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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 2023

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 the “Group”) for the six months ended 30 June 2023, together with the unaudited comparative figures of the corresponding period in 2022.

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Revenue	39,389	35,676
Loss for the period	(133,708)	(61,936)
Loss attributable to owners of the Company	(134,059)	(61,774)
Loss per share (HK cents)		
Basic	(5.43)	(2.97)
Diluted	(5.43)	(2.97)
Interim dividend per share (HK cents)	Nil	Nil

MANAGEMENT DISCUSSION AND ANALYSIS

Value Convergence Holdings Limited, together with its subsidiaries (the “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 and also extended into digital assets industry. The Group’s expertise includes (i) provision of financial services comprising securities and options brokering and dealing, financing services, corporate finance and other advisory services, asset management and insurance brokerage; (ii) proprietary trading; and (iii) sales and marketing of digital assets.

INDUSTRY OVERVIEW

For the six months ended 30 June 2023 (the “Reporting Period”), the global economy experienced severe headwinds, attributable mainly to the lingering effects of the Coronavirus Disease 2019 (“COVID-19” or the “pandemic”), the ongoing Russia-Ukraine conflict, and soaring inflation in both developed and developing countries. These issues resulted in reduced investor confidence, leading to significant volatility on financial markets. The International Monetary Fund (“IMF”) reported that turbulence in the banking sector and escalating concerns over a potential US debt default fuelled market uncertainty in April 2023. Additionally, the US Federal Reserve (the “Fed”) raised interest rates by 25 basis points in February, March, May and July 2023, tightening monetary policy and dampening consumption and investment.

Although the Chinese government dedicated significant efforts to boosting the post-pandemic economic recovery, second-quarter Chinese GDP growth of 6.3% was lower than expected. According to the National Bureau of Statistics, China’s economy slumped in May, with lower-than-expected industrial output and retail sales growth. Moreover, China’s initial public offering (“IPO”) market experienced a decline in the number of A-share IPOs, which dropped to 160 in first half of 2023 from 169 in the same period the previous year, and a 38% plunge in total fundraising year on year.

Global capital markets remained volatile during the first half of 2023, due mainly to concerns over a potential impending recession, the risk of a banking crisis, interest rate hikes and persistently high inflation. Global IPO activity declined significantly in the first half of 2023, with the number of deals down around 10% year on year and total fundraising declining by approximately 40%. Yet US equities enjoyed a strong first half of 2023, with technology and growth stocks performing well, alongside cryptocurrencies. The S&P 500 rose 15.9% and the Nasdaq surged 31.7%, the best first half for either bourse since 2019 and 1983, respectively.

Hong Kong's imports and exports remained under pressure, and the local economy grew at a slower pace of 1.5% in the second quarter of 2023, falling short of projections. The local stock market experienced substantial volatility, with the Hang Seng Index declining 4.4% during the Reporting Period, making Hong Kong's stock market the worst performer among major Asian bourses. The performance of Hong Kong's IPO market was sluggish during the first half of 2023 amid a challenging environment, with only 29 IPOs on the local stock market, raising a total of just HK\$17.8 billion. Hong Kong's international ranking for IPOs dropped to ninth place after fundraising hit a 20-year low in the first half of 2023.

BUSINESS REVIEW

During the Reporting Period, the Group remained focused on providing premium, comprehensive financial services to clients in its main business focus area, capitalising on its prominent core technologies and solid experience in the financial services industry. Despite the market volatility, the Group continued to make efforts in core business development and brand building. In its digital assets business, sales and marketing have made remarkable progress, indicating that the Group's long-term efforts in this field have begun to pay off.

During the Reporting Period, the Group recorded a modest increase in revenue, attributable primarily to the encouraging growth of sales and marketing in its digital assets business, as well as the commencement of its insurance brokerage and asset management businesses. Despite sound operations and the rollout of innovative developments, brokerage commissions declined substantially, in line with the deterioration of Hong Kong's capital markets. A one-off, share-based payment expense was incurred pursuant to share options granted in January 2023 to certain staff, and thus the Group recorded a loss amid escalating market uncertainty.

The traditional brokerage and financing businesses remained the Group's major sources of income, contributing approximately 80% of its total revenue. These segments accounted for 90% of the Group's revenue during the previous year, but their contribution has declined as a result of the Group's persistent efforts to diversify its business. The Group continued to offer local and overseas securities trading, derivatives and trading in other structured products, placements, underwriting and margin financing through VC Brokerage Limited ("VC Brokerage"), and financing services through VC Finance Limited ("VC Finance"). During the Reporting Period, the Group also acted as a placing agent and underwriter for Hong Kong-listed company's fundraising activities. In addition, the Group offered corporate finance and other advisory services, including mergers and acquisitions advisory through VC Capital Limited ("VC Capital") and company secretarial services through VC Corporate Services Limited ("VCCS").

During the Reporting Period, there was significant business development in asset management and insurance brokerage segments, with both beginning to generate appreciable revenues. In April 2023, the Group completed its acquisition of VC International Asset Management Limited (formerly known as “Anli Asset Management Limited”), allowing it to offer Type-9 (asset management) regulated services under and pursuant to the Securities and Futures Ordinance. Operating income was derived from management fees and performance fees earned from the provision of asset management services. Following the acquisition, the Group successfully expanded its customer base, enhanced its asset management business, and improved service quality. This has boosted the Group’s core competence in the asset management market, expecting the asset management business is one of its fastest-growing segments. The Group also provides insurance brokerage service through Experts Management Limited, which holds an insurance broker company licence and is authorised to engage in long-term insurance activities.

In its proprietary trading business, as of 30 June 2023, the Group held financial assets for trading, comprising equity securities listed in Hong Kong, worth approximately HK\$219.7 million, a 27% decrease in market value compared to 31 December 2022. During the Reporting Period, the Group held stocks mainly in the information technology and consumer goods and services.

In recent years, the Group has made significant efforts to enhance the diversity of its development strategies to create a new engine for revenue growth and mitigate operational risks amid market uncertainty. As part of these efforts, the Group’s sales and marketing of digital assets business began operations. During the Reporting Period, the business segment achieved solid advances and significant revenue growth. Following the formation of a professional sales and marketing team to broaden its sales channels, the Group’s gross merchandise value (“GMV”) – the gross sum of digital assets sold to its customers – increased from approximately RMB102 million in the first half of 2022 to around RMB147 million in the first half of 2023, representing a growth of 44%.

Establishment of a joint venture securities company in Guangxi

In July 2016, the Company announced that VC Brokerage, an indirectly wholly owned subsidiary of the Company, entered into a joint venture agreement (the “Joint Venture Agreement”) with three independent third parties to establish a joint venture securities company in Guangxi, the PRC (the “PRC JV Company”). Subject to the approval by China Securities Regulatory Commission (the “CSRC”), the PRC JV Company is expected to be a full-licensed securities company permitted to provide securities brokerage, trading and investment advisory, underwriting, sponsorship and asset management services in the PRC. Pursuant to the Joint Venture Agreement, VC Brokerage will contribute RMB445 million (equivalent to approximately HK\$491 million), representing 44.5% shareholding in the PRC JV company.

As at the date hereof, the Company and VC Brokerage have not yet obtained the approval and authorisation from the CSRC for establishment of the PRC JV Company. For details of the transaction please refer to the Company's announcements dated 24 July 2016, 20 September 2016, 26 October 2016, 18 November 2016, 17 January 2017, 29 March 2017, 28 June 2017, 20 September 2017, 12 October 2017, 12 January 2018, 27 March 2018, 27 June 2018, 20 July 2018, 28 August 2018, 6 September 2018, 28 November 2018 and 21 February 2019; and the Company's circulars dated 26 September 2016, 27 February 2017, 22 September 2017, 23 February 2018, 3 August 2018 and 31 January 2019.

Acquisition of VC International Asset Management Limited (“VCIAM”) (formerly known as Anli Asset Management Limited) and Anli Investment Fund SPC (“AIF”)

On 25 November 2022, VC Financial Group Limited (the “Purchaser”), being a direct wholly-owned subsidiary of the Company, and Anli Holdings Limited (the “Vendor”) entered into the sale and purchase agreement (the “Sale and Purchase Agreement”), pursuant to which the Vendor conditionally agreed to sell to the Purchaser, and the Purchaser conditionally agreed to purchase from the Vendor, the entire portfolio of 7,775,000 issued ordinary shares in VCIAM and the entire portfolio of 100 Management Shares in AIF as at the date of the Sale and Purchase Agreement at the consideration of HK\$15,000,000 by issuing consideration shares of the Company to the Vendor. In addition, subject to the fulfilment of the conditions of the earnout (the “Earnout”) to be determined by a formula set out in the Sale and Purchase Agreement, the Vendor shall be entitled to the Earnout of not more than HK\$25,000,000 by issuing further shares by the Company to the Vendor. The transaction was completed on 3 April 2023.

Further details of the transaction are disclosed in the Company's announcements dated 25 November 2022, 16 December 2022, 13 February 2023, 2 March 2023 and 3 April 2023 and the Company's circular dated 14 February 2023.

Placing of new shares under general mandate

On 14 March 2023, the Company successfully completed the placing of 300,000,000 new shares of the Company at issue price of HK\$0.12 per share through VC Brokerage Limited as the placing agent (the “Placing”). The 300,000,000 placing shares represent (i) approximately 14.43% of the aggregated number of the Company's issued shares immediately before the completion; and (ii) approximately 12.61% of the aggregated number of the Company's issued shares as enlarged by the allotment and issue of the 300,000,000 placing shares. The gross proceeds of the Placing amounted to HK\$36.0 million. Further details of the Placing are set out in the Company's announcements dated 21 February 2023 and 14 March 2023.

The net proceeds from the Placing were used as follows:

Period under review	Purpose of usage	Intended use of net proceeds <i>HK\$'000</i>	Actual use of net proceeds up to 30 June 2023 <i>HK\$'000</i>	Remaining balance of unutilized net proceeds <i>HK\$'000</i>	Expected timeline for utilising the unutilised net proceeds
Since completion of Placing on 14 March 2023	General working capital	20,200	14,100	6,100	On or before 31 December 2023
	Potential investment opportunities	15,000	15,000	–	N/A
		35,200	29,100	6,100	

OUTLOOK

Looking ahead, the global economy is expected to experience slower growth. According to the IMF's World Economic Outlook, global economic growth is projected to decline to 3% in both 2023 and 2024. Although overall global inflation is expected to fall from 8.7% in 2022 to 6.8% in 2023 and 5.2% in 2024, core inflation is forecast to drop more gradually. Tighter credit conditions, reduced household savings in the US, and a slower-than-expected economic recovery in post-pandemic China remain major concerns that could prolong the global economic recovery.

Bank of China predicts a mild recovery in consumption during the second half of the year due to favourable policies, accelerating growth in infrastructure investment, and a gradual bottoming out and recovery of China's real estate market. GDP is expected to grow by about 4.9% in the third quarter and about 5.4% for the full year. PricewaterhouseCoopers predicts that the number of IPOs in the A-share market will reach 280-330 by 2023, with total fundraising reaching RMB450-500 billion, the highest figure among major stock markets.

As for Hong Kong, improved economic conditions are expected to boost local demand. A continued improvement in the labour market, the issuance of consumer vouchers, and the "Happy Hong Kong" campaign will provide additional support for private consumption. Hong Kong's government will enhance the city's capital market interconnection mechanism to provide more opportunities for enterprises and investors, promoting a stable recovery of economic activity. PricewaterhouseCoopers predicts that about 100 companies will be listed in Hong Kong in 2023, with total IPO fundraising of HK\$150-170 billion.

In its financial services business, the Group intends to remain an all-rounded service provider while allocating additional resources to enhance the development of its asset management and insurance brokerage businesses. These businesses are expected to yield solid profits for the Group in the near future. With the reopening of the Hong Kong and mainland China border, the Group's senior management team will visit potential investors and business partners in mainland China more frequently to explore business collaboration opportunities, with the aim of expediting the growth of its asset management business. The Group also intends to expand its client base and improve the quality of its asset management services by leveraging the brands, reputations and management expertise of VCIAM and AIF, boosting its core industry strengths.

FINANCIAL REVIEW

For the six months ended 30 June 2023, the Group's consolidated revenue was approximately HK\$39.4 million, which increased by about 10% as compared with approximately HK\$35.7 million during the same period in 2022. The Group recorded a consolidated loss for the period amounted to approximately HK\$133.7 million for the six months ended 30 June 2023 against a loss of approximately HK\$61.9 million for the same period in 2022.

The increase in loss was mainly due to (i) increase in net realised and unrealised loss on financial assets held for-trading of approximately HK\$22.0 million for the period ended 30 June 2023 compared to same period last year; (ii) increase in impairment loss on accounts receivable and other receivables of approximately HK\$26.1 million for the period ended 30 June 2023 compared to same period last year; (iii) recognition of equity-settled share option expense of approximately HK\$11.1 million for the period ended 30 June 2023; and (iv) absence of gain on acquisition of financial assets at fair value through profit or loss of approximately HK\$9.0 million for the period ended 30 June 2022.

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 2023		Six months ended 30 June 2022		Increase (decrease) %
	<i>HK\$'000</i>	Proportion of total revenue %	<i>HK\$'000</i>	Proportion of total revenue %	
Revenue from:					
Brokerage and Financing	31,532	80%	32,336	90%	(2%)
Brokerage commission and other related fees	2,558	6%	3,626	10%	(29%)
Underwriting, sub-underwriting, placing and sub-placing commission	900	2%	2,584	7%	(65%)
Interest income from brokerage clients	9,375	24%	6,406	18%	46%
Interest income from money lending clients	18,699	48%	19,720	55%	(5%)
Corporate Finance and Other Advisory Services	2,298	6%	2,731	8%	(16%)
Asset Management	691	2%	-	-	100%
Insurance Brokerage	2,130	5%	-	-	100%
Proprietary Trading	-	-	-	-	-
Sales and Marketing of Digital Assets	2,738	7%	609	2%	350%
Total revenue	<u>39,389</u>	<u>100%</u>	<u>35,676</u>	<u>100%</u>	10%

Segment Analysis

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Segment results:		
Brokerage and Financing	(25,574)	9,353
Corporate Finance and Other Advisory Services	(4,905)	(1,838)
Asset Management	(1,058)	(886)
Insurance Brokerage	(156)	(317)
Proprietary Trading	(87,022)	(63,372)
Sales and Marketing of Digital Assets	89	(4,905)
	<hr/>	<hr/>
Group segment loss	(118,626)	(61,965)
Gain on acquisition of financial assets at fair value through profit or loss	–	9,040
Fair value change on financial assets at fair value through profit or loss	(6,400)	1,300
Unallocated administrative costs	(8,718)	(10,264)
Share of profit of an associate	50	29
	<hr/>	<hr/>
Loss before tax	(133,694)	(61,860)
Income tax expense	(14)	(76)
	<hr/>	<hr/>
Loss for the period	(133,708)	(61,936)
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Brokerage and Financing

During the six months ended 30 June 2023, the Company, through its indirect wholly owned subsidiary, namely, VC Brokerage, provides securities and options brokering and dealing, margin financing, and placing and underwriting services. It also through an indirect wholly owned subsidiary, VC Finance, provides money lending services. For the six months ended 30 June 2023, the brokerage and financing businesses recorded total revenue of approximately HK\$31.5 million as compared with approximately HK\$32.3 million for the same period last year, representing a decrease of about 2%, and accounted for approximately 80% of the Group's total revenue.

Brokerage service

The Group's brokerage commission and other related fees from dealing in securities and options contracts for the six months ended 30 June 2023 was approximately HK\$2.6 million (six months ended 30 June 2022: HK\$3.6 million), representing a decrease of about 29%, and accounted for about 6% of the Group's total revenue. The Group recorded a decrease in brokerage transactions for the first half of 2023 as the average daily trading turnover decreased by about 44% as compared to the same period last year.

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 2023, the Group recorded approximately HK\$0.9 million placing and underwriting commission (six months ended 30 June 2022: HK\$2.6 million), which accounted for approximately 2% of the Group's total revenue.

Financing service

The Group's total interest income from financing for the six months ended 30 June 2023 increased by about 8% to approximately HK\$28.1 million from approximately HK\$26.1 million for the same period last year, and accounted for about 71% of the Group's total revenue. The revenue included interest income derived from both the brokerage business and the money lending business.

Financing service: Brokerage clients

The Group's interest income from our brokerage clients recorded approximately HK\$9.4 million for the six months ended 30 June 2023, representing an increase of about 46% as compared to approximately HK\$6.4 million for the same period last year. The increase was mainly attributable to the increase of average loan portfolio of our brokerage clients by about 29% for the six months ended 30 June 2023 as compared with the same period last year. For the six months ended 30 June 2023, there was additional impairment loss of approximately HK\$9.8 million on brokerage client receivables (six months ended 30 June 2022: reversal of HK\$2.4 million). The average interest rate for brokerage clients is approximately 12%.

Financing service: Money lending clients

The Group's interest income generated from the money lending services was approximately HK\$18.7 million for the six months ended 30 June 2023, representing a decrease of about 5% as compared to approximately HK\$19.7 million for the same period last year.

As at 30 June 2023, the Group had 25 active loan accounts and the average loan amount of these loan accounts was approximately HK\$12.7 million. The percentage of amount of loans and interest receivables from the largest and the 5 largest customers to total loans and interest receivables are 10% and 39% respectively. Certain loans are secured by collaterals including equity shares of certain listed and unlisted companies and legal charges on properties. Interest rates charged to customers range from 8% to 18% per annum as at 30 June 2023.

Impairment recognition as at period end

The Group applies the general approach, which is often referred to as “three-stage model”, under HKFRS 9, in which Expected Credit Loss (“ECL”) of loan receivables are determined based on (a) the changes in credit quality of the loan receivables since initial recognition, and (b) the estimated expectation of an economic loss of the loan receivables under consideration.

Details of impairment recognition is as below:

	As at 30 June 2023 HK\$'million	As at 31 December 2022 HK\$'million
Stage 1	–	0.5
Stage 2	37.2	21.7
Stage 3	58.1	56.1
Total	95.3	78.3

To ensure the adequacy of allowance for ECL on loan receivables, the Group engaged an independent professional valuer to conduct a valuation on the allowance for ECL on loan receivables recognised for each reporting period.

For the six months ended 30 June 2023, there was an additional impairment loss of approximately HK\$17.0 million on money lending client receivables (six months ended 30 June 2022: HK\$8.7 million).

Overall, the operating performance of the brokerage and financing businesses for the six months ended 30 June 2023 recorded an operating loss after tax of approximately HK\$25.6 million (six months ended 30 June 2022: profit after tax of HK\$9.4 million).

Corporate Finance and Other Advisory Services

The Company through VC Capital provides corporate finance advisory services to its clients. In addition, the Company through VCCS provides corporate services, including company secretarial services, registered office and business services, etc., to listed and private companies.

For the six months ended 30 June 2023, the Company’s corporate finance and other advisory services recorded revenue and loss after tax of approximately HK\$2.3 million (six months ended 30 June 2022: HK\$2.7 million) and approximately HK\$4.9 million (six months ended 30 June 2022: HK\$1.8 million), respectively. Its revenue accounted for approximately 6% of the Group’s one.

Asset Management

Following the completion of acquisition of VCIAM and AIF disclosed above, it immediately brings contribution to the Group's asset management segment. For the six months ended 30 June 2023, the Group's asset management segment recorded revenue and loss after tax of approximately HK\$0.7 million (six months ended 30 June 2022: Nil) and approximately HK\$1.1 million (six months ended 30 June 2022: HK\$0.9 million), respectively. Following the reopen of borders which allows the Group's senior members visit potential clients in China, the Group is optimistic on asset management providing solid results.

Insurance Brokerage

The Group, through Experts Management Limited ("Experts Management"), an indirect wholly owned subsidiary, was engaged in the provision for insurance brokerage service. Experts Management owns insurance broker company licence and is entitled to conduct long term insurance business. During the six months ended 30 June 2023, Experts Management recorded revenue of approximately HK\$2.1 million (six months ended 30 June 2022: Nil) with an operating loss of approximately HK\$0.2 million (six months ended 30 June 2022: HK\$0.3 million).

Proprietary Trading

As at 30 June 2023, the Group held equity securities listed in Hong Kong of approximately HK\$219.7 million (31 December 2022: HK\$300.6 million) as financial assets held-for-trading, which was stated at market value. The fair value of these listed equity securities represents about 30% of the Group's total assets as at 30 June 2023 (31 December 2022: 37%). A few securities with relatively heavy weights within the portfolio were not performing well during the six months ended 30 June 2023, resulting in an overall loss during the period.

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 2023, there was net sale of securities investment of approximately HK\$5.6 million (six months ended 30 June 2022: net purchase of HK\$38.1 million).

For the six months ended 30 June 2023, the Group did not record any revenue (six months ended 30 June 2022: Nil) from the proprietary trading business. Meanwhile, the Group recognised net loss of approximately HK\$83.7 million (six months ended 30 June 2022: HK\$61.7 million), including realised loss of approximately HK\$8.4 million (six months ended 30 June 2022: HK\$5.2 million) and unrealised loss of approximately HK\$75.3 million (six months ended 30 June 2022: HK\$56.5 million).

Below is an analysis of the financial assets held-for-trading held by the Group as at 30 June 2023:

Industries	Market value as at 30 June 2023 HK\$'million	Percentage to the Group's total assets %	Unrealised gain/(loss) for the six months ended 30 June 2023 HK\$'million
Information Technology	78.3	10.7%	(62.4)
Energy	29.4	4.0%	(0.7)
Industrials	28.5	3.9%	2.6
Consumer goods and services	31.5	4.3%	(13.7)
Financials	29.0	3.9%	(7.2)
Materials	4.1	0.6%	(2.9)
Construction	18.9	2.6%	9.0
	<u>219.7</u>	<u>30.0%</u>	<u>(75.3)</u>

While the performance of different industries did vary, the Group cautiously monitors the investment portfolio and shall be determined to make any strategic moves. Overall, for the six months ended 30 June 2023, the Group's proprietary trading business recorded an operating loss of approximately HK\$87.0 million (six months ended 30 June 2022: HK\$63.4 million).

Sales and Marketing of Digital Assets

During the six months ended 30 June 2023, the Group recorded GMV and revenue of approximately HK\$162 million and HK\$2.7 million (six months ended 30 June 2022: HK\$120 million and HK\$0.6 million) respectively. Revenue were mainly from sales and marketing of Q Coins with enhanced geographical coverage compared to same period last year. This segment recorded profit after tax of approximately HK\$89,000 (six months ended 30 June 2022: loss after tax of HK\$4.9 million).

Income tax expense

During the six months ended 30 June 2023, the Group recognised an income tax expense of approximately HK\$14,000 (six months ended 30 June 2022: HK\$76,000) which included net current tax expense of approximately HK\$71,000 (six months ended 30 June 2022: HK\$127,000) and deferred tax credit of approximately HK\$57,000 (six months ended 30 June 2022: HK\$51,000). The current tax expense was made for the provision of PRC Enterprise Income Tax in relation to the profitability generated from the sales and marketing of digital assets business. The deferred tax credit was recognised mainly in relation to convertible bonds issued by the Company.

Finance costs

For the six months ended 30 June 2023, the finance costs of the Group amounted to approximately HK\$1.9 million (six months ended 30 June 2022: HK\$1.6 million). The increase in finance costs mainly due to increase in interest on margin loans obtained; but partially offset by decrease in lease liabilities.

Headcount and employees information

As at 30 June 2023, the Group employed a total of 76 employees (31 December 2022: 72), which excluded 9 self-employed account executives for brokerage services (31 December 2022: 9), and 64 and 12 were located in Hong Kong and the PRC respectively (31 December 2022: 60 in Hong Kong and 12 in the PRC). For the six months ended 30 June 2023, salaries and staff benefit costs (including the Directors' emoluments) and staff commission amounted to approximately HK\$32.5 million and HK\$1.4 million (six months ended 30 June 2022: HK\$21.0 million and HK\$1.1 million) respectively. 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\$11.8 million during the first half of 2023 was mainly attributable to (i) share based payment of approximately HK\$11.1 million pursuant to share options granted in January 2023; and (ii) general salary increment at the beginning of year 2023.

Liquidity and financial resources/capital structure

For the six months ended 30 June 2023, the Group financed its business operations and investments mainly with (i) internal resources; (ii) cash revenues generated from operating activities; (iii) convertible bonds; and (iv) margin loans.

The Group adopts a prudent treasury policy. As at 30 June 2023, bank balances and cash were denominated in Hong Kong dollars, Renminbi and United States dollars as to approximately HK\$20.5 million, HK\$4.5 million and HK\$0.3 million respectively. The Group intends to maintain minimum exposure to foreign exchange risks and those Renminbi is mainly for the PRC's operation needs. All the bank balances and cash were put in saving deposits and current accounts as at 30 June 2023.

As at 30 June 2023, the Group maintained margin loan facilities from certain brokerage firms in the amount of HK\$17.0 million (31 December 2022: HK\$17.0 million) and margin loans obtained amounted to approximately HK\$18.7 million (31 December 2022: HK\$18.5 million). Interest rates on the margin loan facilities range from 10% to 14% per annum.

As at 30 June 2023, the Group's bank balances and cash, net current assets and shareholders' equity (other than clients' segregated accounts) amounted to approximately HK\$25.3 million (31 December 2022: HK\$32.3 million), approximately HK\$615.4 million (31 December 2022: HK\$693.0 million) and approximately HK\$674.9 million (31 December 2022: HK\$747.7 million) respectively, representing a decrease of about 22%, 11% and 10% respectively as compared with that of 31 December 2022. Current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of about 12 times as at 30 June 2023 (31 December 2022: 13 times).

As at 30 June 2023, the total number of issued ordinary shares of the Company was 2,471,023,040 (31 December 2022: 2,078,601,598).

Charges on group assets

As at 30 June 2023, trading securities with fair value of approximately HK\$73.8 million (31 December 2022: HK\$73.0 million) were pledged with certain brokerage firms to obtain margin financing.

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 minimise exchange related risks. For the six months ended 30 June 2023, majority of the Group's principal businesses were conducted and recorded in Hong Kong dollars with the sales and marketing of digital assets business in the PRC. Impact from foreign exchange exposure mainly Renminbi was immaterial 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 minimise the exchange related risks.

Contingent liabilities

As at 30 June 2023 and 31 December 2022, the Group did not have any significant contingent liabilities. 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 2023, the Group's gearing ratio, expressed as total borrowings (being the margin loans, lease liabilities and liability portion of convertible bonds) over shareholders' equity, was approximately 5.4% (31 December 2022: 5.0%).

Significant investments held, their performance and future prospects

As at 30 June 2023, the Group held the following significant investment:

Financial assets held-for-trading

Included in the financial assets held-for-trading as at 30 June 2023 was the Group's investment in 53,982,000 shares or approximately 7.74% of IBO Technology Company Limited (Stock Code: 2708) ("IBO Technology") with fair value of approximately HK\$46.4 million, which amounts to approximately 6% of the Group's total assets. IBO Technology and its subsidiaries are principally engaged in sale of Radio Frequency Identification ("RFID") equipment and electronic products (collectively the "intelligent terminal products"), provision of system maintenance services, development of customised software and provision of coordination, management and installation services of smart cities. The investment cost was approximately HK\$93.9 million. During the six months ended 30 June 2023, its share price has decreased by approximately 45.2% and the Group recorded unrealised loss of approximately HK\$47.3 million, and no dividend was received from it. Pursuant to IBO Technology's announcement dated 27 July 2023, a winding-up petition was filed by Ms. Wei Qianqian (the "Petitioner") with the Court of First Instance of the High Court of the Hong Kong Special Administrative Region for the winding up of IBO Technology, in relation to the Petitioner's claim for outstanding debts in relation to bonds (the "Bonds") in the principal amount of HK\$1,500,000 and as at 24 July 2023, IBO Technology is allegedly indebted to the Petitioner in the aggregate sum of HK\$1,697,547, with HK\$1,500,000 being the outstanding principal under the Bonds and HK\$197,547 being the unpaid accrued interest thereunder. The Group will monitor the situation closely and take appropriate action accordingly.

Material acquisitions and disposal of subsidiaries, associates and joint ventures

For the six months ended 30 June 2023, save as completion of acquisition of VCIAM and AIF disclosed above, the Group did not complete any material acquisition or disposals.

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

As at 30 June 2023, 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, nor any significant commitments contracted but not provided for in respect of purchase of property and equipment.

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	<i>Notes</i>	Six months ended 30 June	
		2023	2022
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	4	39,389	35,676
Other income	4	1,382	1,219
Other losses	5	(90,127)	(51,420)
Impairment loss on accounts receivable, net		(28,666)	(6,278)
Impairment reversal on other receivables, net		–	3,683
Staff costs	6	(33,927)	(22,078)
Commission expenses		(2,883)	(1,976)
Depreciation of property and equipment		(469)	(533)
Depreciation of right-of-use assets		(3,658)	(3,527)
Finance costs	7	(1,884)	(1,560)
Other operating expenses		(12,901)	(15,095)
Share of profit of an associate		50	29
		<hr/>	<hr/>
Loss before tax		(133,694)	(61,860)
Income tax expense	8	(14)	(76)
		<hr/>	<hr/>
Loss for the period		(133,708)	(61,936)
		<hr/>	<hr/>
Other comprehensive expense for the period			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		(48)	(288)
		<hr/>	<hr/>
Total comprehensive expense for the period		(133,756)	(62,224)
		<hr/> <hr/>	<hr/> <hr/>

		Six months ended 30 June	
		2023	2022
	<i>Note</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
(Loss) profit for the period attributable to:			
Owners of the Company		<u>(134,059)</u>	<u>(61,774)</u>
Non-controlling interests		<u>351</u>	<u>(162)</u>
		<u>(133,708)</u>	<u>(61,936)</u>
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		<u>(134,090)</u>	<u>(62,074)</u>
Non-controlling interests		<u>334</u>	<u>(150)</u>
		<u>(133,756)</u>	<u>(62,224)</u>
Loss per share (HK cents)	10		
Basic		<u>(5.43)</u>	<u>(2.97)</u>
Diluted		<u>(5.43)</u>	<u>(2.97)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

		30 June 2023	31 December 2022
	<i>Notes</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
Non-current assets			
Goodwill		8,324	2,016
Trading rights		–	–
Other intangible assets		4,502	1,246
Interest in an associate		827	777
Property and equipment		1,856	2,275
Statutory deposits		1,518	1,518
Rental and utility deposits		2,060	1,608
Right-of-use assets		10,662	8,775
Financial assets at fair value through profit or loss	12	11,700	18,100
Financial assets at fair value through other comprehensive income		<u>22,592</u>	<u>22,592</u>
		<u>64,041</u>	<u>58,907</u>
Current assets			
Inventories		4,606	713
Accounts receivable	11	398,350	394,081
Prepayments, deposits and other receivables		22,985	22,296
Financial assets at fair value through profit or loss	12	219,707	300,595
Deferred tax assets		143	–
Bank balances and cash		<u>25,250</u>	<u>32,309</u>
		<u>671,041</u>	<u>749,994</u>
Current liabilities			
Accounts payable	13	5,257	5,235
Accrued liabilities and other payables		13,882	18,162
Margin loan payable		18,730	18,470
Convertible bonds		6,256	5,912
Lease liabilities		7,197	5,308
Contingent consideration payable		335	–
Tax payable		<u>3,952</u>	<u>3,952</u>
		<u>55,609</u>	<u>57,039</u>
Net current assets		<u>615,432</u>	<u>692,955</u>
Total assets less current liabilities		<u>679,473</u>	<u>751,862</u>

		30 June 2023	31 December 2022
	<i>Note</i>	HK\$'000 (Unaudited)	<i>HK\$'000</i> <i>(Audited)</i>
Non-current liabilities			
Deferred tax liabilities		577	97
Lease liabilities		<u>4,008</u>	<u>4,115</u>
		<u>4,585</u>	<u>4,212</u>
Net assets		<u>674,888</u>	<u>747,650</u>
Capital and reserves			
Share capital	14	1,810,204	1,760,344
Reserves		<u>(1,135,662)</u>	<u>(1,012,706)</u>
Equity attributable to owners of the Company		674,542	747,638
Non-controlling interests		<u>346</u>	<u>12</u>
Total equity		<u>674,888</u>	<u>747,650</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of the registered office and principal place of business of the Company is 6/F, Centre Point, 181-185 Gloucester Road, Wanchai, Hong Kong.

The Company and its subsidiaries (the “Group”) are principally engaged in (i) the provision of financial services; (ii) proprietary trading; and (iii) sales and marketing of digital assets.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the six months ended 30 June 2023 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 2022 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 2022 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 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 2023 are the same as those followed in the preparation of the Group's audited annual consolidated financial statements for the year ended 31 December 2022.

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA that are mandatorily effective for the annual period beginning on or after 1 January 2023 for the preparation of the Group's unaudited condensed consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform – Pillar Two Model Rules

The application of the amendments to HKFRSs in the current period has had no material effect on the Company's financial performance and positions for the current and prior period and/or on the disclosures set out in the unaudited condensed consolidated financial statements. The Group has not applied any amendments to HKFRSs that is not yet effective for the current accounting period.

4. REVENUE AND SEGMENT INFORMATION

Revenue principally arises from the (i) financial services business which consists of the provision of securities and options brokering and dealing, provision of margin financing and money lending services, provision of placing and underwriting services, provision of mergers and acquisitions services, and other corporate finance related advisory services; (ii) provision of asset management services; (iii) provision of insurance brokerage service; and (iv) sales and marketing of digital assets.

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue		
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major services lines		
– Brokerage commission and other related fees from dealing in securities and futures and options contracts	2,558	3,626
– Underwriting, sub-underwriting, placing and sub-placing commission	900	2,584
– Arrangement, referral, advisory and other fee income	2,298	2,731
– Asset management	691	–
– Insurance brokerage	2,130	–
– Sales and marketing of digital assets	2,738	609
	<u>11,315</u>	9,550
Revenue from other sources		
– Interest income from clients	28,074	26,126
	<u>39,389</u>	35,676
Other income		
Interest income from authorised institutions	401	7
Interest income from convertible bonds	99	96
Other interest income	612	297
Government grants (<i>note</i>)	245	801
Sundry income	25	18
	<u>1,382</u>	1,219
Total income	<u><u>40,771</u></u>	<u><u>36,895</u></u>

Note: During the six months ended 30 June 2023, the Group recognised government grants in respect of COVID-19-related subsidies, of approximately HK\$245,000 related to Hong Kong Institute of Human Resources Management Job Creation Scheme provided by the Government of the Hong Kong Special Administrative Region under the Anti-Epidemic Fund. There are no unfulfilled conditions and other contingencies attached to the receipts of those subsidies.

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 manages its businesses by divisions, where are organised by different business lines.

Information reported to the Group's Executive Committee, being the chief operating decision maker, for the purposes of resources allocation and performance assessment is prepared on this basis. The Group has identified the following six (six months ended 30 June 2022: six) reportable segments under HKFRS 8 Operating Segments as follows:

- (i) the brokerage and financing segment engages in securities, options brokering and dealing, provision of margin financing and money lending, and placing and underwriting services;
- (ii) the corporate finance and other advisory services segment engages in the provision of corporate financial advisory services and company secretarial services;
- (iii) the asset management segment engages in the provision of asset management services;
- (iv) the insurance brokerage segment engages in the provision of insurance brokerage service;
- (v) the proprietary trading segment engages in the trading of equity securities, debt securities and other financial products; and
- (vi) the sales and marketing of digital assets segment engages mainly in earning commissions from facilitating the sale and marketing of digital assets in electronic platform.

The following tables represent revenue and results information of these operating segments for the six months ended 30 June 2023 and 2022.

Six months ended 30 June 2023 (Unaudited)

	Brokerage and financing HK\$'000	Corporate finance and other advisory services HK\$'000	Asset management HK\$'000	Insurance brokerage HK\$'000	Proprietary trading HK\$'000	Digital assets HK\$'000	Segment total HK\$'000	Eliminations HK\$'000	Total HK\$'000
Segment revenue	31,532	2,298	691	2,130	-	2,738	39,389	-	39,389
Inter-segment sales	720	506	-	-	-	-	1,226	(1,226)	-
	<u>32,252</u>	<u>2,804</u>	<u>691</u>	<u>2,130</u>	<u>-</u>	<u>2,738</u>	<u>40,615</u>	<u>(1,226)</u>	<u>39,389</u>
Segment profit (loss)	<u>(25,574)</u>	<u>(4,905)</u>	<u>(1,058)</u>	<u>(156)</u>	<u>(87,022)</u>	<u>89</u>	<u>(118,626)</u>	<u>-</u>	<u>(118,626)</u>
Unallocated administrative costs									(8,718)
Fair value change on financial assets at fair value through profit or loss ("FVTPL")									(6,400)
Share of tax of an associate									50
Loss before tax for the period									<u>(133,694)</u>

Six months ended 30 June 2022 (Unaudited)

	Brokerage and financing HK\$'000	Corporate finance and other advisory services HK\$'000	Asset management HK\$'000	Insurance brokerage HK\$'000	Proprietary trading HK\$'000	Digital assets HK\$'000	Segment total HK\$'000	Eliminations HK\$'000	Total HK\$'000
Segment revenue	32,336	2,731	-	-	-	609	35,676	-	35,676
Inter-segment sales	-	306	-	-	-	-	306	(306)	-
	<u>32,336</u>	<u>3,037</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>609</u>	<u>35,982</u>	<u>(306)</u>	<u>35,676</u>
Segment profit (loss)	<u>9,353</u>	<u>(1,838)</u>	<u>(886)</u>	<u>(317)</u>	<u>(63,372)</u>	<u>(4,905)</u>	<u>(61,965)</u>	<u>-</u>	<u>(61,965)</u>
Unallocated administrative costs									(10,264)
Gain on acquisition of financial assets at FVTPL									9,040
Fair value change on financial assets at FVTPL									1,300
Share of profit of an associate									29
Loss before tax for the period									<u>(61,860)</u>

Segment profit or loss represents the profit earned by/loss from each segment, before the adjustments of unallocated administrative costs, gain on acquisition of financial assets at FVTPL, fair value change on financial assets at FVTPL and share of profit of an associate. 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 2023, one customer (six months ended 30 June 2022: Nil) contributed 10% or more of the Group's revenue. The Group's operations are mainly located in Hong Kong (place of domicile). The Group's revenue from external customers is mainly derived from Hong Kong for the six months ended 30 June 2023 and 2022. Almost all of its non-current assets other than financial instruments are attributed to the operations in Hong Kong.

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

5. OTHER LOSSES

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net exchange loss	(26)	(42)
Gain on acquisition of financial assets at FVTPL	–	9,040
Fair value change of financial assets at FVTPL	(6,400)	1,300
Net realised and unrealised loss on financial assets held-for-trading	<u>(83,701)</u>	<u>(61,718)</u>
	<u>(90,127)</u>	<u>(51,420)</u>

6. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Staff commission	1,379	1,102
Salaries and wages	19,440	18,730
Staff welfare	1,282	1,368
Recruitment costs	6	4
Provision of long service payment/annual leave benefits	15	330
Retirement benefits scheme contributions	424	431
Discretionary and performance related incentive payments and provision of gratuity	247	113
Equity-settled share option expense	<u>11,134</u>	<u>–</u>
	<u>33,927</u>	<u>22,078</u>

7. FINANCE COSTS

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on:		
Bank overdrafts	8	–
Convertible bonds issued	344	309
Lease liabilities	248	359
Margin loan payable	1,284	892
	<u>1,884</u>	<u>1,560</u>

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax		
Hong Kong Profits Tax	–	127
PRC Enterprise Income Tax	71	–
Deferred tax		
Current year	(57)	(51)
	<u>14</u>	<u>76</u>

Hong Kong Profits Tax is calculated in accordance with the two-tiered profits tax rates regime (8.25% and 16.5%) of the estimated assessable profits for both periods. No provision for Hong Kong Profits Tax has been made as the subsidiaries in Hong Kong have no assessable profits for the six months ended 30 June 2023.

The tax rate of the PRC subsidiaries is 25%. No provision for Enterprise Income Tax has been made as the subsidiaries in the PRC have no assessable profits for the six months ended 30 June 2022.

9. DIVIDENDS

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

10. LOSS PER SHARE

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

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss		
Loss for the purpose of basic and diluted loss per share	<u>(134,059)</u>	<u>(61,774)</u>
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>2,471,023</u>	<u>2,078,602</u>
Effect of dilutive potential ordinary shares:		
– Share options	<u>–</u>	<u>–</u>
Weighted average number of ordinary shares for the purpose of diluted loss per share	<u>2,471,023</u>	<u>2,078,602</u>

The denominators used are the same as those detailed above for both basic and diluted loss per share.

The computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible bonds since the exercise of the convertible bonds would result in a decrease in loss/increase in earnings per share for the six months ended 30 June 2023 and 2022. The computation of diluted loss per share does not assume the exercise of the Company's share options granted under the share option scheme since their exercise would result in decrease in loss per share for the six months ended 30 June 2023 and 30 June 2022.

11. ACCOUNTS RECEIVABLE

	As at 30 June 2023 <i>HK\$'000</i> (Unaudited)	As at 31 December 2022 <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	123	1
Cash clients	–	5,932
	<u>123</u>	<u>5,933</u>
Accounts receivable arising from the ordinary course of business of provision of corporate finance and other advisory services (<i>note a</i>)	5,580	6,715
Less: Impairment loss	<u>(4,771)</u>	<u>(2,945)</u>
	<u>809</u>	<u>3,770</u>
Accounts receivable arising from the ordinary course of business of money lending services (<i>note b</i>)	317,096	301,381
Less: Impairment loss	<u>(95,352)</u>	<u>(78,362)</u>
	<u>221,744</u>	<u>223,019</u>
Accounts receivable arising from the ordinary course of business of dealing in (<i>note c</i>):		
Securities transactions:		
Margin clients	154,050	169,158
Cash clients	34,096	–
Less: Impairment loss	<u>(17,623)</u>	<u>(7,873)</u>
	<u>170,523</u>	<u>161,285</u>
Accounts receivable arising from the ordinary course of asset management (<i>note d</i>)	4,782	–
Less: impairment loss	<u>(24)</u>	<u>–</u>
	<u>4,758</u>	<u>–</u>
Accounts receivables arising from the ordinary business of insurance brokerage (<i>note e</i>)	393	–
Accounts receivables arising from the ordinary business of selling digital assets (<i>note f</i>)	–	74
	<u>–</u>	<u>74</u>
	<u>398,350</u>	<u>394,081</u>

As at 30 June 2023, the gross amount of accounts receivable arising from contracts with customers amounted to approximately HK\$6,096,000 (31 December 2022: HK\$12,722,000).

The Group measures the loss allowance for accounts receivable at an amount equal to 12-month expected credit losses (“ECL”) or lifetime ECL. The ECL on accounts receivable are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor’s current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

Notes:

- (a) The settlement terms of accounts receivable arising from the ordinary course of business of dealing in securities transactions are two trading days after the trade date and accounts receivable arising from the ordinary course of business of dealing in 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 and options contracts, except for those amounts due from cash clients and margin clients, the aging analysis based on the trade date is as follows:

	As at 30 June 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
Within 30 days	123	1,403
31-90 days	–	3,028
Over 90 days	–	1,502
	123	5,933

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 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
Within 30 days	461	1,483
31-90 days	572	534
Over 90 days	4,547	4,698
	5,580	6,715

- (b) As at 30 June 2023, accounts receivable arising from money lending services bear fixed-rate interest from 8% to 18% per annum (31 December 2022: 8% to 18% 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 2023, accounts receivable with net carrying amount of approximately HK\$154 million (31 December 2022: HK\$178 million) were secured by the clients' listed and unlisted securities and clients' properties.
- (c) The accounts receivable due from margin clients of approximately HK\$154,050,000 (31 December 2022: HK\$169,158,000) were secured by the clients' listed securities which carried a fair value of approximately HK\$227,609,000 (31 December 2022: HK\$343,919,000).

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 replighted 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.

Accounts receivable for margin clients of approximately HK\$33,620,000 (31 December 2022: HK\$31,912,000), which are not fully secured by the respective clients' listed securities, are considered impaired. An impairment of approximately HK\$6,436,000 (31 December 2022: HK\$7,274,000) was made by the management after taking into account subsequent additional cash and securities collateral. Such accounts receivable due from margin clients were assessed to be credit impaired and classified as stage 3 during the period as it became default to repay the outstanding balance for a period of time.

The accounts receivable due from cash clients of approximately HK\$34,096,000 (31 December 2022: Nil) were secured by the clients' listed securities which carried a fair value of approximately HK\$84,090,000 (31: December 2022: Nil.)

Accounts receivable for cash clients of Nil (31 December 2022: Nil), which are not fully secured by the respective clients' listed securities, are considered impaired. An impairment of approximately Nil (31 December 2022: Nil) was made by the management after taking into account subsequent additional cash and securities collateral. Such accounts receivable due from margin clients were assessed to be credit impaired and classified as stage 3 during the period as it became default to repay the outstanding balance for a period of time.

No aging analysis is disclosed as in the opinion of directors of the Company, ageing analysis is not meaningful in view of the revolving nature of the business of rolling cash balance and margin loan financing.

- (d) The settlement terms of accounts receivable arising from provision of asset management services are normally due immediately from date of billing. The aging analysis of these receivables based on the invoice date is as follows:

	As at 30 June 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
Within 30 days	35	–
31-90 days	584	–
Over 90 days	4,163	–
	4,782	–

- (e) The settlement terms of accounts receivable arising from insurance brokerage service 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 effective date is as follows:

	As at 30 June 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
Within 30 days	393	–

- (f) The settlement terms of accounts receivable arising from selling digital assets are normally due immediately from date of billing but the Group may grant a credit period of 120 days on average to its clients. The aging analysis of these receivables based on the invoice date is as follows:

	As at 30 June 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
Within 30 days	–	74

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
Financial assets mandatorily measured at FVTPL		
Convertible bonds (<i>note</i>)	11,700	18,100
Listed equity securities listed in Hong Kong	219,707	300,595
	231,407	318,695
Analysed for reporting purpose:		
– Non-current assets	11,700	18,100
– Current assets	219,707	300,595
	231,407	318,695

Note:

On 6 January 2022, the Company had subscribed a 3-year 2% unsecured non-redeemable convertible bonds issued by Virtual Mind Holding Company Limited (stock code: 1520) issued on 6 January 2022 for a principal amount of HK\$10,000,000 at a consideration of HK\$10,000,000 (the “1520CB”). The initial conversion price of the convertible bonds is HK\$0.1496 per share. The transaction was completed on 6 January 2022.

The fair values of the 1520CB were approximately HK\$11,700,000 and approximately HK\$18,100,000 as at 30 June 2023 and 31 December 2022 respectively, the fair values were calculated using Binomial Model by an independent professional valuer in which the parameters were summarised as follows:

	30 June 2023	31 December 2022
Share price of the issuer	HK\$0.155	HK\$0.239
Effective interest rate of the issuer	14%	14%
Risk free rate	4.14%	4.14%
Expected volatility of the issuer	43%	85%
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 30 June 2023 and 31 December 2022 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 30 June 2023 and 31 December 2022 respectively.

13. ACCOUNTS PAYABLE

	As at 30 June 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
Accounts payable arising from the ordinary course of business of dealing in securities transactions:		
Clearing house	304	2,780
Cash clients	3,328	238
Margin clients	97	785
	3,729	3,803
Accounts payable arising from insurance brokerage	436	–
Accounts payable arising from sales and marketing of digital assets	1,092	1,432
	5,257	5,235

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 on accounts payable arising from dealing in securities 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.

14. SHARE CAPITAL

	Issued and fully paid Ordinary shares	
	Number of shares '000	Amount HK\$'000
At 1 January 2022 and 31 December 2022 (Audited)	2,078,602	1,760,344
Issue of shares upon placing of shares (<i>note a</i>)	300,000	36,000
Transaction costs attributable to issue of shares by placement (<i>note a</i>)	–	(3)
Issue of shares upon acquisition of VC International Asset Management Limited (formerly known as “Anli Asset Management Limited”) and Anli Investment Fund SPC (<i>note b</i>)	92,421	13,863
At 30 June 2023 (Unaudited)	2,471,023	1,810,204

Notes:

- (a) With reference to the placing agreement (the “Placing Agreement”) disclosed in the Company’s announcement dated 21 February 2023, all the conditions precedent set out in the Placing Agreement have been satisfied or fulfilled and the completion took place on 14 March 2023. A total of 300,000,000 placing shares have been successfully placed to not less than six placees at the placing price of HK\$0.12 per placing share. The gross proceeds from the placing is HK\$36.0 million.
- (b) With reference to the sale and purchase agreement (the “Sale and Purchase Agreement”) disclosed in the Company’s announcement dated 25 November 2022, the Company allotted and issued 92,421,442 consideration shares to the vendor for the settlement of the consideration in the amount of HK\$15 million at the issue price of HK\$0.1623 per consideration share. The fair value of the consideration shares was approximately HK\$13.9 million.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

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

During the six months ended 30 June 2023, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

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 2023, which were contained in Appendix 14 of the Listing Rules.

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

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

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

AUDIT COMMITTEE

The Company's Audit Committee is currently composed of three Independent Non-executive Directors of the Company, namely, Mr. Wong Chung Kin, Quentin (Chairman), Mr. Siu Miu Man, Simon, MH and Mr. Au Tin Fung, Edmund. 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 2023 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 2023.

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 2023 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 five Executive Directors, namely, Mr. Fu Yiu Man, Peter (Chairman), Mr. Wong Kam Fat, Tony (Vice chairman), Mr. Lin Hoi Kwong, Aristo, Ms. Li Cindy Chen and Mr. Zhang Nu; and three Independent Non-executive Directors, namely, Mr. Wong Chung Kin, Quentin, Mr. Siu Miu Man, Simon, MH and Mr. Au Tin Fung, Edmund.

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

Hong Kong, 31 August 2023