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Value Convergence Holdings Limited

(Incorporated in Hong Kong with limited liability)

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

(Stock Code: 821)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

The board (the “**Board**”) of directors (the “**Directors**”) of Value Convergence Holdings Limited (the “**Company**”) submits the unaudited condensed consolidated results of the Company and its subsidiaries (collectively “**VC Group**” or the “**Group**”) for the six months ended 30 June 2018, together with the unaudited comparative figures of the corresponding period in 2017.

FINANCIAL HIGHLIGHTS

The Group’s consolidated revenue for the six months ended 30 June 2018 amounted to approximately HK\$26.7 million, which decreased by about 7% as compared with the same period in 2017.

The Group recorded a consolidated loss attributable to shareholders amounted to approximately HK\$320.3 million for the six months ended 30 June 2018 against a loss of approximately HK\$10.1 million for the same period in 2017, representing a substantial increase of about 31 times.

MANAGEMENT DISCUSSION AND ANALYSIS

VC Group is an established financial services group committed to delivering premier financial services and products that fulfill various investment and wealth management needs of clients in the Greater China region. The Group's expertise includes (i) provision of financial services comprising securities, futures and options brokering and dealing, financing services, corporate finance and other advisory services, and asset management, and (ii) proprietary trading.

BUSINESS REVIEW

General

Hong Kong has long been an international financial hub and the status prompts the city to hold an important role of being a gateway to Mainland China. With China's determination to further open up to the global world both financially and economically, Hong Kong could benefit in a great extent. For instance, the China Securities Regulatory Commission ("CSRC") has quadrupled daily quotas for both Stock Connect schemes linking Shanghai and Shenzhen with Hong Kong to RMB52 billion each starting May 2018. This facilitates further international investors' access to the Mainland stock markets and Mainland investors' access to the Hong Kong stock market which could boost the local capital market. Furthermore, The Hong Kong Exchanges and Clearing Limited ("HKEX") actively carried out listing reforms to attract emerging and innovative enterprises such as biotech and technology companies to raise capital in Hong Kong, which already took effect at the end of April 2018.

Local stock market remained vibrant in the first half of 2018. The average daily turnover for the first six months of 2018 was HK\$126.6 billion, an increase of 67 percent when compared with HK\$76 billion for same period last year and 26 percent when compared with HK\$100.1 billion for the second half of 2017. The Hang Seng Index even struck historical highs to over 33,000 points in late January 2018, despite pulling back on concerns of trade war between the global economic blocs, normalization of US interest rates and financial deleveraging in China. Fund raising was also hot during the period. Newly listed companies surged 50 percent to 108 compared with 72 for the same period last year while total funds raised (including IPOs) jumped 8.9 percent to nearly HK\$190 billion compared with HK\$174 billion.

Investment sentiment has been dampened slightly in recent months plagued by the tense trade relationship between China and the United States. Trade tariffs against imports from their trade partners were implemented. In addition, the US Federal Reserve lifted the benchmark interest rates again for the second time this year in June as the US economy is strong. A majority of policy makers now expects a total of four interest rate hikes during the year instead of three anticipated earlier this year. The quickened pace of rate hike may produce headwinds to the investment market.

As a financial institution, the business performance of the Group is inevitably influenced by the macro environment and local market conditions. Yet, with our comprehensive investment services and products offered to our customers and the solid financial standing, the Group is able to thrive as a competitive player in the financial industry. While the financial-oriented business makes the Group particularly sensitive to fluctuating economic conditions and investors' sentiments, our fundamental strategy is firmly anchored and our core focus remains on developing and fortifying the Group's core businesses in provision of financial services including (i) securities, futures and options brokering and dealing, and financing services (including local and overseas securities dealing, futures and options trading, derivatives and other structured products trading, placement and underwriting, margin financing and money lending, etc.); (ii) corporate finance and other advisory services (including mergers and acquisitions and company secretarial services to clients, etc.); and (iii) asset management; and proprietary trading. Indeed, the Group is committed to achieving long-term and balanced growth on the basis of solid financial capability and a pragmatic operating strategy, which helps capitalizing on any growth opportunities and thereon enhance our shareholders' value.

Establishment of a joint venture securities company in Guangxi

In July 2016, the Company announced that VC Brokerage Limited (“**VC Brokerage**”), an indirect wholly owned subsidiary of the Company, entered into a joint venture agreement (the “**Joint Venture Agreement**”) with three independent third parties to establish a joint venture securities company in Guangxi, the PRC (the “**PRC JV Company**”). Subject to the approval by CSRC, the PRC JV Company is expected to be a full-licensed securities company permitted to provide securities brokerage, trading and investment advisory, underwriting, sponsorship and asset management services in the PRC. Pursuant to the Joint Venture Agreement, VC Brokerage will contribute RMB445 million (equivalent to approximately HK\$544 million), representing 44.5% shareholding in the PRC JV Company.

The Company will finance the investment in the PRC JV Company by placing of convertible bonds in the aggregate principal amount of up to HK\$850 million (the “**Convertible Bonds**”) at an initial conversion price of HK\$0.65 each pursuant to a placing agreement entered into at the same time. The aggregate net proceeds from placing of the Convertible Bonds will be approximately HK\$829 million, which is intended to use for capital contribution to the PRC JV Company and the remaining balance is intended to use for expanding the Group's existing businesses and other possible investments in the future, when opportunities arise. This investment definitely not only strengthen the Group's financial position and prospects, but provide a stepping stone to the Group for entering into and developing of the PRC market.

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

As at the date of this announcement, the Company and VC Brokerage have not yet obtained the approval and authorisation from CSRC for establishment of the PRC JV Company. Details of the transaction please refer to the Company's announcements dated 24 July 2016, 20 September 2016, 26 October 2016, 18 November 2016, 17 January 2017, 29 March 2017, 28 June 2017, 20 September 2017, 12 October 2017, 12 January 2018, 27 March 2018, 27 June 2018, 20 July 2018 and 28 August 2018; and the Company's circulars dated 26 September 2016, 27 February 2017, 22 September 2017, 23 February 2018 and 3 August 2018.

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

On 22 September 2017, the Company entered into a legally binding memorandum of understanding (the "**2017 MOU**") with an independent third party (the "**Party**") in relation to the proposed formation of a joint venture company (the "**JV Company**") to act as a sponsor to a limited partnership fund (the "**Fund**") which will focus on infrastructure projects (the "**Proposed Joint Venture**"). The 2017 MOU is subject to the parties entering into formal agreements to set out the definitive terms of the Proposed Joint Venture. The Company shall have the right to acquire no less than 5% of the entire issued share capital of the JV Company. The initial cost required for the setting up of the JV Company and the Fund (the "**Organisation Expenses**") shall be borne equally between the Company and the Party, provided that in any event, the Company's provision of the initial cost shall be limited to HK\$7.5 million. As at 30 June 2018, the Company paid an amount of HK\$5 million for the Organisation Expenses. Details of the transaction had been disclosed in the Company's announcements dated 22 September 2017, 5 January 2018 and 27 June 2018.

Acquisition of convertible bonds issued by China Fortune Financial Group Limited

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

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

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

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

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

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

On 24 June 2018, Initial Honour Limited (the “**Purchaser**”), the Company’s indirect wholly owned subsidiary, entered into the non-legally binding memorandum of understanding (the “**2018 MOU**”) with Mr. Chong Wing Chuen, Vincent (the “**Vendor**”) in relation to the proposed acquisition of 49% of the entire issued capital of BTCC Pool Limited (“**BTCC**”). BTCC, through its subsidiaries, is principally engaged in the provision of multi-cryptocurrencies mining pool to which miners can connect through servers located worldwide to implement encrypted communications. The consideration for the proposed acquisition shall be HK\$147,000,000 and is expected to be satisfied by the Purchaser by a combination of cash and consideration shares of the Company at the issue price of HK\$1.5 per consideration share. As at the date of this announcement, no definitive agreements had been executed between the Purchaser and the Vendor. Details of the 2018 MOU had been disclosed in the Company’s announcement dated 24 June 2018.

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

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

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

The net proceeds from the placing is approximately HK\$72.6 million after deduction of commission and other related expenses of the placing from the gross proceeds of approximately HK\$73.8 million. The Company intends to use the net proceeds from the placing for (i) general working capital of the Group; (ii) expanding the Group’s proprietary trading, brokerage and financing and corporate finance businesses; and (iii) possible investment(s) in the future when opportunities arise.

Details of the top-up placing and subscription had been disclosed in the Company’s announcements dated 26 June 2018 and 10 July 2018.

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

On 29 June 2018, VC Global Investments Limited, the Company's indirect wholly owned subsidiary, entered into an agreement with Mr. Ting Pang Wan Raymond (“**Mr. Ting**”) in relation to the acquisition of the entire issued equity interest in Bright Element Investments Limited (“**Bright Element**”) and all obligations, liabilities and debts owing by Bright Element to Mr. Ting on or at any time prior to the completion of the said acquisition. The total consideration for the acquisition is HK\$257,200,000, which shall be settled by the Company to issue the convertible bonds in the principal amount of HK\$257,200,000 to Mr. Ting on the completion date of the acquisition. The convertible bonds are convertible into 205,760,000 conversion shares at an initial conversion price of HK\$1.25 per conversion share (subject to adjustments). The acquisition is subject to the shareholders' approval at the extraordinary general meeting. Details of the transaction had been disclosed in the Company's announcement dated 29 June 2018.

Details of the Group's business performance of each operating segment for the six months ended 30 June 2018, together with the comparative figures of the corresponding period in 2017, are given in the section “FINANCIAL REVIEW” below.

OUTLOOK

Looking ahead, uncertainties prevail against the backdrop of complicated political and economic environment. The trade disputes between China and the United States has escalated and investors are concerned about triggering a full blown international trade war that could hinder economic growth. In addition, the Hong Kong Dollar interest rate is expected to track the pace of normalization of US interest rates and the increase of borrowing costs may potentially impact the economy. These factors have already triggered adjustment of the stock market and greater volatility compared with last year. Investors are reminded to follow the market closely and avoid taking excessive risks.

On the other hand, there are also positives to the Hong Kong capital market following the listing reforms of the HKEX released in April 2018. The introduction of “weighted voting rights” could enhance the competitiveness of Hong Kong as listing venue especially for technology companies, where the structure and requirements align with other mature bourses such as the United States. Besides, the HKEX will apply new distinct requirements on biotech companies which cannot meet the Main Board's financial eligibility tests due to their high research and development costs. The Listing Rule changes aims to attract more listing participants from high-growth tech and biotech sectors. The Group believes that the reforms would enhance the competitiveness as a listing venue and we could seize more fund raising businesses within the more vibrant capital market.

The increased quota of the Stock Connects also widens the gate for capital flow from both Mainland China and international. This is especially important amid MSCI Inc's decision to add around 230 China-listed shares to its emerging market index starting June 2018, which is expected to attract strong foreign capital to the Mainland stock market. The Group will benefit from the anticipated increase in the Northbound trading volume in the long run.

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

FINANCIAL REVIEW

For the six months ended 30 June 2018, the Group's consolidated revenue was approximately HK\$26.7 million, which decreased by about 7% as compared with the same period in 2017. The Group recorded a consolidated loss attributable to shareholders amounted to approximately HK\$320.3 million for the six months ended 30 June 2018 against a loss of approximately HK\$10.1 million for the same period in 2017, representing a substantial increase of about 31 times.

The significant increase in the Group's consolidated loss attributable to shareholders for the six months ended 30 June 2018 was mainly due to (i) the increase in net loss from the Group's proprietary trading business which recorded the net loss of approximately HK\$61.5 million from the financial assets held for trading in the first half of 2018 as compared with the net gain of approximately HK\$13.8 million for the same period in 2017; (ii) the recognition of impairment loss of approximately HK\$6 million on the accounts receivable of the Group's brokerage and financing businesses as compared with the reversal of approximately HK\$2.6 million for the same period in 2017; (iii) the loss of approximately HK\$14.5 million from the fair value change on financial assets at fair value through profit or loss in the first half of 2018; (iv) the recognition of equity-settled share option expense of approximately HK\$31.3 million for the share options granted by the Company in January 2018; and (v) the recognition of the aggregate loss of approximately HK\$157.8 million for the loss on acquisition of and net loss on fair value change in convertible bonds acquired by the Company in January 2018.

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

Revenue Analysis

	Six months ended 30 June 2018		Six months ended 30 June 2017		Increase (decrease) %
	HK\$'000	Proportion of total revenue %	HK\$'000	Proportion of total revenue %	
Revenue from:					
Brokerage and Financing	20,748	78%	24,770	86%	(16%)
Brokerage commission and other related fees	11,577	44%	9,218	32%	26%
Underwriting, sub-underwriting, placing and sub-placing commission	-	-	255	1%	(100%)
Interest income from brokerage clients	4,319	16%	6,894	24%	(37%)
Interest income from money lending clients	4,852	18%	2,765	10%	75%
Other fees	-	-	5,638	19%	(100%)
Corporate Finance and Other					
Advisory Services	5,961	22%	4,017	14%	48%
Asset Management	-	-	-	-	-
Proprietary Trading	-	-	-	-	-
Total revenue	26,709	100%	28,787	100%	(7%)

Segment Analysis

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Segment results:		
Brokerage and Financing	(2,362)	8,621
Corporate Finance and Other Advisory Services	(1,061)	(1,707)
Asset Management	(778)	(896)
Proprietary Trading	(66,752)	9,746
	<hr/>	<hr/>
Group segment (loss) profit	(70,953)	15,764
Loss on acquisition of financial assets at fair value through profit or loss	(47,436)	–
Fair value change on financial assets at fair value through profit or loss	(142,376)	–
Fair value change on derivative financial asset	17,489	–
Compensation income arising from profit guarantee	–	978
Central administrative costs	(78,160)	(26,888)
	<hr/>	<hr/>
Loss before taxation	(321,436)	(10,146)
Income tax credit	1,151	18
	<hr/>	<hr/>
Loss for the period attributable to shareholders of the Company	(320,285)	(10,128)
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Brokerage and Financing

During the six months ended 30 June 2018, the Company, through its indirect wholly owned subsidiaries, namely, VC Brokerage and VC Futures Limited, provides securities, futures and options brokering and dealing, margin financing, and placing and underwriting services. It also through another indirect wholly owned subsidiary, VC Finance Limited, provides money lending services. For the six months ended 30 June 2018, the brokerage and financing businesses recorded total revenue of approximately HK\$20.7 million as compared with approximately HK\$24.8 million for the same period last year, representing a decrease of about 16%, and accounted for about 78% of the Group's total revenue.

The Group's one of the major revenue streams, namely, brokerage commission and other related fees from dealing in securities, futures and options contracts for the six months ended 30 June 2018 increased to approximately HK\$11.6 million from approximately HK\$9.2 million for the same period last year, representing an increase of about 26%, and accounted for about 44% of the Group's total revenue. Nevertheless, the Group's brokerage transactions registered growth throughout the first half of 2018 with average daily trading turnover increasing by about 33% as compared to the same period last year. On the other hand, there are no other fees generated for the six months ended 30 June 2018. The brokerage business recorded other fees such as the arrangement fee and referral fee of approximately HK\$5.6 million for the same period last year.

Meanwhile, the Group's total interest income from financing for the six months ended 30 June 2018 decreased by about 5% to approximately HK\$9.2 million from approximately HK\$9.7 million for the same period last year, and accounted for about 34% of the Group's total revenue. The revenue included interest income derived from both the brokerage business and the money lending business. Among these, the Group's interest income from our brokerage clients recorded approximately HK\$4.3 million for the six months ended 30 June 2018, representing a drop of about 37% as compared with the same period last year. The drop was mainly attributable to the decrease of average loan portfolio of our brokerage clients by about 37% for the six months ended 30 June 2018 as compared with the same period last year.

As abovementioned, the Group also provides money lending services to our clients. This aims at broadening our revenue base and also offering our clients with more financial flexibility to meet their personal and business needs. The Group's interest income from money lending services was approximately HK\$4.9 million for the six months ended 30 June 2018, representing a significant growth of about 75% as compared with the same period last year. The sharp increase was mainly contributed by the increase of average loan portfolio of the money lending business by about 61% for the six months ended 30 June 2018 as compared with the same period last year.

The Group has put efforts on implementing our credit control policies and procedures to review our clients' creditworthiness and credit limits from time to time so as to minimize our credit risk exposure. The Group's credit control policies and procedures are principally based on the doubtful unsecured exposure having assessed the fair value of the clients' collaterals held, the evaluation of collectability and aging analysis of the client accounts. As the local economy is volatile from time to time, the Group will take a much more cautious approach in provision of the financing services. For the six months ended 30 June 2018, there was an additional impairment loss of approximately HK\$6 million on client receivables from the brokerage and financing businesses (31 December 2017: recognition of impairment loss of HK\$33.2 million) in accordance with the Group's credit control policies and procedures. The Group will take all necessary legal actions against the relevant clients to follow up the outstanding loans. Details of the impairment loss on the client receivables had been disclosed in Note 14 to the unaudited condensed consolidated financial statements.

Meanwhile, the Group offers placing and underwriting services to our clients, and acts as placing agent and underwriter for Hong Kong listed companies' fund raising activities. For the six months ended 30 June 2018, no placing and underwriting commission recorded by the Group as compared with approximately HK\$0.3 million for the same period last year. The Group will continue to put efforts to capture the opportunities towards the local initial public offerings and other fund raising exercises.

Overall, the operating performance of the brokerage and financing businesses for the six months ended 30 June 2018 recorded an operating loss after tax of approximately HK\$2.9 million against a profit of approximately HK\$8.6 million for the same period last year.

Corporate Finance and Other Advisory Services

The Company through its indirect wholly owned subsidiary, VC Capital Limited (“**VC Capital**”), providing corporate finance advisory services to its clients. For the six months ended 30 June 2018, VC Capital was appointed as the financial adviser of several Hong Kong listed companies for a number of corporate transactions.

Further, from the fourth quarter of 2017, the Company through its indirect wholly owned subsidiary, VC Corporate Services Limited, provides corporate services, including company secretarial services, registered office and business services, etc., to listed and private companies.

Overall, the operating performance of the corporate finance and other advisory services business for the six months ended 30 June 2018 had been slightly improved as compared to the same period last year, which recorded revenue and operating loss after tax of approximately HK\$6 million and HK\$1.1 million as compared with approximately HK\$4 million and HK\$1.7 million for the same period last year respectively.

Asset Management

For the six months ended 30 June 2018, the Company's asset management business, through its indirect wholly owned subsidiary, VC Asset Management Limited, recorded an operating loss after tax of approximately HK\$0.8 million as compared with a loss of approximately HK\$0.9 million for the same period last year, which mainly included the general operating expenses such as staff costs and professional costs.

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

Proprietary Trading

As at 30 June 2018, the Group held equity securities listed in Hong Kong of approximately HK\$283.2 million (31 December 2017: HK\$272.7 million) as financial assets held for trading, which was stated at market value. The fair value of these listed equity securities represents about 23% of the Group's total assets as at 30 June 2018 (31 December 2017: 32%). The Group started to devote more resources for proprietary trading business from the second half of 2016 so as to capture opportunities arising from improving market sentiments and considered it as one of the Group's core businesses thereafter.

The Group invests mainly through purchases in the secondary market. The management follows strictly the internal securities investment policy and seeks the approval from the Board, when necessary, so as to enhance the financial returns to the shareholders and limit the risk exposure associated therewith. During the first half of 2018, there was net additional purchase in securities investment of approximately HK\$26.1 million.

For the six months ended 30 June 2018 and 2017, no revenue recorded for the proprietary trading business. Meanwhile, the Group recognised a net loss of approximately HK\$61.5 million (including a realised gain of approximately HK\$2.8 million and an unrealised loss of approximately HK\$64.3 million) on the trading investments for the six months ended 30 June 2018 as compared with a net gain of approximately HK\$13.8 million (including a realised loss of approximately HK\$9.8 million and an unrealised gain of approximately HK\$23.6 million) for the same period in 2017.

Overall, the Group's proprietary trading business recorded an operating loss of approximately HK\$66.8 million for the six months ended 30 June 2018 against a profit of approximately HK\$9.7 million for the same period last year.

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

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

Fair value changes on financial assets at fair value through profit or loss/derivative financial asset

The China Fortune Convertible Bonds were measured at fair value with the fair value change recognised in profit or loss. As at 30 June 2018, the fair values of the China Fortune Convertible Bonds and the put option were approximately HK\$311.3 million and HK\$45.5 million respectively in accordance with a valuation report prepared by an independent professional valuer. For the six months ended 30 June 2018, the Group recognised the decrease in the fair value of the China Fortune Convertible Bonds of approximately HK\$127.9 million and the increase in fair value of the put option of approximately HK\$17.5 million.

In 2016, Century Race Investments Limited (“**Century Race**”), an indirect wholly owned subsidiary of the Company, had acquired 10.5% equity interest of IBO Technology Company Limited (“**IBO Tech**”) at a cash consideration of HK\$35 million. On 28 December 2017, IBO Tech (stock code: 2708) has been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Company’s shareholding in IBO Tech was then diluted to 7.875% as at 31 December 2017 and 30 June 2018. Century Race has undertaken not to dispose of or otherwise encumber any of its interest in IBO Tech up to the date falling on the expiration of 6 months of the listing (both days inclusive). Upon the expiry of the undertaking period, the Group’s investment in IBO Tech was included in financial assets held for trading under the category of financial assets at fair value through profit or loss since 29 June 2018. The fair value of the Group’s investment in IBO Tech as at 28 June 2018 was approximately HK\$48.8 million (31 December 2017: HK\$63.3 million) based on the quoted market price available on the Stock Exchange. As such, the Group recognised the decrease in the fair value of the investment of approximately HK\$14.5 million for the six months ended 30 June 2018.

Further, Century Race was guaranteed that IBO Tech's net profit after tax for the year ended 31 March 2017 shall not be less than RMB37.5 million (the "**Guaranteed Amount**"). In the event that IBO Tech's net profit after tax falls below the Guaranteed Amount, the sellers of IBO Tech (the "**Sellers**") shall compensate Century Race by proportion to the percentage of shareholding interest in cash. Based on the audited financial information of IBO Tech for the year ended 31 March 2017, it was noted that IBO Tech's audited net profit after tax was less than RMB37.5 million and was unable to meet its profit guarantee for the year ended 31 March 2017. As such, compensation in cash for an amount of approximately RMB846,000 (equivalent to approximately HK\$978,000) by the Sellers to Century Race was required and recognised as compensation income arising from profit guarantee during the six months ended 30 June 2017. Besides, upon the listing of IBO Tech, all the rights granted by the Sellers to Century Race have been terminated and ceased to be effective.

Central administrative costs

For the six months ended 30 June 2018, the Group's central administrative costs amounted to approximately HK\$78.2 million as compared with approximately HK\$26.9 million for the same period last year, which mainly included the unallocated corporate operating expenses. The substantial increase in the central administrative costs of approximately HK\$51.3 million during the first half of 2018 was mainly attributable to the recognition of the corporate portion of the equity-settled share option expense of approximately HK\$31 million on the 66,256,000 share options granted in January 2018, the recognition of effective interest expenses on convertible bonds issued in January and June 2018 and the increase in corporate operating expenses incurred for the Group's business development such as staff costs, entertainment and travel expenses.

Income tax credit

During the six months ended 30 June 2018, the Group recognised an income tax credit of approximately HK\$1.2 million which included deferred tax credit of approximately HK\$1.8 million and current tax expense of approximately HK\$0.6 million provided for Hong Kong Profits Tax and the PRC Enterprise Income Tax for the PRC representative office of the Group. For the six months ended 30 June 2017, the income tax credit of approximately HK\$18,000 represented the over-provision of approximately HK\$20,000 for Hong Kong Profits Tax in prior year and the provision of approximately HK\$2,000 for the PRC Enterprise Income Tax for the PRC representative office of the Group.

Finance costs

For the six months ended 30 June 2018, the finance costs of the Group amounted to approximately HK\$13.7 million as compared with approximately HK\$30,000 for the same period last year. The finance costs for the first half year of 2018 were incurred in relation to the interest on the convertible bonds issued by the Company and the short-term bank loans utilized for the Group's brokerage and financing businesses. For the first half year of 2017, all were incurred in relation to the short-term bank loans utilised for the Group's brokerage and financing businesses.

Headcount and employees information

As at 30 June 2018, the Group employed a total of 83 employees (31 December 2017: 122), which excluded 18 self-employed account executives for brokerage services (31 December 2017: 7), and 78 and 5 were located in Hong Kong and the PRC respectively (31 December 2017: 117 and 5). Salaries and staff benefits costs (including the Directors' emoluments) and staff commission amounted to approximately HK\$53.7 million and HK\$5 million respectively for the six months ended 30 June 2018 as compared with approximately HK\$28.6 million and HK\$4.7 million respectively for the same period last year. Details had been disclosed in Note 6 to the unaudited condensed consolidated financial statements. The increase in the salaries and staff benefits costs of approximately HK\$25.4 million during the first half of 2018 was mainly attributable to the recognition of equity-settled share option expense of approximately HK\$19.8 million for the share options granted in January 2018.

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

Liquidity and financial resources/capital structure

For the six months ended 30 June 2018, the Group financed its business operations and investments with internal resources, cash revenues generated from operating activities and short-term bank loans.

The Group adopts a prudent treasury policy. As at 30 June 2018, all borrowings and almost all the bank balances and cash were denominated in Hong Kong dollars. The Group intends to maintain minimum exposure to foreign exchange risks. Further, all the bank balances and cash were put in time deposits, saving deposits and current accounts as at 30 June 2018.

As at 30 June 2018, the Group held banking facilities of HK\$100 million granted from a bank to VC Brokerage (31 December 2017: HK\$100 million), which is required to be secured by bank deposits of HK\$40 million (31 December 2017: HK\$40 million) and corporate guarantee of HK\$100 million (31 December 2017: HK\$100 million) provided by the Company. Among the available banking facilities, HK\$40 million (31 December 2017: HK\$40 million) is general short-term money market loan and current account overdraft. The other HK\$50 million (31 December 2017: HK\$50 million) is short-term money market loan for margin financing business, which is required to be secured by VC Brokerage's margin clients' listed securities when utilised. The balance of HK\$10 million (31 December 2017: HK\$10 million) is used for drawings against uncleared cheques. As at 30 June 2018, the Group utilised an amount of HK\$40 million for the general short-term money market loan (31 December 2017: HK\$40 million), which bore an interest rate at 4.30% per annum (31 December 2017: 3.22% per annum).

As at 30 June 2018, the Group's bank balances and cash, net current assets and shareholders' equity (other than clients' segregated accounts) amounted to approximately HK\$158.8 million (31 December 2017: HK\$228.2 million), HK\$578.5 million (31 December 2017: HK\$740.5 million) and HK\$840.1 million (31 December 2017: HK\$752.2 million) respectively, representing a decrease of about 30% and 22% and an increase of about 12% respectively as compared with that of 31 December 2017. Current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of about 9.9 times as at 30 June 2018 (31 December 2017: 8.9 times). These showed that the Group still maintained a solid financial position as at 30 June 2018.

As at 30 June 2018, the total number of issued ordinary shares of the Company was 894,816,829 (31 December 2017: 794,616,829 shares). The increase of 100,200,000 shares during the six months ended 30 June 2018 was attributable to the issue of 100,000,000 new shares upon conversion of convertible bonds and the exercise of 200,000 share options by an employee of the Group.

Charges on group assets

As mentioned in the section "*Liquidity and financial resources/capital structure*" above, the Group made a HK\$40 million charge over its bank deposits to a bank as at 30 June 2018 (31 December 2017: HK\$40 million) for securing the banking facilities granted to VC Brokerage.

Foreign exchange exposure

It is the Group's policy for all operating entities to use corresponding local currency as much as possible so as to minimize exchange related risks. For the six months ended 30 June 2018, almost all of the Group's principal businesses were conducted and recorded in Hong Kong dollars. Impact from foreign exchange exposure was thus minimal and no hedging against foreign currency exposure had been necessary. In view of the operational needs, the Group will continue to monitor the foreign currency exposure from time to time and take necessary action to minimize the exchange related risks.

Contingent liabilities

As at 30 June 2018, the Company had given financial guarantees of HK\$100 million (31 December 2017: HK\$100 million) to a bank in respect of banking facilities of HK\$100 million (31 December 2017: HK\$100 million) provided to VC Brokerage as mentioned in the section “*Liquidity and financial resources/capital structure*” above. As at 30 June 2018, banking facilities of an amount of HK\$40 million was utilised by VC Brokerage (31 December 2017: HK\$40 million).

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

Gearing ratio

As at 30 June 2018, the Group’s gearing ratio, expressed as total borrowings (solely the bank borrowings) over shareholders’ equity, was approximately 0.05 time (31 December 2017: 0.05 time).

Significant investments held, their performance and future prospects

For the six months ended 30 June 2018, details of the Group’s significant investments held, their performance and future prospects are disclosed in the sections “*Proprietary Trading*” and “*Fair value changes on financial assets at fair value through profit or loss/derivative financial asset*” above.

Material acquisitions and disposal of subsidiaries, associates and joint ventures

For the six months ended 30 June 2018, the Group completed the acquisition of convertible bonds issued by China Fortune and another acquisition of 18% of the issued share capital of Hackett Enterprises Limited. Details of these acquisitions are disclosed in the section headed “BUSINESS REVIEW”.

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

As at 30 June 2018, the Group had no other known plans with regard to material investments or capital assets and their expected sources of funding in the coming year except the formation of the joint venture securities company in the PRC, the proposed formation of a joint venture company to act as a sponsor to a limited partnership fund, the proposed acquisition of the equity interest in BTCC, the proposed acquisition of the entire issued equity interest in and the sale loan of Bright Element and the top-up placing and subscription of new shares of the Company as mentioned in the section “BUSINESS REVIEW” above. Material capital expenditure will be incurred when the Group begins to pursue different investments or projects in the coming years. The Group will finance the respective investments or projects by using its internal resources and/or different financing options available, whichever should be deemed appropriate.

Meanwhile, as at 30 June 2018, the Group did not have any significant commitments contracted but not provided for in respect of purchase of property and equipment. Details of the Group's commitments are disclosed in Note 23 to the unaudited condensed consolidated financial statements.

Events after the reporting period

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

Regarding the top-up placing and subscription of new shares as disclosed in the section "BUSINESS REVIEW" above, the completion of the placing took place on 29 June 2018 and a total of 50,904,000 Sale Shares were successfully placed to not less than six places at the HK\$1.45 per Sale Share. All the conditions of the subscription as set out in the placing and subscription agreement have been fulfilled and completion of the subscription took place on 10 July 2018 whereby a total of 50,904,000 Subscription Shares were allotted and issued to Mr. Chung at HK\$1.45 per Subscription Share.

The net proceeds from the placing is approximately HK\$72.6 million after deduction of commission and other related expenses of the placing from the gross proceeds of approximately HK\$73.8 million. The Company intends to use the net proceeds from the placing for (i) general working capital of the Group; (ii) expanding the Group's proprietary trading, brokerage and financing and corporate finance businesses; and (iii) possible investment(s) in the future when opportunities arise.

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

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

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

Hong Kong
28 August 2018

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	<i>Notes</i>	Six months ended 30 June	
		2018	2017
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue			
Commissions and fee income	4	17,538	19,128
Interest income	4	9,171	9,659
		26,709	28,787
Other income	4	1,752	1,475
Other gains and losses	5	(233,900)	13,888
Impairment losses on accounts receivable, net of reversal		(6,008)	2,612
Staff costs	6	(58,694)	(33,315)
Commission expenses		(2,096)	(1,028)
Depreciation of property and equipment	11	(1,144)	(892)
Finance costs		(13,689)	(30)
Other operating expenses		(34,366)	(21,643)
Loss before taxation		(321,436)	(10,146)
Income tax credit	7	1,151	18
Loss and total comprehensive expense for the period	8	(320,285)	(10,128)
Loss per share (HK cents)			
Basic	10	(37.98)	(1.53)
Diluted	10	(37.98)	(1.53)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

		30 June 2018 <i>HK\$'000</i> (Unaudited)	31 December 2017 <i>HK\$'000</i> (Audited)
Non-current assets			
Trading rights		–	–
Other intangible assets		1,246	1,246
Property and equipment	11	3,802	4,704
Statutory deposits		4,656	3,447
Rental and utility deposits		–	2,702
Financial asset at fair value through profit or loss	12	356,851	–
Financial assets at fair value through other comprehensive income	13	207,084	–
Available-for-sale investments		–	–
		573,639	12,099
Current assets			
Accounts receivable	14	144,380	216,897
Prepayments, deposits and other receivables		16,948	12,871
Financial assets designated as at fair value through profit or loss	15	–	63,315
Financial assets held for trading		–	272,728
Financial assets at fair value through profit or loss	12	283,245	–
Tax recoverable		32	32
Pledged bank deposits	16	40,000	40,000
Bank balances and cash	17	158,832	228,190
		643,437	834,033
Current liabilities			
Accounts payable	18	16,527	36,891
Accrued liabilities and other payables		7,452	16,338
Taxation payable		953	330
Short-term bank borrowings	19	40,000	40,000
		64,932	93,559
Net current assets		578,505	740,474
Total assets less current liabilities		1,152,144	752,573

		30 June	31 December
		2018	2017
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
Non-current liabilities			
Convertible bonds	20	295,153	–
Deferred tax liabilities		16,863	388
		<u>312,016</u>	<u>388</u>
Net assets		<u>840,128</u>	<u>752,185</u>
Capital and reserves			
Share capital	21	1,023,267	855,363
Reserves		(183,139)	(103,178)
		<u>840,128</u>	<u>752,185</u>
Total equity		<u>840,128</u>	<u>752,185</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to owners of the Company					Total HK\$'000
	Share capital HK\$'000	Capital reserve HK\$'000 (Note 1)	Share option reserve HK\$'000	Other reserve HK\$'000 (Note 2)	Accumulated losses HK\$'000	
At 1 January 2017 (Audited)	735,252	123,758	20,406	(767)	(179,099)	699,550
Loss and total comprehensive expense for the period	—	—	—	—	(10,128)	(10,128)
At 30 June 2017 (Unaudited)	735,252	123,758	20,406	(767)	(189,227)	689,422

	Attributable to owners of the Company						
	Share capital <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i> <i>(Note 1)</i>	Convertible bonds reserve <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Other reserve <i>HK\$'000</i> <i>(Note 2)</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2018 (Audited)	855,363	123,758	-	20,406	(767)	(246,575)	752,185
Impact on initial application of HKFRS 9	-	-	-	-	-	(5,244)	(5,244)
Adjusted balance at 1 January 2018	855,363	123,758	-	20,406	(767)	(251,819)	746,941
Loss and total comprehensive expense for the period	-	-	-	-	-	(320,285)	(320,285)
Recognition of equity-settled share option expense	-	-	-	31,322	-	-	31,322
Issue of shares upon exercise of share options	431	-	-	(97)	-	-	334
Recognition of equity component of convertible bonds	-	-	310,819	-	-	-	310,819
Deferred tax liabilities on recognition of equity component of convertible bonds	-	-	(24,593)	-	-	-	(24,593)
Issue of shares upon conversion of convertible bonds	167,473	-	(78,218)	-	-	-	89,255
Release of deferred tax liabilities on conversion of convertible bonds	-	-	6,335	-	-	-	6,335
At 30 June 2018 (Unaudited)	1,023,267	123,758	214,343	51,631	(767)	(572,104)	840,128

Notes:

- (1) Pursuant to a scheme of capital reorganisation, which became effective on 28 May 2003, the High Court of Hong Kong had approved the reduction of the capital of Value Convergence Holdings Limited (the "Company") and the cancellation of the Company's share premium account. The credit arising from the reduction of the share capital account and cancellation of the share premium account, after eliminated against the accumulated losses, in the aggregate amount of HK\$123,758,200 was transferred to a capital reserve account of the Company. Such capital reserve account will not be treated as realised profits, and shall be treated as an undistributable reserve of the Company until and unless the creditors of the Company as at the date of the sanction are fully settled. In view of the fact that the Company had already fully settled the relevant debts due to the creditors, the Company is of the view that the reserve is distributable to the Company's shareholders.
- (2) Other reserve represented the negative differences between the purchase considerations and the amounts acquired from non-controlling interests arising from acquisitions of the remaining equity interests of 9.9% and 8.84% in VC Capital Limited and VC Asset Management Limited respectively completed in 2012.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Net cash used in operating activities	<u>(28,064)</u>	<u>(38,073)</u>
Net cash used in investing activities	<u>(41,600)</u>	<u>(1,065)</u>
Net cash generated from (used in) financing activities	<u>306</u>	<u>(33)</u>
Net decrease in cash and cash equivalents	(69,358)	(39,171)
Cash and cash equivalents at the beginning of period	<u>228,190</u>	<u>247,661</u>
Cash and cash equivalents at the end of period, represented by bank balances and cash	<u>158,832</u>	<u>208,490</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. GENERAL

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

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

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange.

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

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

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

The financial information relating to the year ended 31 December 2017 that is included in the unaudited condensed consolidated financial statements as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) (the “Companies Ordinance”) is as follows:

The Company has delivered the audited consolidated financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to HKFRSs, the accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's audited annual consolidated financial statements for the year ended 31 December 2017.

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA that are mandatorily effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's unaudited condensed consolidated financial statements:

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

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

HKFRS 9 "Financial Instruments"

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of the initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated losses or other components of equity, without restating comparative information.

Key requirements of HKFRS 9 and its impacts on the Group's unaudited condensed consolidated financial statements are as below:

Classification and measurement of financial assets

All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost. 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.

Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI").

All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 applies) in other comprehensive income ("OCI"), with only dividend income generally recognised in profit or loss.

The Group elected to present in OCI for the fair value changes of all its equity investments previously classified as available-for-sale ("AFS") related to unquoted equity investments previously measured at cost less impairment under HKAS 39 "Financial Instruments: Recognition and Measurement". These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, the Group's AFS investments were reclassified from AFS investments to equity instruments at FVTOCI which are related to unquoted equity investments previously measured at cost less impairment under HKAS 39. The differences between the cost less impairment and fair value of these AFS investments that would be adjusted to accumulated losses as at 1 January 2018 were not material.

The adoption of HKFRS 9 in the current interim period has no material impact on the classification and measurement of other financial assets.

Impairment under expected credit loss model

In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss ("ECL") model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, HKFRS 9 requires the Group to recognise a loss allowance for expected credit losses on (i) debt investments subsequently measured at amortised cost or at FVTOCI, (ii) lease receivables, (iii) contract assets and (iv) loan commitments and financial guarantee contracts to which the impairment requirements of HKFRS 9 apply. In particular, HKFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset.

On the other hand, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group may measure the loss allowance for that financial instrument at an amount equal to 12-month ECL. However, HKFRS 9 also provides a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances and the Group applies this approach.

The following table gives a summary of the opening balance adjustments recognised under HKFRS 9 at the date of initial application, 1 January 2018.

	At 31 December 2017 <i>HK\$'000</i>	Impact on initial application of HKFRS 9 <i>HK\$'000</i>	At 1 January 2018 <i>HK\$'000</i>
Accounts receivable	216,897	(5,244)	211,653

HKFRS 15 “Revenue from Contracts with Customers”

The Group has applied HKFRS 15 retrospectively with the cumulative effect of applying the standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated losses as at 1 January 2018 and comparative information has not been restated.

HKFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction contracts” and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In April 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The adoption of HKFRS 15 in the current interim period has no material impact on the timing and amounts of the Group's revenue recognised in the respective reporting periods.

The Group has not early applied the following amendments to HKFRSs that have been issued after the date the audited consolidated financial statements for the year ended 31 December 2017 were authorised for issuance but are not yet effective, which may be relevant to the Group:

Amendments to HKAS 19 Employee Benefits¹

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

4. REVENUE AND SEGMENT INFORMATION

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

	Six months ended 30 June	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Revenue		
Brokerage commission and other related fees from dealing in securities, futures and options contracts	11,577	9,218
Underwriting, sub-underwriting, placing and sub-placing commission	–	255
Arrangement, referral, advisory and other fee income	5,961	9,655
Interest income from clients	9,171	9,659
	26,709	28,787
Other income		
Interest income from authorised institutions	287	279
Interest income from convertible bonds	1,464	–
Compensation income arising from profit guarantee	–	978
Sundry income	1	218
	1,752	1,475
Total income	28,461	30,262

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

- (i) the brokerage and financing segment engages in securities, futures and options brokering and dealing, provision of margin financing and money lending, and placing and underwriting services;
- (ii) the corporate finance and other advisory services segment engages in the provision of corporate financial advisory services and company secretarial services;
- (iii) the asset management segment engages in the provision of asset management services; and
- (iv) the proprietary trading segment engages in the trading of equity securities, debt securities and other financial products.

The following tables represent revenue and results information of these operating segments for the six months ended 30 June 2018 and 2017.

Six months ended 30 June 2018 (Unaudited)

	Brokerage and financing <i>HK\$'000</i>	Corporate finance and other advisory services <i>HK\$'000</i>	Asset management <i>HK\$'000</i>	Proprietary trading <i>HK\$'000</i>	Segment total <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue	20,748	5,961	-	-	26,709	-	26,709
Inter-segment sales	194	54	-	-	248	(248)	-
	<u>20,942</u>	<u>6,015</u>	<u>-</u>	<u>-</u>	<u>26,957</u>	<u>(248)</u>	<u>26,709</u>
Segment loss	<u>(2,362)</u>	<u>(1,061)</u>	<u>(778)</u>	<u>(66,752)</u>	<u>(70,953)</u>	<u>-</u>	<u>(70,953)</u>
Loss on acquisition of financial assets at fair value through profit or loss ("FVTPL")							(47,436)
Fair value change on financial assets at FVTPL							(142,376)
Fair value change on derivative financial asset							17,489
Central administrative costs							<u>(78,160)</u>
Loss before taxation for the period							<u>(321,436)</u>

Six months ended 30 June 2017 (Unaudited)

	Brokerage and financing HK\$'000	Corporate finance HK\$'000	Asset management HK\$'000	Proprietary trading HK\$'000	Segment total HK\$'000	Eliminations HK\$'000	Total HK\$'000
Segment revenue	24,770	4,017	-	-	28,787	-	28,787
Inter-segment sales	510	20	-	-	530	(530)	-
	<u>25,280</u>	<u>4,037</u>	<u>-</u>	<u>-</u>	<u>29,317</u>	<u>(530)</u>	<u>28,787</u>
Segment profit (loss)	<u>8,621</u>	<u>(1,707)</u>	<u>(896)</u>	<u>9,746</u>	<u>15,764</u>	<u>-</u>	<u>15,764</u>
Compensation income arising from profit guarantee							978
Central administrative costs							<u>(26,888)</u>
Loss before taxation for the period							<u>(10,146)</u>

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

For the six months ended 30 June 2018, one customer contributed 10% or more of the Group's revenue (six months ended 30 June 2017: one customer), in which the revenue from this customer amounted to approximately HK\$2,959,000 (six months ended 30 June 2017: HK\$5,057,000). The Group's operations are mainly located in Hong Kong (place of domicile). The Group's revenue from external customers are mainly derived from Hong Kong for the six months ended 30 June 2018 and 2017. All of its non-current assets other than financial assets at FVTPL and at FVTOCI are attributed to the operations in Hong Kong.

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

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss on acquisition of financial assets at FVTPL (<i>Note 12</i>)	(47,436)	–
Fair value change on financial assets at FVTPL (<i>Note 12</i>)	(142,376)	–
Fair value change on derivative financial asset (<i>Note 12</i>)	17,489	–
Net realised and unrealised (loss) gain on financial assets held for trading (<i>Note 12</i>)	(61,549)	13,849
Loss on disposal of property and equipment	(149)	–
Net exchange gain	121	39
	<u>(233,900)</u>	<u>13,888</u>

6. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Staff commission	5,037	4,673
Salaries and wages	25,142	26,392
Staff welfare	1,392	1,290
Recruitment costs	53	374
Provision (reversal) of long service payment/annual leave benefits	718	(180)
Retirement benefits scheme contributions	708	766
Termination benefits	5,283	–
Discretionary and performance related incentive payments and provision of gratuity	591	–
Equity-settled share option expense	19,770	–
	<u>58,694</u>	<u>33,315</u>

7. INCOME TAX CREDIT

	Six months ended 30 June	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Current tax		
Hong Kong Profits Tax	624	–
The People's Republic of China (the "PRC")		
Enterprise Income Tax	9	2
Overprovision in prior year		
Hong Kong Profits Tax	–	(20)
PRC Enterprise Income Tax	(1)	–
Deferred tax		
Current period	(1,783)	–
	(1,151)	(18)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods. The PRC representative offices are subject to the PRC Enterprise Income Tax at 25% for the six months ended 30 June 2018 (six months ended 30 June 2017: 20%).

At 30 June 2018, the Group has estimated unused tax losses of approximately HK\$375,253,000 (31 December 2017: HK\$345,738,000) available for offset against future profits. As at 30 June 2018, deferred tax asset and liability have been recognised in respect of tax losses of approximately HK\$16,696,000 (31 December 2017: HK\$16,696,000) and taxable temporary difference of approximately HK\$19,046,000 (31 December 2017: HK\$19,046,000) respectively. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK\$358,557,000 (31 December 2017: HK\$329,042,000) due to the unpredictability of future profit streams. The estimated unused tax losses have no expiry date but are subject to further approval of the Hong Kong Inland Revenue Department.

8. LOSS FOR THE PERIOD

Loss for the period has been arrived at after charging:

	Six months ended 30 June	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Included in other operating expenses:		
Auditor's remuneration	630	560
Operating leases in respect of rental premises	4,970	4,926
Entertainment and travel expenses		
(mainly incurred for business development)	4,918	7,419

9. DIVIDENDS

No dividends have been paid or declared or proposed by the Company during the six months ended 30 June 2018 (six months ended 30 June 2017: Nil). The Directors of the Company have determined that no dividend will be paid for the six months ended 30 June 2018.

10. LOSS PER SHARE

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

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss		
Loss for the purposes of basic and diluted loss per share	(320,285)	(10,128)
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	843,356	662,617

The diluted loss per share for the six months ended 30 June 2018 is computed excluding the effect of share options and convertible bonds as the exercise of the Company's share options and convertible bonds are anti-dilutive. The diluted loss per share for the six months ended 30 June 2017 is computed excluding the effect of share options as the exercise of the Company's share options is anti-dilutive.

11. PROPERTY AND EQUIPMENT

	As at	As at
	30 June	31 December
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Carrying value, at beginning of the period/year	4,704	4,619
Additions	863	2,120
Depreciation	(1,144)	(2,026)
Written off/Disposal	(621)	(9)
Carrying value, at end of the period/year	3,802	4,704

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2018 HK\$'000 (Unaudited)	As at 31 December 2017 HK\$'000 (Audited)
Convertible bonds (<i>Note a</i>)	311,327	–
Derivative financial asset (<i>Note a</i>)	45,524	–
Financial assets held for trading (<i>Note b</i>)	283,245	–
	640,096	–
Analysed for reporting purpose		
Non-current assets	356,851	–
Current assets	283,245	–
	640,096	–

Notes:

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

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

The fair values of the China Fortune Convertible Bonds and the put option were approximately HK\$439,213,000 and HK\$28,035,000 respectively as at 8 January 2018 and approximately HK\$311,327,000 and HK\$45,524,000 respectively as at 30 June 2018 and were calculated using the binomial option pricing model (“Binomial Model”) by an independent professional valuer, in which the parameters were summarised as follows:

	8 January 2018	30 June 2018
Share price of the issuer	HK\$0.171	HK\$0.12
Effective interest rate of the issuer	13%	12%
Risk free rate	1.30%	1.81%
Expected volatility of the issuer	64%	53%
Dividend yield of the issuer	0%	0%

The effective interest rate of the issuer was determined with reference to the average of the bond yields of the comparable companies with similar businesses and credit rating of the issuer. Risk free rate was determined with reference to yield of Hong Kong government bonds over the exercise period near the valuation dates of 8 January 2018 and 30 June 2018 respectively. Expected volatility of the issuer was determined using the historical volatility of the issuer’s share price over the exercise period as at the valuation dates of 8 January 2018 and 30 June 2018 respectively.

- (b) Financial assets held for trading were all equity securities listed in Hong Kong and were stated at market value.

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at 30 June 2018 HK\$’000 (Unaudited)	As at 31 December 2017 HK\$’000 (Audited)
Unlisted equity securities	207,084	–

This amount represents the Group’s investment in 18% of the entire equity securities issued by Hackett Enterprises Limited, a private entity incorporated in the Republic of Seychelles, which, together with its subsidiaries, is engaged in the business of provision of loan financing and financial consultancy services in the PRC and the provision of money lending services in Hong Kong. They are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the FVTOCI reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits. Dividends on these investments in equity instruments are recognised in profit or loss when the Group’s right to receive the dividends is established in accordance with HKFRS 9, unless the dividends clearly represent a recovery of part of the investment. Dividends are included in the “other income” line item in profit or loss.

14. ACCOUNTS RECEIVABLE

	As at 30 June 2018 <i>HK\$'000</i> (Unaudited)	As at 31 December 2017 <i>HK\$'000</i> (Audited)
Accounts receivable arising from the ordinary course of business of dealing in:		
Securities transactions (<i>Note a</i>):		
Clearing house	–	14,909
Cash clients	15,130	30,419
Margin clients	84,881	88,252
Futures and options contracts transactions (<i>Note a</i>):		
Clearing house	5	4
Accounts receivable arising from the ordinary course of business of provision of corporate finance and other advisory services (<i>Note b</i>)	2,547	1,284
Accounts receivable arising from the ordinary course of business of money lending services (<i>Note c</i>)	<u>86,312</u>	<u>115,272</u>
	188,875	250,140
Less: Allowance for impairment (<i>Note d</i>)	<u>(44,495)</u>	<u>(33,243)</u>
	<u>144,380</u>	<u>216,897</u>

Notes:

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

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

	As at 30 June 2018 HK\$'000 (Unaudited)	As at 31 December 2017 HK\$'000 (Audited)
Within 30 days	14,726	44,562
31-90 days	40	288
Over 90 days	369	482
	15,135	45,332

Included in the amount of approximately HK\$15,135,000 as at 30 June 2018 (31 December 2017: HK\$45,332,000), approximately HK\$4,522,000 (31 December 2017: HK\$5,201,000) is past due but not impaired from cash clients, aging analysis of which is as follows:

	As at 30 June 2018 HK\$'000 (Unaudited)	As at 31 December 2017 HK\$'000 (Audited)
Within 30 days	4,113	4,431
31 – 90 days	40	288
Over 90 days	369	482
	4,522	5,201

As at 30 June 2018, no impairment loss has been provided for the amounts that are past due as the fair value of the listed securities of approximately HK\$32,422,000 (31 December 2017: HK\$43,070,000) of these cash clients held by the Group were generally over the relevant carrying amounts of the receivable. No such listed securities held can be pledged by the Group and the corresponding listed securities held can be sold at the Group's discretion to settle any past due outstanding amounts of the cash clients. Accounts receivable due from cash clients bear interest at commercial rates when it becomes past due.

As at 30 June 2018, no accounts receivable due from cash clients was overdue and impaired (31 December 2017: Nil).

As at 30 June 2018, accounts receivable due from margin clients were secured by the clients' pledged listed securities which carried a fair value of approximately HK\$332,066,000 (31 December 2017: HK\$480,307,000). Management of the Group has assessed the market value of pledged securities of each individual customer that has margin shortfall as at the end of each reporting period and considered that no impairment allowance is necessary.

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

As at 30 June 2018, accounts receivable of approximately HK\$28,000 (31 December 2017: HK\$18,000) are due from a director of the Group/the close family member of a director of the Group in respect of transactions in securities undertaken for their accounts.

- (b) The settlement terms of accounts receivable arising from provision of corporate finance and other advisory services are normally due immediately from date of billing but the Group may grant a credit period of 30 days on average to its clients. The aging analysis of these receivables based on the invoice date is as follows:

	As at 30 June 2018 HK\$'000 (Unaudited)	As at 31 December 2017 HK\$'000 (Audited)
Within 30 days	990	515
31-90 days	495	419
Over 90 days	1,062	350
	2,547	1,284

Included in the amount of approximately HK\$2,547,000 as at 30 June 2018 (31 December 2017: HK\$1,284,000), approximately HK\$1,557,000 (31 December 2017: HK\$769,000), which are over 30 days based on the invoice date, are past due but not impaired. The Group had not provided for any impairment loss as the management was satisfied with the credit quality of the clients and some of these clients had on-going projects with the Group.

- (c) As at 30 June 2018, accounts receivable arising from money lending services bear fixed-rate interest at 1.5% per month or 12% per annum (31 December 2017: 1.5% to 1.8% per month or 12% per annum). The accounts receivable had remaining contractual maturity date falling within one year as at the end of each reporting period. As at 30 June 2018, accounts receivable with net carrying amount of approximately HK\$33.7 million were secured by the client's pledged listed securities and/or corporate/personal guarantee provided by the clients' ultimate shareholder and/or related parties. As at 31 December 2017, accounts receivable with net carrying amount of approximately HK\$58.6 million were secured by the clients' pledged listed securities, the client's pledged listed securities held by a discretionary trust in which the client is one of the beneficiaries and/or the corporate/personal guarantee provided by the clients' related parties.

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

	As at 30 June 2018 HK\$'000 (Unaudited)	As at 31 December 2017 HK\$'000 (Audited)
Neither past due nor impaired	44,325	81,861
Not past due but impaired	13,176	–
Past due and impaired	28,811	33,411
	86,312	115,272
Less: Allowance for impairment	(44,495)	(33,243)
	41,817	82,029

As at 30 June 2018, accounts receivable arising from money lending services of approximately HK\$28,811,000 (31 December 2017: HK\$33,411,000) were past due and an impairment amount of approximately HK\$28,811,000 (31 December 2017: HK\$33,243,000) was provided, and approximately HK\$13,176,000 (31 December 2017: Nil) were not past due but an impairment amount of approximately HK\$8,601,000 (31 December 2017: Nil) was provided. The details are explained as follows:

During 2016, the accounts receivable from two margin clients were restructured into term loans based on the financial status of the clients and their financial needs. These term loans were overdue as at 30 June 2018 and 31 December 2017. Taking into account the specific facts and circumstances, the Group had made an impairment loss of approximately HK\$14,310,000 as at 31 December 2017 for the outstanding principal and accrued interest after deducting the fair value of the borrower's collateral pledged for the term loan. During the first half of 2018, the Group has taken all necessary legal actions to follow up the outstanding loans and some cash repayments had made by one of the clients. As a result, a reversal of impairment loss of approximately HK\$4,432,000 was made for the six months ended 30 June 2018. As at 30 June 2018, the accounts receivable from these clients amounted to approximately HK\$9,878,000 (31 December 2017: HK\$14,478,000) with impairment allowance of approximately HK\$9,878,000 (31 December 2017: HK\$14,310,000).

During 2016, another loan was granted to a listed company which was due in January 2017 according to the loan agreement. The client failed to repay the outstanding principal on due date. The Group had served a statutory demand to the client but did not receive any positive response thereafter. Based on the published announcements of the listed company, in which provisional liquidators had been appointed and it is in the third delisting stage, the management considered that the probability of the settlement of outstanding principal and/or accrued interests within a short period of time is highly uncertain. Taking into account the specific facts and circumstances, the Group had made a full impairment allowance for the outstanding amounts. As at 30 June 2018, the accounts receivable from the client amounted to approximately HK\$18,933,000 (31 December 2017: HK\$18,933,000) with impairment allowance of approximately HK\$18,933,000 (31 December 2017: HK\$18,933,000).

During 2017, another term loan was granted to a margin client of the Group, in which the repayment date of the loan was extended from February 2018 to December 2018. The loan was not past due but an impairment loss of approximately HK\$8,601,000 was made in the first half of 2018 after taking into account the market value of pledged listed securities as at 30 June 2018. As the 30 June 2018, the accounts receivable from the client amounted to approximately HK\$13,176,000 (31 December 2017: HK\$13,000,000) with impairment allowance of approximately HK\$8,601,000 (31 December 2017: Nil).

Upon adoption of HKFRS 9 on 1 January 2018, an impairment allowance based on expected credit loss model amounted to approximately HK\$5,244,000 was recognised in the opening accumulated losses. Similar assessment was carried out on accounts receivable balance as at 30 June 2018 entailed impairment allowance of approximately HK\$7,083,000. As a result, additional impairment of approximately HK\$1,839,000 was recognised for the six months ended 30 June 2018.

- (d) The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, amounts due from customers under construction contracts, as well as on loan commitments and financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for accounts receivable. The expected credit losses on accounts receivables are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

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

	As at 30 June 2018 HK\$'000 (Unaudited)	As at 31 December 2017 HK\$'000 (Audited)
At beginning of the period/year	33,243	32,745
Adjustments on initial application of HKFRS 9	5,244	–
Net impairment loss recognised on accounts receivable arising from:		
Securities transactions	–	2
Money lending services	6,008	499
Amounts written off as uncollectible arising from securities transactions	–	(3)
	<u>44,495</u>	<u>33,243</u>

15. FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2018 HK\$'000 (Unaudited)	As at 31 December 2017 HK\$'000 (Audited)
Equity securities listed in Hong Kong	–	63,315

In 2016, Century Race Investments Limited (“Century Race”), an indirect wholly owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party (the “Holder”) to acquire 6% equity interest of a private entity incorporated in the British Virgin Islands (the “Acquired Company”) at a consideration of HK\$20 million. On 7 July 2016, Century Race entered into another sale and purchase agreement (the “Second S&P Agreement”) with the Holder and the Acquired Company whereby the Holder agreed to buy back the 6% equity interest of the Acquired Company from Century Race at a consideration of HK\$20 million and Century Race agreed to acquire 10.5% equity interest of IBO Technology Company Limited (“IBO Tech”), which is incorporated in the Cayman Islands and held by the Acquired Company, at a consideration of HK\$35 million. Net cash outflow of the Second S&P Agreement was HK\$15 million.

According to the Second S&P Agreement, the Holder and the Acquired Company jointly and severally guarantee that IBO Tech's net profit after tax for the years ending 31 March 2017 and 31 March 2018 shall not be less than RMB37.5 million and RMB50 million (the "Guaranteed Amounts") respectively. In the event that IBO Tech's net profit after tax falls below the Guaranteed Amounts in any of the two years, the Holder and the Acquired Company shall compensate Century Race by proportion to the percentage of shareholding interest in cash. Meanwhile, Century Race has the right to request the Holder and the Acquired Company to buy back its shareholding interest in IBO Tech (the "Buy-back Option") if IBO Tech is not listed on the Main Board of the Stock Exchange on or before 31 December 2017.

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

As abovementioned, Century Race was guaranteed that IBO Tech's net profit after tax for the year ended 31 March 2017 shall not be less than RMB37.5 million. Based on the audited financial information of IBO Tech for the year ended 31 March 2017, Century Race recognised a gain of RMB846,000 (equivalent to approximately HK\$978,000) during the period ended 30 June 2017.

16. PLEDGED BANK DEPOSITS

As at 30 June 2018, the Group has placed a deposit of HK\$40,000,000 (31 December 2017: HK\$40,000,000) at an interest rate of 1.5% (31 December 2017: 0.83%) per annum to a bank to secure banking facilities of HK\$100,000,000 (31 December 2017: HK\$100,000,000) which included the drawn bank borrowings of HK\$40,000,000 (31 December 2017: HK\$40,000,000). Details of the bank borrowings are set out in Note 19.

17. BANK BALANCES AND CASH

As at 30 June 2018, bank balances and cash comprise of cash and short-term bank deposits held by the Group at market interest rates ranging from 0.01% to 1.6% (31 December 2017: 0.001% to 1.09%) per annum with an original maturity of three months or less.

In the course of the conduct of the regulated activities of its ordinary business, VC Brokerage Limited ("VC Brokerage"), VC Futures Limited and VC Capital Limited act as trustees that result in the holding of clients' monies on behalf of clients and other institutions. These assets are not assets of the Group and, therefore, are not included in its unaudited condensed consolidated statement of financial position. As at 30 June 2018, the Group maintained segregated accounts at a clearing house of approximately HK\$1,704,000 (31 December 2017: HK\$2,033,000) and at other authorised institutions of approximately HK\$275,283,000 (31 December 2017: HK\$267,970,000) in conjunction with its securities, futures and options brokering and dealing business, and corporate financial advisory business as a result of the normal business transactions, which are not otherwise dealt with in the unaudited condensed consolidated financial statements.

18. ACCOUNTS PAYABLE

	As at 30 June 2018 <i>HK\$'000</i> (Unaudited)	As at 31 December 2017 <i>HK\$'000</i> (Audited)
Accounts payable arising from the ordinary course of business of dealing in securities transactions:		
Clearing house	9,363	15,762
Cash clients	7,056	20,245
Margin clients	108	884
	<u>16,527</u>	<u>36,891</u>

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

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

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

As at 30 June 2018, no accounts payable are due to the directors of the Group and close family members of these directors in respect of transactions in securities undertaken for their accounts (31 December 2017: HK\$18,000).

19. SHORT-TERM BANK BORROWINGS

	As at 30 June 2018 <i>HK\$'000</i> (Unaudited)	As at 31 December 2017 <i>HK\$'000</i> (Audited)
Secured and guaranteed	<u>40,000</u>	<u>40,000</u>

The short-term bank borrowings, which were secured by the pledged bank deposits and the Company's corporate guarantee, bore an interest rate at the bank's cost of funding plus 2% per annum as at 30 June 2018 (31 December 2017: cost of funding plus 2% per annum). Details of the pledged bank deposits are disclosed in Note 16.

20. CONVERTIBLE BONDS

On 8 January 2018, the Company issued convertible bonds in the principal amount of HK\$360,000,000 as the balance of the consideration of the acquisition of the China Fortune Convertible Bonds as disclosed in Note 12. The convertible bonds are denominated in Hong Kong dollars and shall not bear any interest with the maturity date falling on the third anniversary of the date of issue of the convertible bonds. The convertible bonds entitle the bondholders to convert them into ordinary share of the Company at an initial conversion price of HK\$1.25 per share (subject to adjustments) at any time during the period commencing on the issue date up to and ending on the maturity date of the convertible bonds.

On 8 June 2018, the Company issued convertible bonds in the principal amount of HK\$160,000,000 as the consideration of the acquisition of unlisted equity securities issued by Hackett Enterprises Limited as disclosed in Note 13. The convertible bonds are denominated in Hong Kong dollars and bear interest at 2% per annum with the maturity date falling on the third anniversary of the date of issue of the convertible bonds. The convertible bonds entitle the bondholders to convert them into ordinary share of the Company at an initial conversion price of HK\$1.30 per share (subject to adjustments) at any time during the period commencing on the issue date up to and ending on the maturity date of the convertible bonds.

At initial recognition, the equity component of the convertible bonds was separated from the liability component. The equity element is presented in equity heading convertible bonds reserve.

The fair values of the convertible bonds as at issue dates of 8 January 2018 and 8 June 2018 were calculated using the Binomial Model by an independent professional valuer, in which the parameters were summarised as follows:

	Convertible bonds issued on 8 January 2018	Convertible bonds issued on 8 June 2018
Share price of the Company	HK\$1.46	HK\$1.39
Effective interest rate	13%	12%
Risk free rate	1.45%	2.03%
Expected volatility	71%	68%
Dividend yield	0%	0%

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

On 4 April 2018, certain portion of convertible bonds issued on 8 January 2018 in the principal amount of HK\$125,000,000 was converted into 100,000,000 ordinary shares of the Company.

The movement of the liability component of the convertible bonds issued on 8 January 2018 and 8 June 2018 for the period is set out as follows:

	Convertible bonds issued on 8 January 2018 <i>HK\$'000</i>	Convertible bonds issued on 8 June 2018 <i>HK\$'000</i>	Total <i>HK\$'000</i>
At issue date of 8 January 2018, at fair value	249,415	–	249,415
At issue date of 8 June 2018, at fair value	–	121,534	121,534
Effective interest expenses	12,742	919	13,661
Interest payable	–	(202)	(202)
Converted into new ordinary shares	(89,255)	–	(89,255)
	<hr/>	<hr/>	<hr/>
At 30 June 2018 (Unaudited)	172,902	122,251	295,153
	<hr/>	<hr/>	<hr/>

21. SHARE CAPITAL

	Issued and fully paid Ordinary shares	
	Number of shares	Amount <i>HK\$'000</i>
At 1 January 2017 (Audited)	662,616,829	735,252
Issue of shares by placement	132,000,000	120,120
Transaction costs attributable to issue of shares by placement	–	(9)
	<hr/>	<hr/>
At 31 December 2017 (Audited)	794,616,829	855,363
Issue of shares upon conversion of convertible bonds	100,000,000	167,473
Issue of shares upon exercise of share options	200,000	431
	<hr/>	<hr/>
At 30 June 2018 (Unaudited)	894,816,829	1,023,267
	<hr/>	<hr/>

22. SHARE-BASED PAYMENT

On 24 January 2018, share options to subscribe for a total of 66,256,000 underlying shares were granted to a substantial shareholder of the Company, certain directors and employees of the Group, and consultants. The share options were immediately vested on the grant date. The estimated fair value of the share options granted at the date of grant was approximately HK\$31,322,000 which was calculated using the Binomial Model by an independent professional valuer. The inputs into the model were as follows:

	24 January 2018
No. of share options granted	66,256,000
Market price per share on the date of grant	HK\$1.62
Exercise price	HK\$1.67
Expected life	3 years
Expected volatility	71.528%
Expected dividend yield	0%
Risk free rate	1.512%
Exercise multiples	1.38/1.53

Expected volatility was determined with reference to the historical volatility of the Company's share price over the previous 3 years. The risk free rate was determined with reference to the yield of 3 years Hong Kong Sovereign Curve as at the valuation date of 24 January 2018.

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

The Group recognised total equity-settled share option expense of approximately HK\$31,322,000 included in the staff costs and other operating expenses for the six months ended 30 June 2018 (2017: Nil) in relation to the 66,256,000 share options granted under the share option scheme of the Company.

23. COMMITMENTS

(a) Capital commitments

As at 30 June 2018 and 31 December 2017, the Group's commitments contracted but not provided for in respect of capital contribution to a joint venture, acquisition of equity securities of an entity, acquisition of equity securities and the sale loan of an entity and purchase of property and equipment were as follows:

	As at 30 June 2018 HK\$'000 (Unaudited)	As at 31 December 2017 HK\$'000 (Audited)
Capital contribution to a joint venture (<i>Note i</i>)	544,369	525,056
Consideration for the acquisition of equity securities of an entity (<i>Note ii</i>)	147,000	–
Consideration for the acquisition of equity securities and the sale loan of an entity (<i>Note iii</i>)	257,200	–
Purchase of property and equipment	–	470
	<u>948,569</u>	<u>525,526</u>

Notes:

- (i) In July 2016, VC Brokerage entered into a joint venture agreement (the “Joint Venture Agreement”) with three independent third parties to establish a joint venture, in which the principal activity is securities broking in Guangxi, the PRC (the “JV Company”). Pursuant to the Joint Venture Agreement, VC Brokerage will contribute RMB445 million (equivalent to approximately HK\$544 million), representing 44.5% shareholding in the JV Company. Meanwhile, the Company entered into a placing agreement (the “Placing Agreement”) with a placing agent to procure on a best effort basis, to not less than six independent parties, to subscribe for the convertible bonds in the aggregate principal amount of up to HK\$850 million during the placing period, to finance the investment of the JV Company.

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

- (ii) On 24 June 2018, Initial Honour Limited (“Initial Honour”), the Company’s indirect wholly owned subsidiary, entered into the non-legally binding memorandum of understanding with Mr. Chong Wing Chuen, Vincent (“Mr. Chong”) in relation to the proposed acquisition of 49% of the entire issued capital of BTCC Pool Limited (“BTCC”). BTCC, through its subsidiaries, is principally engaged in the provision of multi-cryptocurrencies mining pool to which miners can connect through servers located worldwide to implement encrypted communications. The consideration for the proposed acquisition shall be HK\$147,000,000 and is expected to be satisfied by Initial Honour by a combination of cash and consideration shares of the Company at the issue price of HK\$1.5 per consideration share. As at the date of this announcement, no definitive agreements had been executed between Initial Honour and Mr. Chong.
- (iii) On 29 June 2018, VC Global Investments Limited, the Company’s indirect wholly owned subsidiary, entered into an agreement with Mr. Ting Pang Wan Raymond (“Mr. Ting”) in relation to the acquisition of the entire issued equity interest in Bright Element Investments Limited (“Bright Element”) and all obligations, liabilities and debts owing by Bright Element to Mr. Ting on or at any time prior to the completion of the said acquisition. The total consideration for the acquisition is HK\$257,200,000, which shall be settled by the Company to issue the convertible bonds in the principal amount of HK\$257,200,000 to Mr. Ting on the completion date of the acquisition. The convertible bonds are convertible into 205,760,000 conversion shares at an initial conversion price of HK\$1.25 per conversion share (subject to adjustments). The acquisition is subject to the shareholders’ approval at the extraordinary general meeting.

(b) Commitments under operating leases

As at 30 June 2018 and 31 December 2017, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rental premises which fall due are as follows:

	As at 30 June 2018 HK\$’000 (Unaudited)	As at 31 December 2017 HK\$’000 (Audited)
Within one year	6,116	10,267
In the second to fifth years inclusive	—	1,233
	6,116	11,500

Operating lease payments represent rentals payable by the Group for its office premises, apartments and car parking spaces. As at 30 June 2018, rentals are fixed for lease terms of 0.5 to 3 years (31 December 2017: 1 to 3 years).

24. RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2018 and 2017, the Group entered into the following transactions with related parties:

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Brokerage commission income/interest income earned from certain directors of the Group, close family members of or entities controlled by these directors	81	77

The balances with related parties are set out in Notes 14 and 18.

25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

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

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The fair values of investment in convertible bonds and derivative financial asset are determined in accordance with Binomial Model. The fair values of financial assets held for trading and financial assets designated as at FVTPL are determined based on the quoted market price available on the Stock Exchange. The fair value of financial assets at FVTOCI is determined based on the fair value of consideration convertible bonds issued by the Company (see Note 20). Details of these financial assets are disclosed in Notes 12,13 and 15 respectively.

Fair value hierarchy

	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 30 June 2018 (Unaudited)				
Financial assets at FVTPL				
Convertible bonds	–	–	311,327	311,327
Derivative financial asset	–	–	45,524	45,524
Financial assets held for trading	283,245	–	–	283,245
	<u>283,245</u>	<u>–</u>	<u>356,851</u>	<u>640,096</u>
Financial assets at FVTOCI				
Unlisted equity securities	–	–	207,084	207,084

	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 2017 (Audited)				
Financial assets designated as at FVTPL	63,315	–	–	63,315
Financial assets held for trading	272,728	–	–	272,728

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

Reconciliation of Level 3 fair value measurement of financial assets

	Convertible bonds <i>HK\$'000</i>	Derivative financial asset <i>HK\$'000</i>	Unlisted equity securities <i>HK\$'000</i>
At 1 January 2018 (Audited)	–	–	–
Purchases	439,213	28,035	207,084
Total gains (losses) recognised in:			
Profit or loss	(127,886)	17,489	–
Other comprehensive income	–	–	–
At 30 June 2018 (Unaudited)	311,327	45,524	207,084

26. EVENTS AFTER THE REPORTING PERIOD

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

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

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

The net proceeds from the placing is approximately HK\$72.6 million after deduction of commission and other related expenses of the placing from the gross proceeds of approximately HK\$73.8 million. The Company intends to use the net proceeds from the placing for (i) general working capital of the Group; (ii) expanding the Group’s proprietary trading, brokerage and financing and corporate finance businesses; and (iii) possible investment(s) in the future when opportunities arise.

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

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

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

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

The Company has not redeemed any of its shares during the six months ended 30 June 2018. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the six months ended 30 June 2018.

CORPORATE GOVERNANCE

The Company is committed to achieving and maintaining a high standard of corporate governance so as to ensure better transparency and protection of shareholders' interests. The Company has complied with the code provisions set out in the Corporate Governance Code (the "**CG Code**") for the six months ended 30 June 2018, which were contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), with the deviations mentioned below:

Code provision A.2.1

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive of a listed company should be separate and should not be performed by the same individual. During the period from 1 January 2018 to 21 January 2018, Mr. Tin Ka Pak, Timmy had taken up the roles and functions of the Chairman and the Chief Executive Officer ("**CEO**") of the Company. The Board considers that the balance of power and authority of the Board will not be impaired even the roles of the Chairman and the CEO are performed by the same individual. It also believes that it is in the best interest of the Group with Mr. Tin Ka Pak, Timmy to assume the roles of the Chairman and the CEO as which the Board's decision could be made effectively.

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

Code provision A.4.1

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

Code provision E.1.3

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

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

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

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

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

Compliance with Rule 3.10A of the Listing Rules

In accordance with rule 3.10A of the Listing Rules, the Company is required to appoint Independent Non-executive Directors representing at least one-third of the members of the Board. Following the appointments of Mr. Zhang Min and Mr. Jiang Tian as Executive Directors on 25 June 2018, the composition of the Board comprises seven Executive Directors and three Independent Non-executive Directors. The number of Independent Non-executive Directors represents less than one-third of the members of the Board as required under Rule 3.10A of the Listing Rules. The Company is in the process of identifying suitable candidate to act as an independent non-executive director of the Company to meet the requirement set out in Rule 3.10A of the Listing Rules as soon as practicable (and in any event not later than the three month period stipulated by Rule 3.11 of the Listing Rules) and will make further announcement as and when appropriate.

AUDIT COMMITTEE

The Company's Audit Committee is currently composed of three Independent Non-executive Directors, namely, Mr. Wong Chung Kin, Quentin (Chairman), Mr. Wong Kam Choi, Kerry, MH and Mr. Siu Miu Man, Simon. The primary duties of the Audit Committee are to (i) review the Group's financial statements and published reports; (ii) provide advice and comments thereon to the Board; and (iii) review and supervise the financial reporting process and internal control procedures and risk management systems of the Group. The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements and results for the six months ended 30 June 2018 and satisfied that these have been prepared in accordance with the applicable accounting standards and fairly present the Group's financial positions and results for the six months ended 30 June 2018.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.vcgroup.com.hk. The Company's interim report for the six months ended 30 June 2018 will be available at the same websites and will be dispatched to the Company's shareholders in due course.

BOARD OF DIRECTORS

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

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

Hong Kong
28 August 2018