to the Schemes, HK\$1.00 is payable by the grantee to the Company on acceptance of the share option within 28 days from the date of grant of the share option.

(g) Basic of determining the subscription price of share option

The exercise price per share option under the Schemes shall be determined by the Board in its absolute discretion, but in any event shall be at least the highest of: (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date when share option is offered; (ii) a price being the average of the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date on which share option is offered; and (iii) the nominal value of a share of the Company on the date of the offer of share option.

(h) Remaining life of the Schemes

The GEM Share Option Scheme has no remaining life as no further share options may be granted but the provisions of the GEM Share Option Scheme shall in all other respects remain in full force and effect and share options which are granted during the life of the GEM Share Option Scheme may continue to be exercisable in accordance with their respective terms of issue.

The 2009 Share Option Scheme will continue to be in full force and effect for a period of 10 years commencing on 8 June 2009 (save that the Company, by ordinary resolutions in general meeting or the Board, may at any time terminate the operation of the 2009 Share Option Scheme). After termination, no further share options will be granted but the provisions of the 2009 Share Option Scheme shall in all other respects remain in full force and effect and the share options which are granted during the life of the 2009 Share Option Scheme may continue to be exercisable in accordance with their respective terms of issue.

Outstanding of Share Options

As at 31 December 2010, options to subscribe for an aggregate of 17,704,139 ordinary shares of the Company granted pursuant to the Schemes were outstanding. Details of which were as follows:

(a) GEM Share Option Scheme

The movements of the share options during the year and outstanding as at 31 December 2010 under the GEM Share Option Scheme are as follows:

Category of participant	Number of share options					Outstanding at 31 December 2010	Date of grant	Share options duration	Exercise price
	Outstanding at 1 January 2010	Reclassified during the year	Granted during the year	Exercised during the year	Lapsed during the year				
Directors ¹	491,057	-	-	-	-	491,057	9 July 2002	9 July 2002 – 8 July 2012	1.00
Directors ¹	1,100,000	-	-	(1,100,000)	-	-	25 March 2004	25 March 2004 – 24 March 2014	0.64
Sub-total	1,591,057	-	-	(1,100,000)	-	491,057			
Employees ¹	24,942	-	-	(20,000)	-	4,942	9 July 2002	9 July 2002 – 8 July 2012	1.00
Employees ¹	150,000	-	-	(150,000)	-	-	25 March 2004	25 March 2004 – 24 March 2014	0.64
Sub-total	174,942	-	-	(170,000)	-	4,942			
Other eligible persons ¹	344,140	-	-	-	-	344,140	9 July 2002	9 July 2002 – 8 July 2012	1.00
Other eligible persons ¹	700,000	-	-	(600,000)	-	100,000	25 March 2004	25 March 2004 – 24 March 2014	0.64
Sub-total	1,044,140	-	-	(600,000)	-	444,140			
Total	2,810,139	-	-	(1,870,000)	-	940,139			



SHARE AWARD SCHEMES

On 31 March 2008, the Company adopted two share incentive award schemes, namely The VC Share Purchase Scheme Trust (the "Share Purchase Scheme") and The VC Share Award Scheme Trust (the "Share Subscription Scheme").

The purpose of each of the Share Purchase Scheme and the Share Subscription Scheme is to encourage and facilitate the acquisition and holding of shares in the Company, by and for the benefit of such employees of the Company and any subsidiary of the Company (the "Subsidiary"). The shares to be awarded pursuant to the Share Purchase Scheme and/or the Share Subscription Scheme may be awarded in such manner as the Board may determine from time to time in order to recognise the contribution of certain employees, to seek to retain them for the continued operation and development of the Group, and to attract suitable personnel for the further development of the Group.

A summary of the principal terms of the Share Purchase Scheme and Share Subscription Scheme and movements of the awarded shares granted under these schemes is set out below:

(a) Share Purchase Scheme

The Share Purchase Scheme has a term of 20 years from the date of adoption, i.e. 31 March 2008. The scheme limit of this scheme is 2% of the ordinary issued share capital of the Company from time to time (excluding shares which have already been transferred to employees on vesting).

The Board may, subject to the rules relating to the Share Purchase Scheme, from time to time at its absolute discretion select any employee (including any director of the Company or the subsidiary) to be a participant in the Share Purchase Scheme. The Board or the trustee of the Share Purchase Scheme (as the case may be) shall either (1) set aside a sum of money or (2) determine a number of shares which it wishes to be the subject of a bonus or award under the Share Purchase Scheme. Where a sum of money has been set aside (or a number of shares has been determined), it shall pay (or cause to be paid) that amount or an amount sufficient to purchase that number of shares to the trustee (or as it shall direct) from the Group's resources as soon as practicable following such funds being set aside. Within 15 business days of receiving the amount sufficient to purchase that number of shares, the trustee shall apply the same towards the purchase of shares on the Stock Exchange.

Vesting of the shares will be conditional on the selected employee remaining an employee of the Company or the subsidiary until the vesting date. The Board also has the discretion to stipulate such other conditions in respect of a particular employee which will apply to the vesting of the shares. An award will lapse where the Company or the business division by which the selected employee is employed ceases to be part of the Group or in the event the selected employee does not deliver the notice of exercise within the prescribed time limit to the trustee for the purpose of exercising his rights to receive the vested shares.

Where shares which are referable to a selected employee do not vest or are not acquired by selected employees in accordance with the above procedures, the trustee shall hold such shares or any income deriving therefrom exclusively for the benefit of all selected employees of the Group as the trustee determines in its absolute discretion, after having taken into consideration recommendations of the Board.

paid) an amount or an amount equal to the par value of either (i) the Relevant Number of Shares (where the Board has determined a notional cash amount) or (ii) the Number of Awarded Shares (where the Board has determined such number) to the trustee (or as it shall direct) from the Group's resources as soon as practicable in accordance with the rules relating to the Share Subscription Scheme.

Vesting of the shares will be conditional on the selected employee remaining an employee of the Company or the subsidiary until the vesting date. The Board also has the discretion to stipulate such other conditions in respect of a particular employee which will apply to the vesting of the shares. An award will lapse where the Company or the business division by which the selected employee is employed ceases to be part of the Group or in the event the selected employee does not deliver the notice of exercise within the prescribed time limit to the trustee for the purpose of exercising his rights to receive the vested shares.

Where shares which are referable to a selected employee do not vest or are not acquired by selected employees in accordance with the above procedures, the trustee shall hold such shares or any income deriving therefrom exclusively for the benefit of all selected employees of the Group as the trustee determines in its absolute discretion after having taken into consideration recommendations of the Board.

The Board may by resolution terminate the operation of the Share Subscription Scheme at any time provided that such termination shall not affect any subsisting rights of any employee selected thereunder and provided further that if, at the date of such termination, the trustee holds any shares which it has not vested, then the trustee shall within 21 business days of receiving notice of such termination sell such shares and remit the proceeds of sale (after deductions) to the Company.

During the year ended 31 December 2010, there were no shares awarded by the Company to any employees of the Company and/or its subsidiaries and outstanding under the Share Subscription Scheme.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate revenues attributable to the Group's five largest customers taken together were less than 30% of the Group's total revenues for the year ended 31 December 2010.

The Group had no major supplier due to the nature of principal activities of the Group.

CONNECTED TRANSACTIONS

Significant related party transactions entered by the Group during the year ended 31 December 2010 are disclosed in note 33 to the consolidated financial statements.

None of the related party transactions fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules.

EVENT AFTER THE REPORTING PERIOD

Details of the significant event of the Group occurring after the reporting period are set out in note 34 to the consolidated financial statements.

Directors' Report

CORPORATE GOVERNANCE

The Company is committed to 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 of the Code on Corporate Governance Practices as set out in the Listing Rules for the year ended 31 December 2010 except the code provision A.4.1 in respect of the appointment of non-executive directors for specific terms.

Further information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 19 to 29 of this annual report.

AUDIT COMMITTEE

The Audit Committee, comprising the three Independent Non-executive Directors of the Company, has been established by the Company to review and supervise the financial reporting process and internal control procedures of the Group. The Audit Committee has reviewed the Group's consolidated financial statements and results for the year ended 31 December 2010. The Audit Committee is satisfied that the consolidated financial statements have been prepared in accordance with the applicable accounting standards and fairly present the Group's financial positions and results for the year ended 31 December 2010.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and within the knowledge of the Directors of the Company as at the date of this report, the Company has maintained a sufficient public float under the Listing Rules throughout the year ended 31 December 2010.

AUDITOR

The financial statements of the Company for the year ended 31 December 2010 have been audited by Messrs. Deloitte Touche Tohmatsu. A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board of
Value Convergence Holdings Limited
Chau King Fai, Philip
Executive Director

Hong Kong, 24 March 2011

Deloitte.

德勤

**TO THE MEMBERS OF
VALUE CONVERGENCE HOLDINGS LIMITED**
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Value Convergence Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 47 to 115, which comprise the consolidated and Company's statements of financial positions as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL
STATEMENTS**

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Notes	2010 HK\$'000	2009 HK\$'000
Revenue	7	115,629	135,734
Other income	7	598	912
Staff costs	8	(83,156)	(102,226)
Depreciation of property, plant and equipment	17	(2,063)	(2,053)
Amortisation of trading rights	16	(252)	(507)
Commission expenses		(6,257)	(6,915)
Finance costs	10	(1,107)	(1,457)
Other operating expenses		(28,696)	(26,994)
Share of loss of jointly controlled entities	20	(37,832)	(13,494)
Fair value changes on financial liabilities designated at fair value through profit or loss	29	(22,950)	(1,184)
Fair value changes on derivatives financial liabilities	29	(11,033)	–
Impairment of goodwill	15	(8,151)	–
Loss before taxation		(85,270)	(18,184)
Income tax expense	12	(3,666)	(4,330)
Loss for the year	11	(88,936)	(22,514)
Other comprehensive loss			
Exchange differences arising on translation of foreign operations		(88)	–
Total comprehensive loss for the year		(89,024)	(22,514)
Loss for the year attributable to:			
Owners of the Company		(87,985)	(22,514)
Non-controlling interests		(951)	–
		(88,936)	(22,514)
Total comprehensive loss for the year attributable to:			
Owners of the Company		(88,073)	(22,514)
Non-controlling interests		(951)	–
		(89,024)	(22,514)
Loss per share (HK cents)			
Basic	14	(22.47)	(6.09)
Diluted	14	(22.47)	(6.09)

Consolidated Statement of Financial Position

As at 31 December 2010

	<i>Notes</i>	2010 HK\$'000	2009 <i>HK\$'000</i>
Non-current assets			
Goodwill	15	–	8,151
Trading rights	16	–	252
Property, plant and equipment	17	3,504	3,813
Deferred tax assets	18	–	1,100
Statutory deposits		3,059	2,997
Other intangible assets	19	547	547
Investments in jointly controlled entities	20	–	–
Loan to a jointly controlled entity	20	–	79,383
Rental and utility deposits		2,163	2,096
		9,273	98,339
Current assets			
Accounts receivable	21	542,409	441,326
Prepayments, deposits and other receivables	22	2,855	2,956
Loan to a jointly controlled entity	20	219	–
Amounts due from jointly controlled entities	22	–	13,603
Pledged bank deposits	22	40,000	40,000
Bank balances and cash	22	115,478	93,912
		700,961	591,797
Current liabilities			
Accounts payable	23	65,346	54,618
Accrued liabilities and other payables		13,425	12,858
Amounts due to jointly controlled entities	22	1,378	–
Taxation payable		443	3,040
Short-term bank borrowings	24	40,000	–
		120,592	70,516
Net current assets		580,369	521,281
Total assets less current liabilities		589,642	619,620

Consolidated Statement of Financial Position

As at 31 December 2010

	<i>Notes</i>	2010 HK\$'000	2009 <i>HK\$'000</i>
Non-current liability			
Financial liabilities designated at fair value through profit or loss	29	–	11,184
		589,642	608,436
Capital and reserves			
Share capital	25	39,974	37,459
Reserves		548,126	570,977
Equity attributable to owners of the Company		588,100	608,436
Non-controlling interests		1,542	–
Total equity		589,642	608,436

The consolidated financial statements on pages 47 to 115 were approved and authorised for issue by the Board of Directors on 24 March 2011 and are signed on its behalf by:

Chau King Fai, Philip
DIRECTOR

So Wai Yee, Betty
DIRECTOR

Statement of Financial Position

As at 31 December 2010

	Notes	2010 HK\$'000	2009 HK\$'000
Non-current assets			
Investments in subsidiaries	26	12,557	10
Amounts due from subsidiaries	26	468,228	50,000
Loan to a jointly controlled entity	20	–	79,383
		480,785	129,393
Current assets			
Prepayments, deposits and other receivables	22	15	156
Loan to a jointly controlled entity	20	219	–
Amounts due from subsidiaries	26	30,487	433,368
Bank balances	22	26,885	817
		57,606	434,341
Current liabilities			
Accrued liabilities and other payables		475	2,684
Amounts due to subsidiaries	26	21,974	29,803
		22,449	32,487
Net current assets			
		35,157	401,854
Total assets less current liabilities			
		515,942	531,247
Non-current liability			
Financial liabilities designated at fair value through profit or loss	29	–	11,184
		515,942	520,063
Capital and reserves			
Share capital	25	39,974	37,459
Reserves	27	475,968	482,604
Total equity			
		515,942	520,063

Chau King Fai, Philip
DIRECTOR

So Wai Yee, Betty
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Attributable to owners of the Company											
	Shares held for share			Capital reserve	Exchange reserve	Retained profits (Accumulated losses)	Share option reserve	Awarded shares compensation reserve	Other reserve	Sub-total	Attributable to non-controlling interests	Total
	Share capital	purchase scheme	Share premium									
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(note 1)					(note 2)			
At 1 January 2009	37,117	(3,221)	359,385	123,758	(854)	93,102	1,528	1,333	-	612,148	-	612,148
Loss for the year representing total comprehensive loss for the year	-	-	-	-	-	(22,514)	-	-	-	(22,514)	-	(22,514)
Exercise of share options	342	-	3,067	-	-	-	-	-	-	3,409	-	3,409
Transfer of share option reserve upon exercise of share options	-	-	1,085	-	-	-	(1,085)	-	-	-	-	-
Reversal of share option reserve upon forfeiture of share options	-	-	-	-	-	-	(443)	-	-	(443)	-	(443)
Recognition of equity-settled share-based payment	-	-	-	-	-	-	15,053	1,512	-	16,565	-	16,565
Share issue expenses	-	-	(3)	-	-	-	-	-	-	(3)	-	(3)
Shares purchased for share purchase scheme	-	(601)	-	-	-	-	-	-	-	(601)	-	(601)
Transfer of shares held for share purchase scheme upon vesting of shares	-	1,793	-	-	-	8	-	(1,801)	-	-	-	-
Reversal of awarded shares compensation reserve upon forfeiture of shares	-	-	-	-	-	-	-	(125)	-	(125)	-	(125)
At 31 December 2009	37,459	(2,029)	363,534	123,758	(854)	70,596	15,053	919	-	608,436	-	608,436
Loss for the year	-	-	-	-	-	(87,985)	-	-	-	(87,985)	(951)	(88,936)
Other comprehensive loss for the year	-	-	-	-	(88)	-	-	-	-	(88)	-	(88)
Total comprehensive loss for the year	-	-	-	-	(88)	(87,985)	-	-	-	(88,073)	(951)	(89,024)
Non-controlling interests arising on partial disposal of interests in subsidiaries (Note 30)	-	-	-	-	-	-	-	-	202	202	1,998	2,200
Additional non-controlling interests arising on issue of new equity shares	-	-	-	-	-	-	-	-	-	-	495	495
Exercise of share options	515	-	7,470	-	-	-	-	-	-	7,985	-	7,985
Transfer of share option reserve upon exercise of share options	-	-	2,953	-	-	-	(2,953)	-	-	-	-	-
Reversal of share option reserve upon forfeiture of share options	-	-	-	-	-	54	(54)	-	-	-	-	-
Recognition of equity-settled share-based payment	-	-	-	-	-	-	2,591	1,852	-	4,443	-	4,443
Share issue expenses	-	-	(25)	-	-	-	-	-	-	(25)	-	(25)
Transfer of shares held for share purchase scheme upon vesting of shares	-	2,029	-	-	-	742	-	(2,771)	-	-	-	-
Shares issue upon conversion of convertible bonds	2,000	-	53,132	-	-	-	-	-	-	55,132	-	55,132
At 31 December 2010	39,974	-	427,064	123,758	(942)	(16,593)	14,637	-	202	588,100	1,542	589,642

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

Notes

- (1) Pursuant to a scheme of capital reorganisation, which became effective on 28 May 2003, the High Court of Hong Kong (the "High Court") had approved the reduction of the Company's capital and the cancellation of the Company's share premium account on 27 May 2003. By virtue of the High Court's sanction, the Company's share premium account of HK\$45,878,129 was cancelled and the issued and fully paid share capital of the Company was reduced by HK\$214,339,500 through a reduction in the nominal value of the share capital of the Company. The credits arising from the cancellation of the share premium account and the reduction of the share capital account, after eliminated against the accumulated loss of HK\$136,459,429, in the aggregate amount of HK\$123,758,200 were 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 for the purposes of section 79C of the Hong Kong Companies Ordinance until and unless the creditors of the Company as at the date of the sanction are fully settled. In view of the fact that the Company had already fully settled the relevant debts due to the creditors, the Company is of the view that the reserve is distributable to the Company's shareholders.
- (2) Pursuant to the disposal of 9.9% of the interest in each of the two wholly-owned subsidiaries, VC Capital Limited and VC Asset Management Limited, at a consideration of HK\$1,600,000 and HK\$600,000 respectively completed on 10 February 2010, the difference of approximately HK\$283,000 and negative HK\$81,000 between the disposal proceeds and the amounts transferred to non-controlling interests of VC Capital Limited and VC Asset Management Limited of approximately HK\$1,317,000 and HK\$681,000 respectively had been recognised in Other Reserve.

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010 HK\$'000	2009 HK\$'000
Cash flows from operating activities		
Loss before taxation	(85,270)	(18,184)
Adjustments for		
Depreciation of property, plant and equipment	2,063	2,053
Amortisation of trading rights	252	507
Recognition of equity-settled share-based payment	4,443	15,997
Recovery for doubtful receivables, net	–	(2,200)
Bad debts written off	–	148
Interest income	(437)	(908)
Finance costs recognised in profit or loss	1,107	1,457
Loss on disposal of property, plant and equipment	3	–
Share of loss of jointly controlled entities	37,832	13,494
Fair value changes on financial liabilities designated at fair value through profit or loss	22,950	1,184
Fair value changes on derivatives financial liabilities	11,033	–
Impairment of goodwill	8,151	–
	2,127	13,548
Movements in working capital		
Increase in accounts receivable	(101,083)	(175,881)
(Increase) decrease in prepayments, deposits and other receivables	(91)	827
Increase in rental and utility deposits	(67)	(2,096)
Decrease in amounts due from related companies	–	230
Decrease (increase) in amounts due from jointly controlled entities	13,603	(4,341)
Increase in accounts payable	10,728	34,738
Increase (decrease) in accrued liabilities and other payables	460	(1,031)
Decrease in amounts due to related companies	–	(513)
Increase in amounts due to jointly controlled entities	1,378	–
	(72,945)	(134,519)
Cash used in operations		
Interest paid	(1,132)	(1,457)
Interest received	633	584
Income taxes paid	(5,163)	(2,036)
	(78,607)	(137,428)
Net cash used in operating activities		
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,757)	(1,443)
Repayment of loan to a jointly controlled entity	41,332	–
Increase in pledged bank deposits	–	(40,000)
Increase in statutory deposits	(62)	(9)
	39,513	(41,452)
Net cash generated from (used in) investing activities		

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010 HK\$'000	2009 HK\$'000
Cash flows from financing activities		
New short-term bank borrowings	40,000	–
Capital contribution from non-controlling interests	495	–
Proceeds from disposal of partial interests in subsidiaries that does not result in losing control of the subsidiaries	2,200	–
Increase in amount due to a shareholder	–	31
Repayment of loans due to a shareholder	–	(41,900)
Purchase of shares for Share Purchase Scheme	–	(601)
Proceeds from exercise of share options	7,985	3,409
Proceeds from issue of convertible bonds	–	10,000
Proceeds from issue of optional bonds	10,000	–
Share issue expenses	(25)	(3)
Net cash generated from (used in) financing activities	60,655	(29,064)
Net increase (decrease) in cash and cash equivalents	21,561	(207,944)
Cash and cash equivalents at the beginning of year	93,912	301,856
Effect of exchange rate changes on the balance of cash held in foreign currencies	5	–
Cash and cash equivalents at the end of year, represented by bank balances and cash	115,478	93,912

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 addresses of the registered office and principal place of business of the Company are disclosed in the corporate information of the annual report.

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

The Company and its subsidiaries (the "Group") are principally engaged in the provision of financial services.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group and the Company have applied a number of new and revised standards, amendments to standards and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are mandatorily effective for 2010 financial year ends.

Except for HKAS 27 (as revised in 2008) as described below, the adoption of the new and revised HKFRSs in the current year have no material effect on the consolidated financial statements of the Group and the financial statements of the Company for the current or prior accounting years.

HKAS 27 (as revised in 2008) Consolidated and separate financial statements

The application of HKAS 27 (as revised in 2008) has resulted in changes in the Group's accounting policies for changes in ownership interests in subsidiaries of the Group.

Specifically, the revised standard has affected the Group's accounting policies regarding changes in the Group's ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under HKAS 27 (as revised in 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

During the year, the Group disposed of 9.9% of the Group's interest in each of the two wholly-owned subsidiaries. The difference between the cash consideration and the proportional interests in the carrying values of the two wholly-owned subsidiaries, amounting to HK\$202,000, is recognised directly in equity instead of profit or loss. Therefore, the change in accounting policy has resulted in an increase in the loss for the year of HK\$202,000. In addition, the cash consideration received in the current year of HK\$2,200,000 has been included in the cash flows from financing activities. Had the Group's previous accounting policy been followed, the gain on partial disposal would have been recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) – continued

The effects of the above changes in accounting policies on the Group’s basic and diluted loss per share for the current year are as follows:

Impact on basic and diluted loss per share

	Impact on basic loss per share 2010 HK cents	Impact on diluted loss per share 2010 HK cents
Figures before adjustment	22.42	22.42
Adjustments arising from changes in the Group’s accounting policies in relation to: Changes in ownership interests in subsidiaries	0.05	0.05
Figures after adjustment	22.47	22.47

In addition, under HKAS 27 (as revised in 2008), the definition of non-controlling interest has been changed. Specifically, under the revised standard, non-controlling interest is defined as the equity in a subsidiary not attributable, directly or indirectly, to a parent.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 ²
HKFRS 7 (Amendments)	Disclosures – Transfers of financial assets ⁵
HKFRS 9	Financial instruments ⁷
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets ⁶
HKAS 24 (as revised in 2009)	Related party disclosures ⁴
HKAS 32 (Amendments)	Classification of rights issues ¹
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a minimum funding requirement ⁴
HK(IFRIC) – Int 19	Extinguishing financial liabilities with equity instruments ³

¹ Effective for annual periods beginning on or after 1 February 2010.

² Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.

³ Effective for annual periods beginning on or after 1 July 2010.

⁴ Effective for annual periods beginning on or after 1 January 2011.

⁵ Effective for annual periods beginning on or after 1 July 2011.

⁶ Effective for annual periods beginning on or after 1 January 2012.

⁷ Effective for annual periods beginning on or after 1 January 2013.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) – continued

HKFRS 9 “Financial instruments” (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 “Financial instruments” (as revised in November 2010) adds requirements for financial liabilities and for derecognitions, in which earlier application is permitted.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 “Financial instruments: Recognition and measurement” are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Directors of the Company anticipate that HKFRS 9 that will be adopted in the Group’s consolidated financial statements for financial year ending 31 December 2013 and that the application of the new standard will not have a significant impact on amounts reported in respect of the Group’s financial assets and financial liabilities.

The Directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the consolidated financial statements of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entity) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Business combinations

Business combinations that took place on or after 1 January 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 “Income taxes” and HKAS 19 “Employee benefits” respectively;
- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree’s share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 “Share-based payment” at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 “Non-current assets held for sale and discontinued operations” are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity’s net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests’ proportionate share of the recognised amounts of the acquiree’s identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another standard.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Business combinations – continued

Business combinations that took place prior to 1 January 2010

Acquisition of businesses are accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the relevant conditions for recognition were recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the recognised amount of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the acquisition, the excess is recognised immediately in profit or loss.

The minority interest in the acquiree was initially measured at the minority interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Goodwill

Goodwill arising from the acquisition of subsidiaries for which the acquisition date is before 1 January 2004, represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiaries, at the date of acquisition. On 1 January 2004, the Group early adopted HKFRS 3 (August 2004), and the carrying amount net of accumulated amortisation is deemed as cost carried forward. Subsequently, such goodwill is carried at cost less any accumulated impairment losses. It is tested for impairment annually, and whenever there is indication that the cash-generating unit to which the goodwill relates may be impaired. There is no goodwill recognised after the adoption of HKFRS 3 (August 2004).

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position as an intangible asset.

For the purposes of impairment testing, goodwill is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The Group reports its interests in jointly controlled entities using equity consolidation. Under the equity consolidation, investments in jointly controlled entities are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of jointly controlled entities. When the Group's share of loss of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of loss is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with its jointly controlled entity of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant jointly controlled entity.

Investments in subsidiaries and jointly controlled entities

In the Company's statement of financial position, the investments in subsidiaries and jointly controlled entities are stated at cost less accumulated impairment losses. The results of subsidiaries and jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the course of business, net of discounts and sales related taxes.

Revenue arising from financial services is recognised on the following bases:

- Commission income from brokering business is recorded as income on a trade date basis.
- Underwriting commission, sub-underwriting commission, placing commission and sub-placing commission are recognised as income in accordance with the terms of the underlying agreement or deal mandate when the relevant significant act has been completed.
- Arrangement, management, advisory and other fee income are recognised when the relevant transactions have been arranged or the relevant services have been rendered.
- Interest income from clients are recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Revenue recognition – continued

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.

Dividend income is recognised when the right to receive payment is established.

Service fees are recognised when the relevant services are rendered.

Trading rights

Trading rights represent rights to trade on the Stock Exchange and Hong Kong Futures Exchange Limited (“HKFE”). They are stated at cost less accumulated amortisation and any accumulated impairment losses and amortised using the straight-line method over their estimated useful lives.

Gains or losses arising from derecognition of the trading rights are measured as the difference between the sales proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is provided so as to write off the cost of property, plant and equipment less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property, plant and equipment determined as the difference between the sales proceeds and the carrying amount of the asset is recognised in profit and loss.

Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities that are designated at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities that are designated at fair value through profit or loss are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets

The Group's and the Company's financial assets are classified into loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including accounts receivable, deposits and other receivables, amounts due from subsidiaries, amounts due from jointly controlled entities, loan to a jointly controlled entity, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy in respect of impairment of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as accounts receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Impairment of financial assets – continued

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When an accounts receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than those financial liabilities classified as at fair value through profit or loss, of which interest expense is included in net gains and losses.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial liabilities and equity instruments – continued

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Other financial liabilities

Other financial liabilities (including accounts payable, accrued liabilities and other payables, amounts due to subsidiaries, amounts due to jointly controlled entities and short-term bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and the Company and not designated at FVTPL is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group and the Company measure the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, contingent liabilities and contingent assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's and the Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to directors and employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (the share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of share options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate during the vesting period, with a corresponding adjustment to the share option reserve.

For share options that are vested at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss. At the time when the share options are exercised, the amount previously recognised in the share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be transferred to retained profits.

When the share options are forfeited before the vesting date, the amount previously recognised in the share option reserve will be reversed immediately in profit or loss.

Shares awarded to directors and employees

The fair value of services received determined by reference to the fair value of shares awarded at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (the awarded shares compensation reserve).

When VC Share Purchase Scheme Trust (“Trust”) purchases the Company’s shares from the open market, the consideration paid, including any directly attributable incremental costs, is presented as shares held for share purchase scheme and deducted from total equity. No gain or loss is recognised on the transactions of the Company’s own shares.

When the Trust transfers the Company’s shares to grantees upon vesting, the related costs of the granted shares vested are reversed from shares held for share purchase scheme. Accordingly, the related expense of the granted shares vested is reversed from the awarded shares compensation reserve. The difference arising from such transfer is debited/credited to retained profits.

When the share awards are forfeited before the vesting date, the amount previously recognised in the awarded shares compensation reserve will be reversed immediately in profit or loss.

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

Estimated impairment of accounts receivable

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, an impairment loss may arise. As at 31 December 2010, the carrying amount of accounts receivable is approximately HK\$542,409,000 (2009: HK\$441,326,000). No allowance (2009: reversal of provision of HK\$2,200,000) is provided during the year.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the year.

The capital structure of the Group consists of equity attributable to owners of the Company (comprising issued share capital and reserves).

The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group manages its overall capital structure through the drawdown and repayment of short-term bank borrowings, issuance of convertible bonds, payment of dividends and issuance of new shares.

Several subsidiaries of the Group (the "Regulated Subsidiaries") are registered with the Hong Kong Securities and Futures Commission (the "SFC") for the business they operate in. The Regulated Subsidiaries are subject to liquid capital requirements under the Hong Kong Securities and Futures (Financial Resources) Rules (the "SF(FR)R") adopted by the SFC. Under the SF(FR)R, the Regulated Subsidiaries must maintain their liquid capital (assets and liabilities adjusted as determined by the SF(FR)R) in excess of HK\$3 million or 5% of their total adjusted liabilities, whichever is higher. The required information is filed with the SFC on a monthly basis. The Regulated Subsidiaries have no non-compliance of the liquid capital requirements imposed by the SF(FR)R during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	THE GROUP		THE COMPANY	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Financial assets				
Loans and receivables (including cash and cash equivalents)	698,835	669,643	525,819	563,571
Financial liabilities				
Financial liabilities designated at FVTPL	–	11,184	–	11,184
Amortised cost	115,226	65,972	22,449	32,487

Financial risk management objectives and policies

The Group's major financial instruments include accounts receivable, deposits and other receivables, loan to a jointly controlled entity, pledged bank deposits, bank balances and cash, accounts payable, accrued liabilities and other payables, short-term bank borrowings, financial liabilities designated at FVTPL and amounts due to jointly controlled entities. Details of these financial instruments are disclosed in respective notes. The Company's major financial instruments include deposits and other receivables, loan to a jointly controlled entity, amounts due from/to subsidiaries, bank balances, accrued liabilities and other payables. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

It is the Group's policy for each group entity to operate in local currencies as far as possible to minimise currency risks. Almost all of the Group's principal businesses are conducted in Hong Kong dollars which is also the functional currency of the Company, with small amounts of bank deposits denominated in USD and RMB. Since the impact of foreign exchange exposure is minimal, no hedging against foreign currency exposure has been carried out by the management for the year.

Cash flow interest rate risk

The Group and the Company are exposed to cash flow interest rate risk in relation to accounts receivables from cash clients, margin clients and brokers, loan to a jointly controlled entity, amounts due from subsidiaries, pledged bank deposits and short-term bank borrowings (see Notes 20, 21, 22, 24 and 26). Bank balances are excluded from the interest rate sensitivity analysis as they are not sensitive to the change in market interest rates.

The Group's and the Company's cash flow interest rate risks are mainly relating to the fluctuation of HIBOR or best lending rate arising from the Group's interest bearing financial instruments.

6. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Market risk – continued

Cash flow interest rate risk – continued

Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to cash flow interest rates for the financial instruments at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year and all other variables were held constant throughout the respective year. A 10 basis points (2009: 10 basis points) change represents management's assessment of the reasonably possible change in interest rates.

	2010		2009	
	Change in basis points		Change in basis points	
	+10 HK\$'000	-10 HK\$'000	+10 HK\$'000	-10 HK\$'000
THE GROUP				
Decrease (increase) in loss for the year	447	(447)	479	(479)
THE COMPANY				
Decrease (increase) in loss for the year	42	(42)	108	(108)

Fair value interest rate risk and other price risk

As at 31 December 2010, the Group and the Company are not exposed to fair value interest rate risk and other price risk. As at 31 December 2009, the Group and the Company are exposed to minimal fair value interest rate risk and other price risk from its convertible bonds classified as financial liabilities designated at FVTPL. The fair value of the convertible bonds as disclosed in Note 29 is affected by the market price of the Company's shares.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2010 and 2009 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts and receivables from margin clients with shortfalls in relation to the business of VC Brokerage Limited, the wholly owned subsidiary of the Company. In addition, the Group reviews the recoverable amount of each individual receivable at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors of the Company consider that the Group's credit risk is significantly reduced.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Liquidity risk – continued

Liquidity table

The following tables detail the Group's and the Company's remaining contractual maturity for their non-derivative financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. The tables include both principal and interest cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

THE GROUP

	Weighted average effective interest rate %	On demand or less than 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-5 years HK\$'000	Total undiscounted cash flow HK\$'000	Total carrying amount HK\$'000
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At 31 December 2010

Non-derivative financial liabilities

Accounts payable	-	65,346	-	-	-	65,346	65,346
Accrued liabilities and other payables	-	7,413	1,000	89	-	8,502	8,502
Short-term bank borrowings	2.39	40,008	-	-	-	40,008	40,000
Amounts due to jointly controlled entities	-	1,378	-	-	-	1,378	1,378
		114,145	1,000	89	-	115,234	115,226

	Weighted average effective interest rate %	On demand or less than 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-5 years HK\$'000	Total undiscounted cash flow HK\$'000	Total carrying amount HK\$'000
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At 31 December 2009

Financial liabilities designated at FVTPL

(with 1% coupon rate)	-	-	-	100	10,100	10,200	11,184
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Non-derivative financial liabilities

Accounts payable	-	54,618	-	-	-	54,618	54,618
Accrued liabilities and other payables	-	10,306	960	88	-	11,354	11,354
		64,924	960	188	10,100	76,172	77,156

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Liquidity risk – continued

Liquidity table – continued

THE COMPANY

	Weighted average effective interest rate %	On demand or less than 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-5 years HK\$'000	Total undiscounted cash flow HK\$'000	Total carrying amount HK\$'000
--	--	---	---------------------------	--------------------------------------	--------------------------	--	---

At 31 December 2010

Non-derivative financial liabilities

Accrued liabilities and other payables	-	286	173	16	-	475	475
Amounts due to subsidiaries	-	21,974	-	-	-	21,974	21,974
Financial guarantee contract (Note)	-	130,000	-	-	-	130,000	-
		152,260	173	16	-	152,449	22,449

	Weighted average effective interest rate %	On demand or less than 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-5 years HK\$'000	Total undiscounted cash flow HK\$'000	Total carrying amount HK\$'000
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At 31 December 2009

Financial liabilities designated at FVTPL
(with 1% coupon rate)

Non-derivative financial liabilities

	-	-	-	100	10,100	10,200	11,184
Accrued liabilities and other payables	-	2,384	285	15	-	2,684	2,684
Amounts due to subsidiaries	-	29,803	-	-	-	29,803	29,803
Financial guarantee contract (Note)	-	130,000	-	-	-	130,000	-
		162,187	285	115	10,100	172,687	43,671

Note: The amount included above for financial guarantee contract is the maximum amount the Company could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on the expectations at the end of the reporting period, the Company considers that it is more likely that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENTS – continued

Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- The fair value of financial liabilities designated at FVTPL is determined in accordance with Binomial pricing model based on discounted cash flow analysis using prices or rates from observable current market transactions as input.
- The fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for liability that are not based on observable market data (unobservable inputs).

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
At 31 December 2010				
Financial liabilities at FVTPL	–	–	–	–
	Level 1 <i>HK\$'000</i>	Level 2 <i>HK\$'000</i>	Level 3 <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31 December 2009				
Financial liabilities at FVTPL	–	–	11,184	11,184

There were no transfers between Level 2 and 3 in prior year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENTS – continued

Fair value – continued

The total amount of the change in fair value of the financial liabilities at FVTPL recognised in profit or loss during the year is approximately HK\$22,950,000 (2009: HK\$1,184,000).

For the movement of financial liabilities at FVTPL with level 3 classification, please refer to Note 29.

7. REVENUE AND SEGMENT INFORMATION

Revenue principally arise from the financial services business comprising securities, futures and options brokering and dealing, provision of initial public offerings, mergers and acquisitions, and other corporate finance related advisory services.

	2010 HK\$'000	2009 HK\$'000
Revenue		
– Brokerage commission and other related fee from dealing in securities and futures and options contracts	65,883	94,534
– Underwriting, sub-underwriting, placing and sub-placing commission	9,848	5,797
– Arrangement, management, advisory and other fee income	4,868	7,632
– Interest income from clients	35,030	27,771
	115,629	135,734
Other income		
Interest income	437	908
Sundry income	161	4
	598	912
Total income	116,227	136,646

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

7. REVENUE AND SEGMENT INFORMATION – continued

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

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

The following tables represent revenue and results information for these segments for the years ended 31 December 2010 and 2009.

Year ended 31 December 2010

	Brokerage HK\$'000	Corporate finance HK\$'000	Asset management HK\$'000	Segment total HK\$'000	Eliminations HK\$'000	Total HK\$'000
Segment revenue	110,811	4,818	-	115,629	-	115,629
Intersegment sales	-	80	-	80	(80)	-
	110,811	4,898	-	115,709	(80)	115,629
Segment profit (loss)	16,765	(8,193)	(1,301)	7,271	-	7,271
Elimination of intra-group costs						13,521
Central administrative costs						(26,096)
Share of loss of jointly controlled entities						(37,832)
Fair value changes on financial liabilities designated at FVTPL						(22,950)
Fair value changes on derivative financial liabilities						(11,033)
Impairment of goodwill						(8,151)
Loss before taxation for the year						(85,270)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

7. REVENUE AND SEGMENT INFORMATION – continued

Year ended 31 December 2010 – continued

Other segment information

	Brokerage HK\$'000	Corporate finance HK\$'000	Asset management HK\$'000	Segment total HK\$'000	Adjustments HK\$'000	Total HK\$'000
					(Note)	

Amounts included in the measure
of segment profit or loss:

Interest income	(433)	(2)	(1)	(436)	(1)	(437)
Staff costs	55,042	7,571	671	63,284	19,872	83,156
Commission expenses	6,257	–	–	6,257	–	6,257
Depreciation of property, plant and equipment	1,567	43	14	1,624	439	2,063
Amortisation of trading rights	252	–	–	252	–	252
Finance costs	2,607	–	–	2,607	(1,500)	1,107

Amounts regularly provided to the
Group's Executive Committee but
not included in the measure of
profit or loss:

Share of loss of jointly controlled entities	–	–	37,832	37,832	–	37,832
Income tax expense	2,566	1,100	–	3,666	–	3,666

Year ended 31 December 2009

	Brokerage HK\$'000	Corporate finance HK\$'000	Asset management HK\$'000	Segment total HK\$'000	Eliminations HK\$'000	Total HK\$'000
Segment revenue	130,075	5,659	–	135,734	–	135,734
Intersegment sales	215	555	–	770	(770)	–
	130,290	6,214	–	136,504	(770)	135,734
Segment profit (loss)	18,011	(7,857)	(4,656)	5,498	–	5,498
Elimination of intra-group costs						14,506
Central administrative costs						(23,510)
Share of loss of jointly controlled entities						(13,494)
Fair value changes on financial liabilities designated at FVTPL						(1,184)
Loss before taxation for the year						(18,184)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

7. REVENUE AND SEGMENT INFORMATION – continued

Year ended 31 December 2009 – continued

Other segment information

	Brokerage HK\$'000	Corporate finance HK\$'000	Asset management HK\$'000	Segment total HK\$'000	Adjustments HK\$'000	Total HK\$'000
					(Note)	
Amounts included in the measure of segment profit or loss:						
Interest income	(730)	(32)	(3)	(765)	(143)	(908)
Staff costs	75,884	7,031	1,690	84,605	17,621	102,226
Commission expenses	6,915	-	-	6,915	-	6,915
Depreciation of property, plant and equipment	1,630	107	37	1,774	279	2,053
Amortisation of trading rights	507	-	-	507	-	507
Recovery of doubtful receivables	(2,200)	-	-	(2,200)	-	(2,200)
Bad debts written off	-	148	-	148	-	148
Finance costs	3,556	-	-	3,556	(2,099)	1,457

Amounts regularly provided to
the Group's Executive Committee
but not included in the measure
of profit or loss:

Share of loss of jointly controlled entities	-	-	13,494	13,494	-	13,494
Income tax expense	4,330	-	-	4,330	-	4,330

Note: Adjustments represent the administrative costs and finance costs which are not included in the three operating segments. They are excluded from the measure of segment profit or loss.

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment profit or loss represents the profit earned by/loss from each segment, before the elimination of intra-group costs, share of loss of jointly controlled entities, fair value changes on financial liabilities designated at FVTPL, fair value changes on derivative financial liabilities and impairment of goodwill. This is the measure reported to the Group's Executive Committee for the purposes of resource allocation and assessment of performance.

Inter-segment sales are charged at prevailing market rate.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

7. REVENUE AND SEGMENT INFORMATION – continued

In 2010 and 2009, no single customer amounts to 10% or more of the Group's revenue. The Group's operations are located in Hong Kong (country of domicile) and the People's Republic of China (the "PRC"). The Group's revenue from external customers are mainly derived from Hong Kong for both 2010 and 2009. Almost all of its non-current assets, excluding deferred tax assets, investments in jointly controlled entities and loan to a jointly controlled entity, are attributed to the operations in Hong Kong.

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

8. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2010 HK\$'000	2009 HK\$'000
Staff commission	36,495	53,453
Salaries and wages	34,502	29,675
Staff welfare	1,435	1,224
Recruitment costs	213	105
provision (reversal) of long service payment/annual leave benefits	76	(400)
Retirement benefits scheme contributions	1,133	1,123
Recognition of equity-settled share-based payment	4,443	15,996
Discretionary and performance related incentive payments	4,859	1,050
	83,156	102,226

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of which are held in separate trustee-administered funds. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme have switched to the MPF Scheme and all new eligible employees joining the Group on or after December 2000 are all under the MPF Scheme. No more contribution was made to the ORSO Scheme after the switch.

Both the Group and the employees contribute a fixed percentage of the relevant payroll to the MPF Scheme. The contribution amount is capped at HK\$1,000 per employee per month.

The Group's contributions to both retirement schemes are expensed as incurred. The Group's mandatory contributions to the MPF Scheme are vested immediately. The Group's contributions to the ORSO scheme are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

9. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments paid/payable to the Directors of the Company are as follows:

	Dr. Lee Jun Sing HK\$'000	Lam Cho Ying, Terence Joe HK\$'000	Chau King Fai, Philip HK\$'000	Cheng Tze Kit, Larry HK\$'000	So Wai Yee, Betty HK\$'000	Wang Ying HK\$'000	Lam Kwok Hing, Wilfred HK\$'000	Tse On Kin HK\$'000	Lam Ka Wai, Graham HK\$'000	Total HK\$'000
2010										
Fees	75	-	-	-	-	75	170	170	170	660
Other emoluments										
Salaries and other benefits	-	2,640	1,976	1,937	1,266	-	-	-	-	7,819
Retirement benefits scheme contribution	-	12	12	12	12	-	-	-	-	48
Recognition of equity-settled share-based payment	-	447	220	1,296	1,296	-	-	-	-	3,259
Discretionary and performance related incentive payments (note)	-	330	320	320	220	-	-	-	-	1,190
Total emoluments	75	3,429	2,528	3,565	2,794	75	170	170	170	12,976

	Ho, Lawrence Yau Lung HK\$'000	Dr. Lee Jun Sing HK\$'000	Lam Cho Ying, Terence Joe HK\$'000	Chau King Fai, Philip HK\$'000	Cheng Tze Kit, Larry HK\$'000	So Wai Yee, Betty HK\$'000	Tsui Che Yin, Frank HK\$'000	Sham Sui Daniel HK\$'000	Dr. Tyen Kanhee Anthony HK\$'000	Chu, Ho Miu Hing HK\$'000	Sun Patrick HK\$'000	Total HK\$'000
2009												
Fees	-	-	-	-	-	-	-	195	195	195	-	585
Other emoluments												
Salaries and other benefits	-	-	481	413	-	-	-	-	-	-	2,080	2,974
Retirement benefits scheme contribution	-	-	4	4	-	-	-	-	-	-	10	18
Recognition of equity-settled share-based payment	-	451	3,217	1,830	271	271	270	270	270	270	(352)	6,768
Total emoluments	-	451	3,702	2,247	271	271	270	465	465	465	1,738	10,345

Note: The discretionary and performance related incentive payment is determined by reference to the individual performance of the Directors and approved by the Remuneration Committee of the Company.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

10. FINANCE COSTS

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Interests on:		
Bank loans and overdrafts wholly repayable within five years	1,107	1,378
Loans from a shareholder	–	79
	1,107	1,457

11. LOSS FOR THE YEAR

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Loss for the year has been arrived at after (crediting) charging the following:		
Auditors' remuneration	1,007	1,124
Operating leases in respect of land and buildings	8,121	6,968
Net exchange gain	135	29
Recovery for doubtful receivables, net	–	(2,200)
Bad debt written off	–	148

12. INCOME TAX EXPENSE

The amount of tax charged to the consolidated statement of comprehensive income represents:

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Current tax		
– Hong Kong Profits Tax	2,567	4,335
Overprovision in prior year		
– Hong Kong Profits Tax	(1)	(5)
	2,566	4,330
Deferred tax (<i>Note 18</i>)		
Current year	1,100	–
	3,666	4,330

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

12. INCOME TAX EXPENSE – continued

The tax charge for the year can be reconciled to the loss before taxation per the consolidated statement of comprehensive income as follows:

	2010 HK\$'000	2009 HK\$'000
Loss before taxation	(85,270)	(18,184)
Calculated at Hong Kong Profits Tax rate of 16.5%	(14,069)	(3,000)
Tax effect of share of loss of jointly controlled entities	6,242	2,227
Tax effect of income not taxable for tax purpose	(91)	(92)
Tax effect of expenses not deductible for tax purpose	6,944	3,769
Overprovision in respect of prior year	(1)	(5)
Tax effect of deductible temporary difference previously not recognised	11	78
Utilisation of previously unrecognised tax losses	–	(103)
Tax effect of tax losses not recognised	3,468	1,427
Reversal of previously recognised deferred tax assets	1,100	–
Others	62	29
Tax charge for the year	3,666	4,330

86

13. DIVIDENDS

No dividends have been paid or declared or proposed by the Company during the year ended 31 December 2010 (2009: Nil).

14. 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:

	2010 HK\$'000	2009 HK\$'000
Loss		
Loss for the purposes of basic and diluted loss per share (Loss for the year attributable to the owners of the Company)	(87,985)	(22,514)
Number of shares	'000	'000
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	391,617	369,878

The computation of diluted loss per share for 2010 and 2009 is not presented as the exercise of the Company's share options and convertible bonds are antidilutive.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

15. GOODWILL

	<u>HK\$'000</u>
Cost	
At 1 January 2009, 1 January 2010 and 31 December 2010	<u>8,151</u>
Accumulated impairment	
At 1 January 2009 and 1 January 2010	–
Impairment loss recognised for the year	<u>8,151</u>
At 31 December 2010	<u>8,151</u>
Carrying value	
At 31 December 2010	<u>–</u>
At 31 December 2009	<u>8,151</u>

Such goodwill amount is solely relating to a cash-generating unit ("CGU"), VC Capital Limited, a subsidiary of the Company, which is included as corporate finance operating segment. As at 31 December 2010, the budgeted revenue for the purpose of impairment testing has been revised downward. An impairment loss of goodwill amounting to HK\$8,151,000, representing the entire amount, has been recognised to the consolidated statement of comprehensive income after the impairment testing was performed.

The recoverable amount of the CGU has been determined on the basis of value in use calculation. For impairment purpose, the calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 12.5% (2009: 14%). Another key assumption is the budgeted revenue, which is determined based on the CGU's past performance and management's expectations for the market development.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

16. TRADING RIGHTS

	<u>HK\$'000</u>
Cost	
At 1 January 2009, 1 January 2010 and 31 December 2010	<u>5,066</u>
Amortisation	
At 1 January 2009	4,307
Provided for the year	<u>507</u>
At 31 December 2009	4,814
Provided for the year	<u>252</u>
At 31 December 2010	<u>5,066</u>
Carrying value	
At 31 December 2010	<u>–</u>
At 31 December 2009	<u>252</u>

Trading rights are amortised over 10 years from 6 March 2000, the effective date of the merger of the Stock Exchange, HKFE and Hong Kong Securities Clearing Company Limited.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

17. PROPERTY, PLANT AND EQUIPMENT

	THE GROUP			Total HK\$'000
	Leasehold improvements	Furniture, fixtures and equipment	Computer equipment and software	
	HK\$'000	HK\$'000	HK\$'000	
Cost				
At 1 January 2009	5,265	9,484	12,209	26,958
Additions	150	458	835	1,443
Written off	–	–	(5,091)	(5,091)
Exchange difference	41	11	–	52
At 31 December 2009	5,456	9,953	7,953	23,362
Additions	185	138	1,434	1,757
Written off	(797)	(845)	(43)	(1,685)
Exchange difference	6	3	6	15
At 31 December 2010	4,850	9,249	9,350	23,449
Depreciation				
At 1 January 2009	4,937	7,994	9,604	22,535
Charge for the year	328	422	1,303	2,053
Written off	–	–	(5,091)	(5,091)
Exchange difference	41	11	–	52
At 31 December 2009	5,306	8,427	5,816	19,549
Charge for the year	248	499	1,316	2,063
Written off	(797)	(842)	(43)	(1,682)
Exchange difference	6	3	6	15
At 31 December 2010	4,763	8,087	7,095	19,945
Carrying values				
At 31 December 2010	87	1,162	2,255	3,504
At 31 December 2009	150	1,526	2,137	3,813

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold improvements	Over the lease term not exceeding three years
Furniture, fixtures and equipment	20-25%
Computer equipment and software	25-33 $\frac{1}{3}$ %

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

18. DEFERRED TAX ASSETS

	Estimated tax losses <i>HK\$'000</i>
At 1 January 2009, 31 December 2009 and 1 January 2010	1,100
Charge to profit or loss	<u>(1,100)</u>
At 31 December 2010	<u>–</u>

At 31 December 2010, the Group has deductible temporary differences of approximately HK\$219,000 (2009: HK\$155,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Besides, the Group and the Company have estimated unused tax losses of approximately HK\$158,637,000 and HK\$40,754,000 (2009: HK\$137,620,000 and HK\$39,303,000) respectively to carry forward against future taxable income as at 31 December 2010. No deferred tax asset has been recognised in the consolidated financial statements as at 31 December 2010 in respect of estimated unused tax losses. As at 31 December 2009, a deferred tax asset has been recognised in the consolidated financial statements in respect of estimated unused tax losses of approximately HK\$6,667,000 to the extent that the realisation of the related tax benefit through future taxable profits is probable. As at 31 December 2010, estimated unused tax losses of approximately HK\$158,637,000 (2009: HK\$130,953,000) for the Group and HK\$40,754,000 (2009: HK\$39,303,000) for the Company were not recognised as deferred tax asset as it is uncertain whether sufficient future taxable profits or deductible temporary differences will be available in the future to offset the amount.

These deductible temporary differences and estimated tax losses have no expiry date but subject to the approval of the Hong Kong Inland Revenue Department.

19. OTHER INTANGIBLE ASSETS

	<i>HK\$'000</i>
Cost	
At 1 January 2009, 1 January 2010 and 31 December 2010	<u>1,839</u>
Accumulated impairment	
At 1 January 2009, 1 January 2010 and 31 December 2010	<u>1,292</u>
Carrying value	
At 31 December 2009 and 31 December 2010	<u>547</u>

Other intangible assets represent club memberships with indefinite useful lives and are tested for impairment annually by comparing their carrying amounts with their recoverable amounts based on fair value less costs to sell. The fair value is determined using an observable market price and no indication of impairment was noted during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

20. INTERESTS IN JOINTLY CONTROLLED ENTITIES (THE "JCE") THE GROUP/THE COMPANY

As at 31 December 2010 and 2009, the Group has interests in the following jointly controlled entities:

Name of entity	Form of business structure	Place/ country of incorporation/ registration	Principal activity and place of operations	Class share held	Proportion of nominal value of issued capital/ registered capital held by the Group		Proportion of voting power held	
					2010	2009	2010	2009
MVC Macau Property Development Fund Limited	Incorporated	Bermuda	Property investment holding in Macau	Ordinary	50%	50%	50%	50%
VC Property Asset Management Limited	Incorporated	British Virgin Island	Provision of property investment management in Macau	Ordinary	50%	50%	50%	50%

The wholly-owned subsidiaries of MVC Macau Property Development Fund Limited are as follows:

Name of entity	Form of business structure	Place/country of incorporation/ registration	Principal activity and place of operations
Guia Hill (BVI) Holdings No.1 Limited	Incorporated	British Virgin Island	Property investment holding in Macau
Guia Hill (BVI) Holdings No.2 Limited	Incorporated	British Virgin Island	Property investment holding in Macau
Guia Hill (Macau) Investments Limited (<i>Note</i>)	Incorporated	Macau	Property investment holding in Macau

Note: The entity has been fully disposed during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

20. INTERESTS IN JOINTLY CONTROLLED ENTITIES (THE "JCE") – continued THE GROUP/THE COMPANY – continued

The Group has loan advanced to a jointly controlled entity which forms part of the net investment in the JCE. During the year, the JCE incurred losses in excess of cost of investments. The net investment in the JCE is as follows:

	THE GROUP		THE COMPANY	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Cost of investments in jointly controlled entities	1	1	–	–
Share of post-acquisition losses and other comprehensive income	(1)	(1)	–	–
	–	–	–	–
Loan to a jointly controlled entity	219	95,000	219	95,000
Less: Loss allocated in excess of cost of investments	–	(15,617)	–	–
Less: Allowance for impairment	–	–	–	(15,617)
	219	79,383	219	79,383

The loan is unsecured and bears interest at 3-month HIBOR plus 2.6% per annum commencing from the establishment of the relevant funds by the JCE.

Since the sale of investment property in Macau, the business plan of the JCE has been abandoned. On 5 August 2010, Guia Hill (BVI) Holdings No. 1 Limited and Guia Hill (BVI) Holdings No. 2 Limited being direct wholly owned subsidiaries of MVC Macau Property Development Fund Limited, entered into a sale and purchase agreement as supplemented by the supplemental agreement with two independent third parties to dispose of the entire issued share capital of Guia Hill (Macau) Investments Limited, which held the investment property in Macau directly. The transaction has been completed during the year. The net proceed from the disposal is approximately HK\$241.9 million. After the repayment of bank loan of the JCE, the Company has received a net receipt of approximately HK\$41.3 million for settlement of the shareholder's loan and recognised a further share of loss of approximately HK\$37.8 million. As at 31 December 2010, the outstanding loan to the JCE amounted to approximately HK\$219,000 and it is expected to be repaid within the next twelve months.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

20. INTERESTS IN JOINTLY CONTROLLED ENTITIES (THE "JCE") – continued THE GROUP/THE COMPANY – continued

The summarised financial information in respect of the Group's interests in the jointly controlled entities which are accounted for using the equity method is set out below:

	2010 HK\$'000	2009 HK\$'000
Current assets	689	154,483
Non-current assets	–	58
Current liabilities	470	75,158
Non-current liabilities	–	95,000
Income	145	3
Expenses	37,977	13,497

21. ACCOUNTS RECEIVABLE

	2010 HK\$'000	2009 HK\$'000
Accounts receivable arising from the ordinary course of business of dealing in (Note a):		
– Securities transactions:		
Clearing houses and brokers	6,627	14
Cash clients	62,807	108,032
Margin clients	471,246	333,250
– Futures and options contracts transactions:		
HKFE Clearing Corporation Limited ("HKCC")	1	1
Accounts receivable arising from the ordinary course of business of provision of corporate financial advisory, placing and underwriting services (Note b)	1,728	29
	542,409	441,326

The Group has established policies and procedures to assess the potential clients' credit quality and define credit limits for each client. All client acceptances and credit limits are approved by designated approvers according to the clients' credit worthiness.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

21. ACCOUNTS RECEIVABLE – continued

The credit quality of accounts receivable are summarised as follows:

	2010 HK\$'000	2009 HK\$'000
Neither past due nor impaired	532,367	431,544
Past due but not impaired (Note c)	4,536	6,877
Impaired (Note d)	6,781	11,116
	543,684	449,537
Less: Allowance for impairment (Note d)	(1,275)	(8,211)
	542,409	441,326

The accounts receivable with a carrying amount of approximately HK\$532,367,000 are neither past due nor impaired as at 31 December 2010 (2009: HK\$431,544,000). The management considers that the collaterals are sufficient and is satisfied with the credit quality of the clients..

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 due from brokers bear interest at commercial rates.

Accounts receivable due from cash clients are secured by clients' pledged listed securities at fair values of approximately HK\$435,762,000 as at 31 December 2010 (2009: HK\$460,049,000). No collateral held can be repledged by the Group and the corresponding collateral held can be sold at the Group's discretion to settle any past due outstanding amounts of the cash clients. Cash clients receivable which are past due bear interest at commercial rates.

Accounts receivable due from margin clients are included in "Neither past due nor impaired" as these accounts have no specific maturity date. The accounts receivable are secured by clients' pledged listed securities at fair values of approximately HK\$1,323,816,000 as at 31 December 2010 (2009: HK\$993,233,000), repayable on demand and bear interest at commercial rates. The decision of the interest rate changes is based on management's discretion. Securities are assigned with specific margin ratios for calculating their margin values. Additional funds or collateral are required if the amount of accounts receivable outstanding exceeds the eligible margin value of securities deposited. The collateral held can be repledged up to 140% of the margin receivable amounts and the corresponding collateral held can be sold at the Group's discretion to settle any outstanding amounts owed by the margin clients.

As at 31 December 2010, accounts receivable of HK\$1,250,000 (2009: HK\$178,000) was due from key management personnel and directors of the Group, and close family members of these directors, in respect of transactions in securities undertaken for their accounts.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

21. ACCOUNTS RECEIVABLE – continued

Notes: – continued

(a) – continued

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

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Within 30 days	66,050	101,839
31 – 90 days	3,268	4,179
Over 90 days	117	2,029
	69,435	108,047

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

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Within 30 days	1,228	–
31 – 90 days	500	29
Over 90 days	–	–
	1,728	29

(c) Included in “Past due but not impaired” are accounts receivable due from clients which are past due at the end of the reporting period for which the Group has not provided for any impairment loss.

For cash clients receivable which are past due but not impaired amounting to approximately HK\$4,036,000 as at 31 December 2010 (2009: HK\$6,848,000), no impairment loss was provided. These amounts are considered recoverable as at 31 December 2010 as the Group holds securities collateral for these balances with fair values over the relevant carrying amounts.

The remaining balance of accounts receivable which are past due but not impaired are those amounts arising from provision of corporate financial advisory services amounting to approximately HK\$500,000 as at 31 December 2010 (2009: HK\$29,000). The Group has not provided for any impairment loss as the debtors are with good credit quality and there are on-going projects with the Group. The extent of delay of these repayments is considered normal in the corporate financial advisory industry.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

21. ACCOUNTS RECEIVABLE – continued

Notes: – continued

(c) – continued

In respect of accounts receivable which are past due but not impaired at the end of the reporting period, the aging analysis based on the trade date is as follows:

	2010 HK\$'000	2009 HK\$'000
Past due		
Within 30 days	–	–
31 – 90 days	3,728	4,208
Over 90 days	808	2,669
	4,536	6,877

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

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

	2010 HK\$'000	2009 HK\$'000
Balance at beginning of the year	8,211	14,990
Impairment loss recognised	–	1,315
Impairment loss reversed	–	(3,515)
Amounts written off as uncollectible	(6,936)	(4,579)
Balance at end of the year	1,275	8,211

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

22. OTHER FINANCIAL ASSETS AND LIABILITIES

Deposits and other receivables (The Group and the Company)

The amounts are resulted from the normal course of operations. They are non-interest bearing and in the opinion of the Directors of the Company, the amounts are expected to be settled within the next 12 months from the end of the reporting period.

Amounts due from/to jointly controlled entities (The Group)

The amounts are resulted from the normal course of operations. They are non-interest bearing, unsecured, repayable on demand and in the opinion of the Directors of the Company, the amounts are expected to be settled within the next 12 months from the end of the reporting period.

Pledged bank deposits (The Group)

At 31 December 2010, the Group has placed a bank deposit of HK\$40,000,000 (2009: HK\$40,000,000) at variable market interest rate of 0.6% (2009: 1.3%) per annum to a bank to secure banking facilities of HK\$80,000,000 (2009: HK\$80,000,000) in short-term money market loan and current account overdraft. An amount of HK\$40,000,000 was utilised from these facilities at the end of the reporting period (2009: Nil).

Bank balances and cash (the Group and the Company)

The amounts comprise cash and short-term bank deposits held by the Group at market interest rates ranging from 0.001% to 0.43% (2009: 0.0001% to 1.4%) 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 Future Limited and VC Capital Limited act as trustees that result in the holding of clients' monies on behalf of clients and other institutions. These assets are not assets of the Group and, therefore, are not included in its consolidated statement of financial position. As at 31 December 2010, the Group maintained segregated accounts with HKCC of approximately HK\$3,244,000 (2009: HK\$3,372,000) and the authorised institutions of approximately HK\$289,667,000 (2009: HK\$335,140,000) in conjunction with its brokerage, future and corporate financial advisory businesses as a result of the normal business transactions, which are not otherwise dealt with in the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

23. ACCOUNTS PAYABLE

	2010 HK\$'000	2009 HK\$'000
Accounts payable arising from the ordinary course of business of dealing in securities transactions (Note a):		
– Clearing house and brokers	7,643	29,853
– Cash clients (Note b)	32,991	21,773
– Margin clients	24,712	2,992
	65,346	54,618

Notes:

- (a) The settlement terms of accounts payable arising from the ordinary course of business of dealing in securities transactions are usually two trading days after the trade date. No aging analysis is disclosed as, in the opinion of Directors of the Company, an aging analysis is not meaningful in view of all these accounts payable are promptly settled two trading days after the trade date.
- (b) As at 31 December 2010, accounts payable of approximately HK\$901,000 (2009: HK\$648,000) due to key management personnel and directors of the Group, and close family members of these directors, in respect of transactions in securities undertaken for their accounts.

24. SHORT-TERM BANK BORROWINGS

	2010 HK\$'000	2009 HK\$'000
Secured	40,000	–

The short-term bank borrowings was secured by the pledged bank deposits (see Note 22) and bore an interest rate at HIBOR plus 2% per annum as at 31 December 2010. The weighted average effective interest rate for the year ended 31 December 2010 is 2.39% per annum.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

25. SHARE CAPITAL

	Authorised	
	Ordinary shares of HK\$0.1 each	
	Number of	Amount
	shares	HK\$'000
At 31 December 2009 and 31 December 2010	10,000,000,000	1,000,000
	Issued and fully paid	
	Ordinary shares of HK\$0.1 each	
	Number of	Amount
	shares	HK\$'000
At 1 January 2009	371,169,772	37,117
Exercise of share options	3,421,057	342
At 31 December 2009 and 1 January 2010	374,590,829	37,459
Issue of new shares upon conversion of the convertible bonds	20,000,000	2,000
Exercise of share options	5,146,000	515
At 31 December 2010	399,736,829	39,974

26. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/TO SUBSIDIARIES

	THE COMPANY	
	2010	2009
	HK\$'000	HK\$'000
Investments at cost:		
Unlisted shares	10	10
Capital contribution (<i>Note</i>)	12,547	–
	12,557	10

Note: The capital contribution represents the imputed interest from interest free loan to the subsidiary which is not expected to recover within 12 months from the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

26. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/TO SUBSIDIARIES – continued

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Effective interest held	
				2010	2009
VC Capital (Shenzhen) Limited ^{2,3}	PRC	Provision of consultancy services in the PRC	Registered capital of HK\$1,000,000	100%	100%
VC Services Limited ¹	Hong Kong	Provision of management services to group companies in Hong Kong	10,000 ordinary shares of HK\$1 each	100%	100%
VC Asset Management Limited ²	Hong Kong	Provision of asset management services to clients in Hong Kong	25,000,000 ordinary shares of HK\$1 each	90.1%	100%
VC Finance Limited ²	Hong Kong	Money lending in Hong Kong	1,000,000 ordinary shares of HK\$1 each	100%	100%
VC Research Limited ²	Hong Kong	Provision of research services in Hong Kong	500,000 ordinary shares of HK\$1 each	100%	100%

¹ Shares held directly by the Company.

² Shares held indirectly by the Company.

³ VC Capital (Shenzhen) Limited is a wholly foreign owned enterprise.

The above table lists out the subsidiaries of the Group which, in the opinion of the Directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors of the Company, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

27. RESERVES THE COMPANY

	Shares held for share purchase scheme HK\$'000 (Note 1)	Share premium HK\$'000	Capital reserve HK\$'000 (Note 2)	Retained profits (accumulated losses) HK\$'000	Share option reserve HK\$'000	Awarded shares compensation reserve HK\$'000	Total HK\$'000
At 1 January 2009	(3,221)	356,962	123,758	8,248	1,528	1,333	488,608
Loss for the year representing total comprehensive loss for the year	-	-	-	(24,464)	-	-	(24,464)
Exercise of share options	-	3,067	-	-	-	-	3,067
Transfer to share option reserve upon exercise of share options	-	1,085	-	-	(1,085)	-	-
Reversal of share option reserve upon forfeiture of share options	-	-	-	-	(443)	-	(443)
Recognition of equity-settled share-based payment	-	-	-	-	15,053	1,512	16,565
Share issue expenses	-	(3)	-	-	-	-	(3)
Shares purchased for share purchase scheme	(601)	-	-	-	-	-	(601)
Transfer of shares held for share purchase scheme upon vesting of shares	1,793	-	-	8	-	(1,801)	-
Reversal of awarded shares compensation reserve upon forfeiture of shares	-	-	-	-	-	(125)	(125)
At 31 December 2009	(2,029)	361,111	123,758	(16,208)	15,053	919	482,604
Loss for the year representing total comprehensive loss for the year	-	-	-	(71,656)	-	-	(71,656)
Exercise of share options	-	7,470	-	-	-	-	7,470
Transfer to share option reserve upon exercise of share options	-	2,953	-	-	(2,953)	-	-
Reversal of share option reserve upon forfeiture of share options	-	-	-	54	(54)	-	-
Recognition of equity-settled share-based payment	-	-	-	-	2,591	1,852	4,443
Share issue expenses	-	(25)	-	-	-	-	(25)
Transfer of shares held for share purchase scheme upon vesting of shares	2,029	-	-	742	-	(2,771)	-
Shares issue upon conversion of convertible bonds	-	53,132	-	-	-	-	53,132
At 31 December 2010	-	424,641	123,758	(87,068)	14,637	-	475,968

27. RESERVES – continued

Notes:

- (1) During the year, the VC Share Purchase Scheme Trust transferred 836,000 and 947,869 shares (2009: 1,228,000 and 264,131 shares) to the awardees upon vesting on 25 January 2010 and 1 April 2010 respectively (2009: 1 April 2009 and 25 May 2009). The total cost of the related vested shares was approximately HK\$2,029,000 (2009: HK\$1,793,000).

For the year ended 31 December 2009, the VC Share Purchase Scheme Trust acquired 792,000 shares of the Company through purchases in the open market. The total amount paid to acquire the shares during such year was approximately HK\$601,000 and had been deducted from shareholders' equity.

- (2) Pursuant to a scheme of capital reorganisation, which became effective on 28 May 2003, the High Court had approved the reduction of the Company's capital and the cancellation of the Company's share premium account on 27 May 2003. By virtue of the High Court's sanction, the Company's share premium account of HK\$45,878,129 was cancelled and the issued and fully paid share capital of the Company was reduced by HK\$214,339,500 through a reduction in the nominal value of the share capital of the Company. The credits arising from the cancellation of the share premium account and the reduction of the share capital account, after eliminated against the accumulated loss of HK\$136,459,429, in the aggregate amount of HK\$123,758,200 were 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 for the purposes of section 79C of the Hong Kong Companies Ordinance 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.

28. SHARE OPTIONS AND SHARE AWARDS

Share option schemes

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

At an extraordinary general meeting of the Company held on 29 November 2001, the shareholders of the Company approved the adoption of a share option scheme (the "GEM Share Option Scheme") which superseded the previous share option scheme of the Company adopted on 14 March 2001.

The GEM Share Option Scheme was conditionally terminated by the Board on 7 August 2008. Upon the listing of share of the Company was transferred from the GEM of the Stock Exchange to the Main Board of the Stock Exchange on 15 August 2008, the termination of the GEM Share Option Scheme became effective. Thereafter, no further share options may be offered or granted under the GEM Share Option Scheme. Pursuant to the provisions of the GEM Share Option Scheme, share options previously granted but unexercised under the GEM Share Option Scheme will remain valid and exercisable in accordance with their terms of issues.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

28. SHARE OPTIONS AND SHARE AWARDS – continued

Share option schemes – continued

During the year ended 31 December 2010, share options to subscribe for a total of 60,000 (2009: 924,552) underlying shares were lapsed or forfeited. Further, share options to subscribe for a total of 5,146,000 (2009: 3,421,057) underlying shares were exercised. During the year ended 31 December 2010, none of the share options were cancelled. Movements in the number of share options outstanding during the year are as follows:

Year ended 31 December 2010

Categories of grantees	Grant date of share options	Exercise price per share	Balance as at 1 January 2010	Reclassified during the year	Granted during the year	Exercised during the year	Lapsed/ forfeited during the year	Balance as at 31 December 2010
Directors of the Company	9 July 2002	HK\$1.00	491,057	-	-	-	-	491,057
Directors of the Company	25 March 2004	HK\$0.64	1,100,000	-	-	(1,100,000)	-	-
Directors of the Company	26 November 2009	HK\$2.07	7,200,000	(600,000)	-	-	-	6,600,000
Directors of the Company	18 January 2010	HK\$1.84	-	-	3,400,000	-	-	3,400,000
Employees	9 July 2002	HK\$1.00	24,942	-	-	(20,000)	-	4,942
Employees	25 March 2004	HK\$0.64	150,000	-	-	(150,000)	-	-
Employees	26 November 2009	HK\$2.07	8,900,000	-	-	(3,276,000)	(60,000)	5,564,000
Other eligible persons	9 July 2002	HK\$1.00	344,140	-	-	-	-	344,140
Other eligible persons	25 March 2004	HK\$0.64	700,000	-	-	(600,000)	-	100,000
Other eligible persons	26 November 2009	HK\$2.07	600,000	600,000	-	-	-	1,200,000
			19,510,139	-	3,400,000	(5,146,000)	(60,000)	17,704,139
Exercisable as at 31 December 2010								17,704,139
Weighted average exercise price			HK\$1.88	-	HK\$1.84	HK\$1.55	HK\$2.07	HK\$1.97

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

28. SHARE OPTIONS AND SHARE AWARDS – continued

Share option schemes – continued

Year ended 31 December 2009

Categories of grantees	Grant date of share options	Exercise price per share	Balance as at 1 January 2009	Reclassified during the year	Granted during the year	Exercised during the year	Lapsed/ forfeited during the year	Balance as at 31 December 2009
Directors of the Company	9 July 2002	HK\$1.00	982,114	-	-	(491,057)	-	491,057
Directors of the Company	25 March 2004	HK\$0.64	-	1,100,000	-	-	-	1,100,000
Directors of the Company	27 December 2006	HK\$1.292	2,400,000	-	-	(1,600,000)	(800,000)	-
Directors of the Company	26 November 2009	HK\$2.07	-	(600,000)	7,800,000	-	-	7,200,000
Employees	9 July 2002	HK\$1.00	24,942	24,552	-	-	(24,552)	24,942
Employees	25 March 2004	HK\$0.64	2,430,000	(1,100,000)	-	(1,180,000)	-	150,000
Employees	26 November 2009	HK\$2.07	-	-	9,000,000	-	(100,000)	8,900,000
Other eligible persons	9 July 2002	HK\$1.00	368,692	(24,552)	-	-	-	344,140
Other eligible persons	25 March 2004	HK\$0.64	850,000	-	-	(150,000)	-	700,000
Other eligible persons	26 November 2009	HK\$2.07	-	600,000	-	-	-	600,000
			7,055,748	-	16,800,000	(3,421,057)	(924,552)	19,510,139
Exercisable as at 31 December 2009								19,510,139
Weighted average exercise price			HK\$0.93	-	HK\$2.07	HK\$1.00	HK\$1.37	HK\$1.88

In respect of the share options exercised during the year, the weighted average share price when the share options being exercised is HK\$3.12 (2009: HK\$1.81).

During the year ended 31 December 2010, share options to subscribe for a total of 3,400,000 underlying shares were granted on 18 January 2010 which were fully vested at the grant date. The estimated fair value of the share options granted on that date was approximately HK\$2,592,000 which was calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

	Share options granted on 18 January 2010
Market price at date of grant	HK\$1.84
Exercise price	HK\$1.84
Expected volatility	99%
Expected life	1.2 years
Dividend yield	0%
Risk-free rate	0.25%

28. SHARE OPTIONS AND SHARE AWARDS – continued

Share option schemes – continued

Expected volatility for the share options granted on 18 January 2010 was determined by using the historical volatility of the Company's share price over the previous 1.2 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expenses of approximately HK\$2,591,000 for the year ended 31 December 2010 (2009: HK\$14,610,000) in relation to share options granted under the Schemes by the Company.

Awarded share schemes

On 31 March 2008, the Board approved the establishment of two share incentive award schemes. The Share Purchase Scheme utilises shares purchased in the market whereas the Share Subscription Scheme will subscribe for new shares. The Directors of the Company and any subsidiaries will be entitled to participate in the Share Purchase Scheme but not the Share Subscription Scheme.

The purpose of each of the Share Subscription Scheme and the Share Purchase Scheme is to encourage and facilitate the acquisition and holding of shares in the Company, by and for the benefit of employees of the Company and any subsidiaries (excluding Directors of the Company and any subsidiaries and other connected persons of the Company in respect of the Share Subscription Scheme). The shares to be awarded pursuant to the Share Purchase Scheme and/or the Share Subscription Scheme may be awarded in such manner as the Board may determine from time to time in order to recognise the contribution of certain employees, to seek to retain them for the continued operation and development of the Group, and to attract suitable personnel for the further development of the Group.

Share Subscription Scheme

The Share Subscription Scheme is a form of a share incentive award scheme known as The VC Share Award Scheme Trust. The Directors of the Company and any subsidiaries and other connected persons of the Company will not be entitled to participate in the Share Subscription Scheme. The number of shares to be issued under the Share Subscription Scheme is limited to one per cent of the issued share capital of the Company from time to time (excluding shares which have already been transferred to employees on vesting).

Vesting of the shares will be conditional on the selected employee remaining as an employee of the Company or a subsidiary until the vesting date. The Board of Directors also has the discretion to stipulate such other conditions in respect of a particular employee which will apply to the vesting of the shares. No share was granted through the Share Subscription Scheme as at 31 December 2010.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

28. SHARE OPTIONS AND SHARE AWARDS – continued

Share Purchase Scheme

The Share Purchase Scheme is a form of a share incentive award scheme known as the VC Share Purchase Scheme Trust. The Directors and employees (collectively as “selected employees”) of the Company and any subsidiaries will be entitled to participate in the Share Purchase Scheme. The number of shares to be issued under the Share Purchase Scheme is limited to two per cent of the issued share capital of the Company from time to time (excluding shares which have already been transferred to employees on vesting).

Vesting of the shares will be conditional on the selected employee remaining as the Director or an employee of the Company or a subsidiary until the vesting date. The Board of Directors also has the discretion to stipulate such other conditions in respect of a particular Director or an employee which will apply to the vesting of the shares.

During the year ended 31 December 2010, the Company has not purchased any shares from the open market pursuant to the Share Purchase Scheme (2009: 792,000). During the year ended 31 December 2010, 947,869 (2009: 792,000) shares were awarded to the Directors of the Company and the employees of the Group, which were fully vested on the grant date. During the year ended 31 December 2010, 1,783,869 (2009: 1,492,131) awarded shares were vested and no awarded shares were lapsed or forfeited (2009: 947,869 for 2 employees). Movements in the number of awarded shares outstanding during the year are as follows:

Year ended 31 December 2010

Categories of awardees	Date of award (Note 1)	Fair value per share (Note 2)	Number of awarded shares					Balance as at 31 December 2010	Vesting date
			Balance as at 1 January 2010	Reclassified during the year	Awarded during the year	Vested during the year	Lapsed/ forfeited during the year		
Directors of the Company	18 August 2008	HK\$1.2965	408,000	-	-	(408,000)	-	-	1 April 2010
Directors of the Company	25 January 2010	HK\$1.78	-	-	329,869	(329,869)	-	-	25 January 2010
Employees	18 August 2008	HK\$1.2965	428,000	-	-	(428,000)	-	-	1 April 2010
Employees	25 January 2010	HK\$1.78	-	-	618,000	(618,000)	-	-	25 January 2010
			836,000	-	947,869	(1,783,869)	-	-	

28. SHARE OPTIONS AND SHARE AWARDS – continued

Share Purchase Scheme – continued

Year ended 31 December 2009

Categories of awardees	Date of award	Fair value per share	Number of awarded shares					Balance as at 31 December 2009	Vesting date
			Balance as at 1 January 2009	Reclassified during the year	Awarded during the year	Vested during the year	Lapsed/ forfeited during the year		
	(Note 1)	(Note 2)							
Director of the Company	18 August 2008	HK\$1.2965	420,000	-	-	(420,000)	-	-	1 April 2009
Directors of the Company	18 August 2008	HK\$1.2965	420,000	408,000	-	-	(420,000)	408,000	1 April 2010
Employees	18 August 2008	HK\$1.2965	808,000	-	-	(808,000)	-	-	1 April 2009
Employees	18 August 2008	HK\$1.2965	836,000	(408,000)	-	-	-	428,000	1 April 2010
Employees	25 May 2009	HK\$0.79	-	-	264,131	(264,131)	-	-	25 May 2009
Employees	25 May 2009	HK\$0.79	-	-	264,131	-	(264,131)	-	25 May 2010
Employees	25 May 2009	HK\$0.79	-	-	263,738	-	(263,738)	-	25 May 2011
			2,484,000	-	792,000	(1,492,131)	(947,869)	836,000	

Notes:

- (1) The date of award refers to the date on which the selected employees agree to undertake to hold the awarded shares on the terms on which they are granted and agree to be bound by the rules of the Share Purchase Scheme.
- (2) The fair value of the awarded shares are based on the fair value at grant date.

The Group recognised the total expenses of approximately HK\$1,852,000 for the year ended 31 December 2010 (2009: HK\$1,387,000) in relation to shares granted under the Share Purchase Scheme by the Company.

29. FINANCIAL LIABILITIES DESIGNATED AT FVTPL AND DERIVATIVE FINANCIAL LIABILITIES

The Group and the Company

On 30 November 2009, the Company issued Hong Kong dollar denominated convertible bonds in a principal amount of HK\$10,000,000 maturing on 30 November 2011 (the “Convertible Bonds”). The Convertible Bonds entitle the bondholders to convert to ordinary shares at a conversion price of HK\$1 per ordinary share.

Conversion may occur at any time between 1 March 2010 and 29 November 2011. If the Convertible Bonds have not been converted, they will be redeemed on 30 November 2011 at the principal amount. Interest of 1% per annum is payable semi-annually until the notes are converted or redeemed.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

29. FINANCIAL LIABILITIES DESIGNATED AT FVTPL AND DERIVATIVE FINANCIAL LIABILITIES – continued

The Group and the Company – continued

Under the terms of the Convertible Bonds, the Company may redeem in whole or in part of the Convertible Bonds within three months from the issue date at 100.25% of the principal amount. The bondholders who convert the Convertible Bonds within one year from the date of issue will be granted options which will entitle them to subscribe for further convertible bonds (the “Optional Bonds”) equal to the principal amount of the Convertible Bonds converted by that converting bondholder. The Optional Bonds would be issued under the same terms and conditions as the Convertible Bonds, except that no option to subscribe for further convertible bonds will be granted to the bondholder and the right to redeem the Optional Bonds within the first three months from the date of issue by the Company will not be applicable.

The Convertible Bonds were classified as financial liabilities designated at fair value through profit or loss and are measured at fair value as at 31 December 2009 using Binomial pricing model. The fair value as at 31 December 2009 was approximately HK\$11,184,000 in accordance with a valuation report prepared by an independent valuer.

On 9 April 2010, the Company had received a conversion notice from the bondholder requesting the conversion of the Convertible Bonds in full into 10,000,000 ordinary shares of HK\$0.1 each of the Company. As such, the option to subscribe for additional HK\$10,000,000 convertible bonds (the “HK\$10M Optional Bonds”) with a conversion price of HK\$1 each per ordinary share of the Company was issued to the bondholder. The bondholder has to exercise the option to subscribe for the HK\$10M Optional Bonds no later than 30 November 2010 and the maturity date of the HK\$10M Optional Bonds will be on 30 November 2011. The option to subscribe for the HK\$10M Optional Bonds was recognised as derivative financial liabilities and the change in fair value was recognised in the profit or loss.

On 21 April 2010, the bondholder had exercised the option for the HK\$10M Optional Bonds and subscribed for the HK\$10M Optional Bonds with cash proceed of HK\$10,000,000. On the same date, the bondholder had converted this in full into 10,000,000 ordinary shares of HK\$0.1 each of the Company.

The fair values of the Convertible Bonds as at 9 April 2010 and the HK\$10M Optional Bonds as at 21 April 2010 were calculated using the Binomial pricing model, in which the parameters were as follows:

	9 April 2010	21 April 2010
	Convertible	HK\$10M
	bonds	Optional
	bonds	bonds
Yield to maturity	10.91%	9.33%
Risk free rate	0.533%	0.462%
Spot price of the Company	HK\$2.13	HK\$3.30
Expected volatility	85.54%	85.52%
Dividend yield	0%	0%

29. FINANCIAL LIABILITIES DESIGNATED AT FVTPL AND DERIVATIVE FINANCIAL LIABILITIES – continued

The Group and the Company – continued

Yield to maturity was determined with reference to the discount rate by credit rating. Risk free rate was determined with reference to yield of 1.64 years and 1.61 years Hong Kong Exchange Fund Note as at the valuation date of 9 April 2010 and 21 April 2010 respectively. Expected volatility was determined by using the historical volatility of the Company's share price over the previous 1.64 years and 1.61 years respectively.

The fair values of the option for the HK\$10M Optional Bonds were calculated as at 9 April 2010 and 21 April 2010 using the Binomial pricing model, in which the parameters were as follows:

	9 April 2010	21 April 2010
Risk free rate	0.09%	0.09%
Spot price of the Company	HK\$2.13	HK\$3.30
Expected volatility	42.26%	57.04%
Dividend yield	0%	0%

Risk free rate was determined with reference to yield of 0.64 year and 0.61 year Hong Kong Exchange Fund Notes as at the valuation dates of 9 April 2010 and 21 April 2010 respectively. Expected volatility was determined by using the historical volatility of the Company's share price over the previous 0.64 year and 0.61 year respectively.

The movements of the Convertible Bonds and the HK\$10M Optional Bonds for the period from 1 January 2010 to 21 April 2010 in accordance with a valuation report prepared by an independent valuer as at 9 April 2010 and 21 April 2010 are summarised as below:

Financial liabilities designated at FVTPL

	HK\$'000
Balance at date of issue	10,000
Fair value change	1,184
Balance at 31 December 2009	11,184
Fair value change recognised to profit or loss upon shares conversion of the Convertible Bonds	22,950
Conversion of the Convertible Bonds into shares recognised to equity	(22,038)
Option for the HK\$10M Optional Bonds recognised as derivative financial liabilities	(12,061)
Interest paid on the Convertible Bonds	(35)
Balance at 31 December 2010	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

29. FINANCIAL LIABILITIES DESIGNATED AT FVTPL AND DERIVATIVE FINANCIAL LIABILITIES – continued

Derivative financial liabilities

	<u>HK\$'000</u>
Balance at 1 January 2010	–
Option for the HK\$10M Optional Bonds recognised as derivative financial liabilities	12,061
Fair value change recognised to profit or loss upon exercise of the option for the HK\$10M Optional Bonds	11,033
Conversion of the HK\$10M Optional Bonds into shares recognised to equity	<u>(23,094)</u>
Balance at 31 December 2010	<u>–</u>

Optional Bonds

	<u>HK\$'000</u>
Subscription at 21 April 2010	10,000
Conversion of the HK\$10M Optional Bonds into shares recognised to equity	<u>(10,000)</u>
Balance at 31 December 2010	<u>–</u>

30. DISPOSAL OF INTERESTS IN SUBSIDIARIES THAT DOES NOT RESULT IN LOSING CONTROL

On 10 February 2010, the Group had completed the disposal of 9.9% of its interests in each of the two wholly-owned subsidiaries, VC Capital Limited and VC Asset Management Limited, at a cash consideration of HK\$1,600,000 and HK\$600,000 respectively, reducing its controlling interests to 90.1% respectively. The proceeds on disposal had been settled in cash on the disposal date.

The difference of approximately HK\$283,000 and negative HK\$81,000 between the disposal proceeds and the amounts transferred to non-controlling interests of VC Capital Limited and VC Asset Management Limited of approximately HK\$1,317,000 and HK\$681,000 respectively had been recognised directly in equity.

31. FINANCIAL GUARANTEE

As at 31 December 2010, the Company had given financial guarantees to a bank in respect of banking facilities provided to a subsidiary, VC Brokerage Limited, amounting to HK\$130 million (2009: HK\$130 million). At 31 December 2010, HK\$40 million banking facilities was utilised by VC Brokerage Limited (2009: Nil). The fair value of the financial guarantee contracts is immaterial.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

32. COMMITMENTS

(a) Capital commitments

As at 31 December 2010, the Group did not have any material commitments contracted but not provided for in respect of purchase of property, plant and equipment (2009: HK\$855,000).

As at 31 December 2010 and 31 December 2009, the Company did not have any material commitments contracted but not provided for in respect of purchase of property, plant and equipment.

(b) Commitments under operating leases

As at 31 December 2010, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Within one year	7,978	7,927
In the second to fifth years inclusive	9,158	2,006
	17,136	9,933

Operating lease payments represent rentals payable by the Group for certain of its office properties. Rentals are fixed for lease terms of 1/4 to 2 years (2009: 1 $\frac{1}{3}$ to 2 years).

As at 31 December 2010 and 31 December 2009, the Company did not have any operating lease commitments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

33. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

	2010 HK\$'000	2009 HK\$'000
Technical, network and other service fees charged by related companies (<i>Note</i>)	–	1,272
Brokerage commission income/interest income earned from certain directors of the Group or close family members of the directors	335	216
Interest expenses charged on loans from a shareholder (<i>Note</i>)	–	79
Management fee paid to a related company (<i>Note</i>)	–	561

Note: The amounts represent the related party transactions with Melco Financial Group Limited ("Melco"), its fellow subsidiaries and its ultimate holding company's associated company up to 24 September 2009, the date on which they ceased to be the Group's related party. Prior to 24 September 2009, Melco was a shareholder of the Company and had significant influence on the Company which owned approximately 43% of the issued shares of the Company. Melco, its fellow subsidiaries and its ultimate holding company's associated company were therefore considered as related companies of the Group. On 24 September 2009, Melco completed to place all shares beneficially held to independently third parties. Melco, its fellow subsidiaries and its ultimate holding company's associated company ceased to be related companies and all subsequent transactions with the Group are excluded from the above disclosures.

The balances with related parties are set out on the consolidated statement of financial position of the Group and in Notes 21, 22 and 23.

The balances with related parties are set out on the statement of financial position of the Company and in Notes 20 and 26.

Compensation of key management personnel

The remuneration of Directors and other members of key management personnel of the Company during the year was as follows:

	2010 HK\$'000	2009 HK\$'000
Short term benefits	17,536	11,145
Share-based payments	3,629	10,860
Post employment benefits	84	74
	21,249	22,079

The remuneration of Directors and key executives of the Company is determined by the remuneration committee having regard to the performance of individuals and market trends.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

34. EVENT AFTER THE REPORTING PERIOD

On 28 January 2011, the Company entered into a placing agreement (the "Placing Agreement") with a placing agent whereby the Company agreed to place, through the placing agent, on a best effort basis, a minimum of 20,000,000 new shares and up to a maximum of 79,000,000 new shares to not less than six placees at a price of HK\$1.50 per placing share, which represented approximately 4.76% and 16.5% of the issued share capital of the Company as enlarged by the issue of the respective placing shares. If a maximum of 79,000,000 new shares are successfully placed by the placing agent, the gross proceeds from the placing will be approximately HK\$118.5 million. The Company intends to use the net proceeds of approximately HK\$115.4 million from the placing for general working capital of the Group and/or possible investment in the future when opportunities arise. The placing period will commence from the date of the Placing Agreement i.e. 28 January 2011 and terminate on 31 May 2011, unless terminated earlier in writing pursuant to the terms of the Placing Agreement.

Five Years' Financial Summary

A summary of the consolidated results and of the consolidated assets and liabilities of the Group of the past five financial years is set out below:

	Year ended 31 December 2010 HK\$'000	Year ended 31 December 2009 HK\$'000	Year ended 31 December 2008 HK\$'000	Year ended 31 December 2007 HK\$'000	Year ended 31 December 2006 HK\$'000
Consolidated Results					
Revenue	115,629	135,734	129,672	323,747	182,587
Other income	598	912	6,686	3,795	2,236
Net gain on trading investments	–	–	–	2,051	11,283
Staff costs	(83,156)	(102,226)	(81,075)	(169,693)	(88,473)
Depreciation of property, plant and equipment	(2,063)	(2,053)	(2,670)	(1,625)	(1,440)
Amortisation of trading rights	(252)	(507)	(507)	(507)	(506)
Commission expenses	(6,257)	(6,915)	(4,890)	(19,452)	(10,150)
Finance costs	(1,107)	(1,457)	(6,959)	(43,275)	(35,094)
Other operating expenses	(28,696)	(26,994)	(29,169)	(32,933)	(32,526)
Share of loss of jointly controlled entities	(37,832)	(13,494)	(2,124)	–	–
Fair value changes on financial liabilities designated at fair value through profit or loss	(22,950)	(1,184)	–	–	–
Fair value changes on derivative financial liabilities	(11,033)	–	–	–	–
Goodwill impairment	(8,151)	–	–	–	(1,471)
(Loss) profit before taxation	(85,270)	(18,184)	8,964	62,108	26,446
Income tax expense	(3,666)	(4,330)	(1,388)	(11,750)	(114)
(Loss) profit for the year	(88,936)	(22,514)	7,576	50,358	26,332
Other comprehensive loss					
Exchange differences arising on translation of foreign operations	(88)	–	(317)	(297)	(179)
Total comprehensive (loss) income for the year	(89,024)	(22,514)	7,259	50,061	26,153
(Loss) profit for the year attributable to:					
Owners of the Company	(87,985)	(22,514)	7,259	50,061	26,153
Non-controlling interests	(951)	–	–	–	–
	(88,936)	(22,514)	7,259	50,061	26,153
Total comprehensive (loss) income for the year attributable to:					
Owners of the Company	(88,073)	(22,514)	7,259	50,061	26,153
Non-controlling interests	(951)	–	–	–	–
	(89,024)	(22,514)	7,259	50,061	26,153
(Loss) earnings per share (HK cents)					
Basic	(22.47)	(6.09)	2.05	16.97	10.45
Diluted	(22.47)	(6.09)	2.04	16.59	10.22
Consolidated Assets and Liabilities					
Total assets	710,234	690,136	689,157	959,863	695,227
Total liabilities	(120,592)	(81,700)	(77,009)	(354,376)	(501,674)
	589,642	608,436	612,148	605,487	193,553
Equity attributable to owners of the Company	588,100	608,436	612,148	605,487	193,553
Non-controlling interests	1,542	–	–	–	–
	589,642	608,436	612,148	605,487	193,553