Harmonic Strait
Financial Holdings Limited

(Formerly known as Rainbow Brothers Holdings Limited)

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 33

Annual Report 2011

CONTENTS

The English text of this annual report shall prevail over the Chinese text in case of inconsistencies.

CORPORATE INFORMATION

Board of Directors

Executive Directors
An Yu Xin *(Vice Chairman)*
(appointed on January 10, 2011)
Tong Nai Kan
(appointed on February 24, 2012)
Ng Chi Man
(resigned with effect from January 10, 2011)
Wong Tat Tung
(resigned with effect from January 13, 2011)
Hui Kwan Wah, Hugo
(resigned with effect from July 6, 2011)
Wong Sai Ming
(resigned with effect from January 4, 2012)
Sun Pei Ying
(appointed on January 14, 2011 and resigned with effect from February 24, 2012)

Non-executive Director
Ko Ming Tung, Edward
(appointed on May 9, 2011)

Independent Non-executive Directors
Chan Cheuk Ming *(Chairman)*
(re-designated from non-executive director to independent non-executive director on July 28, 2011)
Cheung Wah Keung
Anthony Espina
Wong Che Keung
(resigned with effect from May 9, 2011)

Executive Committee

An Yu Xin *(appointed on January 10, 2011)*
Tong Nai Kan
(appointed on February 24, 2012)
Ng Chi Man
(resigned with effect from January 10, 2011)
Wong Tat Tung
(resigned with effect from January 13, 2011)
Hui Kwan Wah, Hugo
(resigned with effect from July 6, 2011)
Wong Sai Ming
(resigned with effect from January 4, 2012)
Sun Pei Ying
(appointed on January 14, 2011 and resigned with effect from February 24, 2012)

Audit Committee

Anthony Espina *(Chairman)*
Cheung Wah Keung
Chan Cheuk Ming
Ko Ming Tung, Edward
(appointed on May 9, 2011)
Wong Che Keung
(resigned with effect from May 9, 2011)

Remuneration Committee

Cheung Wah Keung *(Chairman)*
Anthony Espina
Chan Cheuk Ming
Ko Ming Tung, Edward
(appointed on May 9, 2011)
Wong Che Keung
(resigned with effect from May 9, 2011)

Nomination Committee (established on March 27, 2012)

Chan Cheuk Ming *(Chairman)*
Cheung Wah Keung
Anthony Espina
Ko Ming Tung, Edward
Tong Nai Kan

Authorised Representatives

Tong Nai Kan
(appointed on February 24, 2012)
Kwan Yiu Ming, Patrick
(appointed on September 1, 2011)

Company Secretary

Kwan Yiu Ming, Patrick

Website

www.rainbowbrothers.com

Registered Office

P.O. Box 309
Ugland House
South Church Street
George Town
Grand Cayman, KY1-1104
Cayman Islands

Principal Place of Business in Hong Kong

Suite No. 1 on 7/F., Sino Plaza
255-257 Gloucester Road
Causeway Bay
Hong Kong

Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman, KY1-1107
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

Principal Bankers

The Bank of East Asia, Limited
Hang Seng Bank Limited

Legal Adviser

Tsang, Chan & Woo
12th Floor Grand Building
15-18 Connaught Road Central
Hong Kong

Auditor

Cheng & Cheng Limited
Certified Public Accountants
10/F, Allied Kajima Building
138 Gloucester Road, Wanchai
Hong Kong

Stock Code

33 (Listed on the Main Board of The Stock Exchange of Hong Kong Limited)

COMPANY PROFILE

The Group is principally engaged in the credit guarantee and investment business in the PRC, the exporting of party products, the operation of concept hotels in Shenzhen and the provision of financial planning services in Hong Kong.

As at December 31, 2011, the Group had 124 employees, 42 of them are located in Hong Kong.

I am pleased to present our 2011 annual report to you.

The Group had a mixed year. We had reasonably good operating results overall in midst of adverse external economic environment. We also have sound financial positions as always. However, we suffered from the loss of important executives, as well as short-term bank confidence and support which should be replenished in time in order not to affect our business.

Needless to say, the performance of Harmonic Strait Credit Guarantee Co., Ltd. ("Harmonic Strait") has become the key determinant of the Group's long term success. The nature, reasons, risks and upside of the Harmonic Strait acquisition, together with the difficulties in the initial years, has been explained here last year. The progress of Harmonic Strait has been less than satisfactory. It was affected by the time taken to unify the view of executive directors on rolling out the business plan, and the unfavorable market conditions in 2011 for the Group's fund raising efforts — the success of Harmonic Strait much depends on its paid up capital being increased from the existing level of US$20 million to US$100 million. In this regard, the Group looks favorably to Harmonic Strait in the coming year or two, as the above factors have either been resolved or seen signs of improvement.

In an effort to give more time and less pressure for Harmonic Strait management to properly develop, modify and execute details of its business plan, the board has successfully negotiated for holders of convertible bonds with face value of approximately HK$2.4 billion to waive their repayment rights against the Group, thus permanently removing the Group's need to make repayment for such amount of convertible bonds.

More details of the above and of our other operations are contained in the Group's various announcements made and in the management discussion and analysis section of this annual report.

With the Group continuing its growth along the directions set in the past two years into the future, we can expect more challenges and changes ahead. Whilst there might be rough time along the way, we are confident that the current directions will bring favorable longer term results over the next three to five years.

Finally, I would like to extend my gratitude towards all our colleagues whose collective dedicated efforts over the years have helped the Group overcome different challenges and brought us where we are.

Chan Cheuk Ming
Chairman

Hong Kong
March 29, 2012

BUSINESS REVIEW

Harmonic Strait

The Group is involved in several lines of business, some of which were facing more challenging operating conditions in 2011 than others. Harmonic Strait has become our focus and the most important business unit in our Group. Since joining the Group in August 2010, Harmonic Strait had insignificant contribution of guarantee income as its management invested much management resources in the investment business. Under its original business plan, investment business would be secondary to guarantee business in its initial years of operation. Due to various factors including personnel and recruitment issues, short-term tightening of credit policies in the PRC, higher credit risks in the PRC caused by the chaos in Wenzhou non-bank lending market, and some sudden investment opportunities, Harmonic Strait management has decided to shift the emphasis to investment business in the initial years of operation. Liaison and representative offices for guarantee business opened up so far have not made satisfactory progress.

After more than nine months of intensive work and negotiation, and in partnership with Taikang Life Insurance Ltd (泰康人壽保險股份有限公司) as lead investor, CITIC Real Estate Ltd (中信房地產股份有限公司) and CITIC Group (中國中信集團公司), Harmonic Strait succeeded, in July 2011, in the open tender auction for the land use right in respect of a piece of land located in Chaoyang District for a total consideration of RMB3,080.0 million. The land is part of a major Central Business District development project steered by the Beijing government.

Due to volatile and adverse financial market conditions, the Group has not been successful in fund raising, both in general and for the further capital injection into Harmonic Strait. As a result, Harmonic Strait applied for a reduction of its Registered Capital from US$100 million to US$20 million. Such application was duly approved and Registered Capital revised in November 2011.

Harmonic Strait is in negotiation with Taikang to sell its interest in the Beijing land development project mentioned above. The possible disposal represents an opportunity for the Group to realise such investment gain (if any) in short term.

Other than the Beijing land development project, Harmonic Strait still has several investment projects under negotiation all of which are pre-mature for announcement as there has been no commitments or agreements to the basic terms yet in any of such projects. Although such projects mostly do involve land development on top of a Taiwan element in its conceptualization, it is not Harmonic Strait's primary intent to act as a developer. By participating in such projects, Harmonic Strait aims to secure a distinctive role in all the possible guarantee business opportunities that will arise out of the development, wholesaling and retailing of such land and properties.

Other business units

The Group's export business experienced a difficult year in 2011. Factors that have troubled this business segment for several years — appreciation of Renminbi, rises in general cost/price levels in the PRC, labor shortage at factories and tightening of product safety standards in the U.S. — all showed further trends of deterioration and serious profit erosion. Adding to such unfavorable operating conditions were the loss of key merchandising personnel on our side, significant changes in personnel on the side of customers, and a sharp change in the attitude of bankers towards supporting this business segment of ours. Much efforts have been made in replacing key personnel, modifying our mode of business by appointing agent, and re-negotiating with existing and new bankers, but only with limited success so far. In contrast, our ad hoc shopping mall investment projects in Liaoning has been smooth and rewarding. After the success in 2009 of the first investment which brought us handsome return within 10 months, our second investment made in 2010 brought us a profit of HK$8.4 million in mid 2011. Our concept hotel business in Shenzhen and financial planning services business in Hong Kong have made quite some operational improvements to offset the effects of intense market competition, recruitment difficulties and loss of key management staff. Both are close to or at the breakeven level, and are expected to be stable.

FINANCIAL REVIEW

For the year ended December 31, 2011 ("Current Year"), the Group's turnover was HK$588.1 million, representing an increase of 7% from HK$550.3 million for the year ended December 31, 2010 ("Prior Year"), as sales from most business segments had slight improvement.

Gross profit during Current Year was HK$99.4 million, representing a drop of 11% from HK$111.9 million for Prior Year. In terms of gross profit margin, the relevant figure for Current Year was 17%, representing a decrease of 3% from 20% for Prior Year. The decrease in gross profit and gross profit margin was mainly due to the continued rise in production costs in the PRC and Renminbi appreciation.

Other revenue was HK$29.6 million in the Current Year, which increased significantly from the HK$1.3 million of Prior Year as it included an amount of HK$18.2 million, being a loan waived by a substantial shareholder, and another amount of HK$8.5 million, being investment return from the Liaoning project as mentioned above. For operating expenses, the relevant figure for Current Year was HK$99.4 million, representing an increase of 20.1% from HK$82.8 million for Prior Year. The increase was mainly attributable to substantial increase in general overhead, impairment loss on fixed assets and the additional operating expenses in the second concept hotel and credit guarantee businesses. Operating expenses as a percentage of turnovers increased from 15% for Prior Year to 17% for Current Year.

Finance Cost during the Current Year was HK$28.4 million which decreased significantly from HK$70.4 million. The substantial decrease was mainly attributable to the reduction of notional interest which in turn was due to the waiving, by a substantial shareholder, of the right to demand for repayment in respect of convertible bonds with face value of approximately to HK$2.4 billion.

Owing to the volatile and adverse financial market conditions, the business development on credit guarantee and investment business of Harmonic Strait was slower than expected. In this connection, its goodwill has been impaired by HK$248 million.

LIQUIDITY AND FINANCIAL RESOURCES

As at December 31, 2011, net current assets were HK$69.1 million (December 31, 2010: HK$68.2 million). Current ratio as at December 31, 2011 was 1.4 (December 31, 2010: 1.3). The gearing ratio, total bank borrowings divided by total assets at the end of each period, was 0.3% as at December 31, 2011, representing a decrease from 1.1% as at December 31, 2010; the significant decrease is due to the repayment of most outstanding bank loans.

As at December 31, 2011, the Group had cash and bank balances of HK$128.2 million (December 31, 2010: HK$165.4 million), and bank borrowings of HK$9.7 million (December 31, 2010: HK$40.6 million) which was mainly denominated in HK dollar and US dollar. The bank borrowings bore both fixed interest rate and floating interest rates.

The Company, and its wholly owned subsidiaries Rainbow Brothers Limited and Silver Lining Limited have provided corporate guarantees and, in association therewith, floating charges on monies standing to the credits of, or owing to, the Group's accounts with banks, to secure banking facilities granted to the Group. Harmonic Strait had provided guarantees to its customers amounted to approximately HK$69 million in return of service income as its ordinary business. The Group has also charged shares of the wholly-owned subsidiaries, Market Season Limited and Green Link Holdings Limited in association of a related party loan for our part of the registered capital of Harmonic Strait.

The Group continued to have no structured investment products, foreign exchange contracts and investments in listed shares, bond and debentures.

As at December 31, 2011, the Group had no material capital commitments (December 31, 2010: HK$554.4 million) or investment commitments after the successful reduction of registered capital of Harmonic Strait. The operating lease commitment for the Group as at December 31, 2011 was around HK$11.6 million (December 31, 2010: HK$14.2 million).

It is the Group's policy to adopt a prudent financial management strategy and maintain a suitable level of liquidity and banking facilities to meet operation requirements and acquisition opportunities.

CONTINGENT LIABILITIES

The Group's contingent liabilities, if any, are set out in the note 34 to the consolidated financial statements.

HUMAN RESOURCES

As at December 31, 2011, the Group had 124 employees. It is the Group's policy to recruit the right person for each position based on the person's qualification and experience. The remuneration of each employee is reviewed every year based on the performance of the employee with reference to the prevailing market conditions.

FINAL DIVIDEND

The Board did not recommend any final dividend for the Current Year.

OUTLOOK

The long term success of the Group is linked to the performance of Harmonic Strait. Having gone through all the internal and strategic adjustments in the past eighteen months, including the change of the Company's name, the board has provided a suitable environment for Harmonic Strait management to perform and are confident of their results in the future, especially once the market conditions turn favorable for the Group's fund raising exercise.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

EXECUTIVE DIRECTORS

Mr. An Yu Xin (安宇新), aged 56, is the Vice Chairman and was appointed as an Executive Director of the Company on January 10, 2011. Mr. An is a graduate from Beijing Finance and Economic Management Cadre College, majoring in commerce and corporate management. Mr. An is currently the deputy general manager of Beijing Enterprises Development Corporation, a 5% shareholder of Harmonic Strait and the president of Harmonic Strait, a 90%-owned indirect subsidiary of the Company. Mr. An played a pivotal role in the establishment of Harmonic Strait, and is responsible for its strategic planning, business development and overall management. Mr. An joined the Group in August 2010.

Mr. Tong Nai Kan (唐乃勤), aged 53, was appointed as an Executive Director of the Company in February 2012. He has over 20 years of experience in investment in various businesses in Mainland China and has participated in energy-related businesses in recent few years. He is currently the chairman of New Smart Energy Group Limited (stock code: 91), a company listed on the Main Board of the Stock Exchange. He was previously an executive director of China Mining Resources Group Limited (formerly known as "lNNOMAXX Biotechnology Group Limited") (stock code: 340) for the period from May 2000 to May 2004, a company listed on the Main Board of the Stock Exchange. He is currently the general manager of a 90%-owned indirect subsidiary and the director of certain subsidiaries of the Group. He was awarded as the 11th World Outstanding Chinese Award from the World Chinese Business Foundation and the Honorary Doctoral Degree from the International American University in March 2009. Mr. Tong is responsible for the strategic planning, business development and overall management of the Group. Mr. Tong joined the Group in August 2010.

NON-EXECUTIVE DIRECTOR

Mr. Ko Ming Tung, Edward (高明東), aged 51, was appointed as a Non-Executive Director of the Company on May 9, 2011. Mr. Ko obtained an external Bachelor of Laws Degree from the University of London in the United Kingdom in August 1986 and is a member of The Law Society of Hong Kong. Mr. Ko is the principal of Messrs. Edward Ko & Company and has been practising as a solicitor in Hong Kong for more than 20 years. He was appointed as Deputy Presiding Officer of the Labour Tribunal and is presently a member of the Panel of Adjudicators of the Obscene Articles Tribunal, the Solicitors Disciplinary Tribunal Panel, the Disciplinary Panel A of the Hong Kong Institute of Certified Public Accountants and the Employment Law Committee of The Law Society of Hong Kong. Mr. Ko has been appointed as Tribunal Chairman of the Appeal Tribunal Panel under the Buildings Ordinance. He is also a manager of Chiu Chow Association Secondary School. Other than the directorship in the Company, currently, Mr. Ko is also an independent non-executive director of Sinofert Holdings Limited (Stock Code: 297), Wai Chun Group Holdings Limited (Stock Code: 1013) and Interchina Holdings Company Limited (Stock Code: 202), all of which are companies whose shares are listed on the Main Board of the Stock Exchange. Mr. Ko was previously a non-executive director of New Smart Energy Group Limited (Stock Code: 91) and an independent non-executive director of China Pipe Group Limited (Stock Code: 380) and Kai Yuan Holdings Limited (Stock Code: 1215), whose shares are listed on the Main Board of the Stock Exchange.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Cheuk Ming (陳卓明), aged 54, is the Chairman of the Board, and an Independent Non-Executive Director of the Company. Mr. Chan has more than 29 years' research and development, logistic and operation management experience in commercial electronic products in various multinational corporations and local enterprises. Mr. Chan graduated from Loughborough University of Technology in United Kingdom with a bachelor degree in Electronic and Electrical Engineering in 1980, and obtained a Master of Science degree in Engineering in 1988 as well as a master degree in Business Administration in 1992, both from the University of Hong Kong. In 1998, Mr. received a Diploma in Accounting for Managers from the Chinese University of Hong Kong. Mr. Chan joined the Group in June 2007.

Mr. Cheung Wah Keung (張華強), aged 50, was appointed as an Independent Non-Executive Director of the Company on June 4, 2007. Mr. Cheung has over 20 years of experience in management of trading and manufacturing of consumer electronic products. Mr. Cheung graduated from the Chinese University of Hong Kong with a bachelor degree in Business Administration in 1994 and obtained a degree of Master of Corporate Governance from The Hong Kong Polytechnic University in 2010. Mr. Cheung is currently the chairman and an executive director as well as the controlling shareholder of Shinhint Acoustic Link Holdings Limited (Stock Code: 2728), a company listed on the Main Board of the Stock Exchange.

Mr. Anthony Espina, aged 63, was appointed as an Independent Non-Executive Director of the Company on June 4, 2007. Mr. Espina has over 31 years of experience in the accounting and finance industry. He is the Managing Director of Goldride Securities Limited and was the Chairman of the Hong Kong Stockbrokers Association Limited. Mr. Espina was a partner of Arthur Andersen & Co. from 1982 to 1986 and Deloitte Touche Tohmatsu from 1986 to 1990. He was also the president of the Hong Kong Computer Society from 1978 to 1979. He graduated from the University of Southern Queensland with a bachelor degree in business and is the Associate Member of CPA Australia, is a Fellow Member of the Hong Kong Institute of Certified Public Accountants and a Fellow Member of the Hong Kong Institute of Directors. From May 2001 to May 2005, Mr. Espina was a non-executive director of International Financial Network Holdings Ltd. (Stock Code: 8123), a company listed on the Growth Enterprise Market of the Stock Exchange.

SENIOR MANAGEMENT

Mr. Han Bang Kun (韓邦琨), aged 48, holds a bachelor's degree. He worked as the secretary and special assistant to Mr. Cheng Fung Shi, a 5% shareholder of Harmonic Strait and a member of the Legislative Yuan of Taiwan and Kuomintang Central Standing Committee. Mr. Han is currently the special assistant to Mr. Cheng Fung Shi, the secretary general of Taiwan Legislative Yuan Committee（臺灣立法委協會）and the chairman of the presidium of Kuomintang Central Review Committee. He is also the promoter and shareholder of Shangdong Haisheng Aquatic Products Market Development Co., Ltd （山東海盛水產品市場開發有限公司）and the executive vice president of Taiwan Merchant Association of Zibo（淄博台協協會）and a professor of postgraduate students of Shandong University of Technology. He is currently the director of Harmonic Strait. Mr. Han joined the Group in August 2010.

Mr. Wang Wei Min (王維敏), aged 53, holds a bachelor's degree in non-metal materials science（非金屬材料科學）from the Northwestern Polytechnic University（西北工業大學） and a MBA degree from the Asia International Open University (Macau). Mr. Wang worked as the manager of Strategic Planning Department in Beijing Enterprises Development Corporation（北京實業開發總公司）and as deputy general manager of Beijing Jingtai Enterprises Co., Ltd.（北京京泰實業集團有限公司）and as chairman of Beijing Jingtai Technology Development Co., Ltd.（北京京泰科技發展有限公司）. He is currently the deputy general manager of Harmonic Strait. Since 1998, Mr. Wang was awarded the title of Senior Engineer from Aviation Industry Corporation of China（中國航空工業總公司）. Mr. Wang joined the Group in August 2010.

Mr. Kwan Yiu Ming, Patrick (關耀明), aged 47, has been appointed as Company Secretary of the Group on September 1, 2011. Mr. Kwan holds a bachelor degree of Commerce in Accounting from the Curtin University of Technology in Australia. Mr. Kwan is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and an associate member of the Institute of Chartered Accountants in England and Wales. Mr. Kwan has over four years of experience in auditing and over 18 years of experience in accounting, financial management, tax and company secretarial matters.

Mr. Lo Siu Leung (盧紹良), aged 33, Financial Controller, joined the Group in June 2009. He has 10 years of experience in accounting, auditing, tax and finance. He holds a Master degree in Business Administration. He is a fellow member of the Association of Chartered Certified Accountants, a associate member of Hong Kong Institute of Certified Public Accountants and an associate member of The Institute of Chartered Accountants in England and Wales. He is also a Chartered Financial Analyst.

The directors present their annual report and the audited consolidated financial statements for the year ended December 31, 2011.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed at an Extraordinary General Meeting held on March 6, 2012, the name of the Company was changed from Rainbow Brothers Holdings Limited to Harmonic Strait Financial Holdings Limited和協海峽金融集團有限公司. The Registrar of Companies in the Cayman Islands issued the Certificate of Incorporation on Change of Name with effect on 6 March 2012. Application has been made to the Registrar of Companies in Hong Kong and the Certificate of Registration of Change of Corporate Name of Non-Hong Kong company is expected to be issued very soon.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of the Group are set out in the "Company Profile" section of this annual report.

RESULTS AND DIVIDEND

The results of the Group for the Current Year are set out in the consolidated statement of comprehensive income of this annual report.

The Directors do not recommend the payment of any dividends for the Current Year.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at December 31, 2011 are set out in the note 22 to the consolidated financial statements.

DONATION

Donation made by the Group during the year amounted to HK$12,000 (2010: HK$100,000).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Current Year are set out in the note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the Current Year are set out in the note 21 to the consolidated financial statements.

DIRECTORS

The Directors up to the date of this report were:

Executive Directors

An Yu Xin *(Vice Chairman) (appointed on January 10, 2011)*
Tong Nai Kan *(appointed on February 24, 2012)*
Ng Chi Man *(resigned with effect from January 10, 2011)*
Wong Tat Tung *(resigned with effect from January 13, 2011)*
Hui Kwan Wah, Hugo *(resigned with effect from July 6, 2011)*
Wong Sai Ming *(resigned with effect from January 4, 2012)*
Sun Pei Ying *(appointed on January 14, 2011 and resigned with effect from February 24, 2012)*

Non-executive Director

Ko Ming Tung, Edward *(appointed on May 9, 2011)*

Independent Non-executive Directors

Chan Cheuk Ming *(re-designated from non-executive director to independent non-executive director on July 28, 2011)*
Cheung Wah Keung
Anthony Espina
Wong Che Keung *(resigned with effect from May 9, 2011)*

According to Article 130, Mr. Cheung Wah Keung and Mr. Chan Cheuk Ming, as Independent Non-Executive Directors, shall both retire from office at Annual General Meeting and shall offer themselves for re-election.

According to Article 114, Mr. Ko Ming Tung, Edward and Mr. Tong Nai Kan who were appointed by the Board on May 9, 2011 and February 24, 2012 respectively as Directors shall retire from office at Annual General Meeting and shall offer themselves for re-election.

None of the Directors offering themselves for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

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

Each of the Independent Non-executive Directors and the Non-executive Director was appointed for a fixed term and is subject to retirement by rotation at the Annual General Meeting.

Mr. An Yu Xin had entered into a service contract with the Group for an initial fixed term of contract from January 10, 2011 for three years. Mr. Tong Nai Kan had not entered into any service contract with the Group. Saved as aforementioned, none of the Executive Directors has any service contract with any member of the Group.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND THE ASSOCIATED CORPORATIONS

As at December 31, 2011, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Appendix 10 of Listing Rules, were as follows:

Name	Nature of Interests	Number of shares	Percentage of the issued share capital of the Company
Mr. Wong Sai Ming *(resigned with effect from January 4, 2012)*	Beneficial Owner	9,472,000 (long position)	1.19%

Save as disclosed above, as at December 31, 2011, as far as the Directors are aware, none of the Directors and Chief Executive Officer had any other interests, long positions or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

So far as is known to any Director, as at December 31, 2011, other than the interests of the Directors and Chief Executive Officer as disclosed above, the following persons had interests in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Name	Nature of Interests	Number of shares	Percentage to the issued share capital of the Company
Market Speed Limited	Beneficial Owner	1,944,750,000 (long position)	244.36%
		120,000,000 (long position)	15.08%
Tong Nai Kan	Interest of a controlled corporate	1,944,750,000 (long position)	244.36%
		120,000,000 (short position)	15.08%
Jin Run Investments Limited	Beneficial Owner	148,400,000 (long position)	18.65%
Leung Ka Ki	Interest of a controlled corporate	148,400,000 (long position)	18.65%
New Stature Limited	Beneficial Owner	144,728,000 (long position)	18.19%
Skill Effort Limited	Interest of a controlled corporate	144,728,000 (long position)	18.19%
Fong Stanley Kai Yuen	Interest of a controlled corporate	144,728,000 (long position)	18.19%
Direct Value Limited	Beneficial Owner	135,300,000 (long position)	17.00%

Name	Nature of Interests	Number of shares	Percentage to the issued share capital of the Company
Hui Kwan Wah, Hugo	Interest of a controlled corporate	135,300,000 (long position)	17.00%
Cheng Yin Lee, Francie *(Note 1)*	Interest of spouse	135,300,000 (long position)	17.00%
Lee Hung Shing	Beneficial Owner	80,000,000 (long position)	10.05%
Value Logic Limited	Beneficial Owner	56,000,000 (long position)	7.04%
Yip Sze Pui	Interest of a controlled corporate	56,000,000 (long position)	7.04%

Notes:

1 Ms. Cheng Yin Lee, Francie is the spouse of Mr. Hui Kwan Wah, Hugo. By virtue of the SFO, Ms. Cheng Yin Lee, Francie is also deemed, as spouse, to be interested in all the shares in which Mr. Hui Kwan Wah, Hugo is deemed to be interested.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed herein, at no time during the Current Year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Except for the loan advance to the Group from Wider Sun Limited in which a former director, Mr. Hui Kwan Wah, Hugo, (resigned on July 6, 2011) who has interest in Wider Sun Limited, there is no contract of significance to which the Company, its holding company, any of its subsidiaries or any of its fellow subsidiaries was a party in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the Current Year or at any time during the Current Year.

EMPLOYEES AND REMUNERATION POLICIES

The remuneration policy of the employees of the Group is set up by the Remuneration Committee on the basis of the merits, qualifications and competence of employees. The emoluments of the Directors are decided by the Remuneration Committee with regard to the Group's operating results, individual performance and comparable market statistics. None of the Directors or any of their associates, and executive is involved in deciding his own remuneration. As at December 31, 2011, the Group had 124 employees (December 31, 2010: 201 employees). The Group remunerates its employees based on their individual performance, job nature and responsibilities. Moreover, the Group provides its employees with training and various benefits including medical care, provident funds, bonuses and other incentives.

SHARE OPTION SCHEME

There was no share options granted for the Current Year and no share options outstanding as at December 31, 2011.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Details of the convertible bond of the Company and its movements during the Current Year are set out in the note 27 to the consolidated financial statements.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

For the year ended December 31, 2011, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the listed securities of the Company.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report of this annual report.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

For the Current Year, the percentages of purchases attributable to the Group's largest supplier and 5 largest suppliers combined were 12.0% and 27.1%, respectively (December 31, 2010: 14.2% and 30.5%). For the Current Year, the percentages of sales attributable to the Group's largest customer and 5 largest customers combined were 60.0% and 79.3%, respectively (December 31, 2010: 58.9% and 73.6%). At no time during the year did a director, an associate of a director or a substantial shareholder (owned more than 5% of the Company's issued share capital to the knowledge of the directors) has a beneficial interest in any of the Group's five largest suppliers.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on pro-rata basis to existing shareholders.

CONTINUING CONNECTED TRANSACTIONS

The note 32 to the consolidated financial statements under "Related Party Transactions" disclosed the continuing connected transactions. The continuing connected transactions under this section were exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

In January 2011, the Group entered into a sales agency agreement with Mr. Ng Chi Man (an Executive Director resigned with effect from January 10, 2011) whereby the Group will pay Mr. Ng 4% as commissions on sales to certain customers of the Group. The annual cap for such sales commission was HK$9.6 million and subsequently was revised to HK$20.0 million in July 2011. Such sales agency agreement was subsequently terminated in August 2011. As Mr. Ng was a director of the Company within the preceding 12 months, the transaction contemplated under the sales agent agreement constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules. Since the applicable percentage ratios for the amount are less than 5%, the continuing connected transaction contemplated under the sales agent agreement is subject to the reporting, announcement and annual review requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The Independent Non-Executive Directors of the Company have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

a) in the ordinary and usual course of business of the Group;

b) on normal commercial terms; and

c) on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole.

AUDITOR

The consolidated financial statements of the Group for the Current Year have been audited by & Cheng Limited ("C&C"). C&C was re-appointed on May 6, 2011 as the auditor of the Company and hold office until the conclusion of the forthcoming Annual General Meeting ("AGM"). C&C retires and, being eligible, offers itself for reappointment. C&C was first appointed as our auditor for the annual report December 2008 on November 19, 2008. A resolution for re-appointment of C&C as auditor of the Company is to be proposed at the forthcoming AGM.

On behalf of the Board

Chan Cheuk Ming
Chairman

Hong Kong
March 29, 2012

The Company is committed to maintaining a high standard of corporate governance and has put in place self regulatory corporate practices to protect the interests of its shareholders and the enhancement of shareholder's value. We are committed to providing high-quality products and services to the satisfaction of our customers; to maintaining high standards of business ethics and achieving these goals while, at the same time, providing satisfactory and sustainable returns to shareholders. The board had, from January 1, 2011 to December 31, 2011, adopted and complied with the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules except CG Code A.2.1 and A.3.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company adopted the Model Code for Securities Transactions by Directors (the "Model Code") as set out in Appendix 10 of the Listing Rules regarding directors' securities since its listing on November 19, 2007. Having made specific enquiries to all Directors, all Directors have confirmed that they have fully complied with the required standard set out in the Model Code for the Current Year.

THE BOARD

The Board is responsible for the formulation of business policies and strategies in relation to the business operation of the Group, for nomination and appointment of directors, and to ensure the availability of resources as well as to the effectiveness of its system of internal control. The senior management was delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Group. In addition, the Board has also established Board sub-committees and has delegated to these Board committees various responsibilities set out in their terms of reference respectively. Each Director shall ensure that he carries out his duty in good faith and in compliance with the standards of applicable laws and regulations, and acts in the interests of the Company and its shareholders at all times. From January 1, 2011 to December 31, 2011, 5 Board meetings were held and the attendance of each director is set out as follows:

Directors	**Number of Attendance**
Executive Directors	
An Yu Xin *(Vice Chairman) (appointed on January 10, 2011) (note 1)*	4/4
Tong Nai Kan *(appointed on February 24, 2012) (note 2)*	0/0
Ng Chi Man *(resigned with effect from January 10, 2011) (note 3)*	0/1
Wong Tat Tung *(resigned with effect from January 13, 2011) (note 4)*	1/1
Hui Kwan Wah, Hugo *(resigned with effect from July 6, 2011) (note 5)*	2/2
Wong Sai Ming *(resigned with effect from January 4, 2012)*	5/5
Sun Pei Ying *(appointed on January 14, 2011 and resigned with effect from February 24, 2012) (note 6)*	3/4
Non-executive Director	
Ko Ming Tung, Edward *(appointed on May 9, 2011) (note 7)*	3/3
Independent Non-executive Directors	
Chan Cheuk Ming *(re-designated from non-executive director to independent non-executive director on July 28, 2011)*	5/5
Cheung Wah Keung	5/5
Anthony Espina	2/5
Wong Che Keung *(resigned with effect from May 9, 2011) (note 8)*	3/3

Board minutes are kept by the Company Secretary and are open for inspection by the Directors.

Notes:

1. Mr. An Yu Xin was appointed on January 10, 2011 and he was eligible to attend 4 board meetings.

2. Mr. Tong Nai Kan was appointed on February 24, 2012 and therefore, he did not attend any board meetings for the year.

3. Mr. Ng Chi Man was resigned on January 10, 2011 and he was eligible to attend 1 board meeting.

4. Mr. Wong Tat Tung was resigned on January 13, 2011 and he was eligible to attend 1 board meeting.

5. Mr. Hui Kwan Wah, Hugo was resigned on July 6, 2011 and he was eligible to attend 2 board meetings.

6. Ms. Sun Pei Ying was appointed on January 14, 2011 and resigned on February 24, 2012 and she was eligible to attend 4 board meetings.

7. Mr. Ko Ming Tung, Edward was appointed on May 9, 2011 and he was eligible to attend 3 board meetings.

8. Mr. Wong Che Keung was resigned on May 9, 2011 and he was eligible to attend 3 board meetings.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

For the year ended December 31, 2011, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Listing Rules except the followings.

Under A.2.1 of the CG Code, the role of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual and the division of responsibilities between Chairman and Chief Executive Officer should be established and set out in writing. Since January 10, 2011, the Company has not had any Chief Executive Officer. The functions of Chief Executive Officer were performed by the Executive Directors. The Board considers that this structure will not impair the balance of the power and authority between the Board and the management of the Company, and has been effective in discharging its responsibilities satisfactorily and facilitating the Company's operation and business development.

Under A.3 of the CG Code and Listing Rules 3.10(1), the Company is required to have at least three independent non-executive directors. From May 9, 2011 to July 28, 2011, the Board had two independent non-executive directors due to the resignation of Mr. Wong Che Keung. The Company re-designated Mr. Chan Cheuk Ming from a Non-executive Director to an Independent Non-executive Director with effect on July 28, 2011. The Company had appointed sufficient number of independent non-executive directors within three months after the number of independent non-executive directors fell below the minimum number required under Listing Rules 3.10(1).

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Independent Non-executive Directors are persons with academic and professional qualifications as stated in Directors and Senior Management section. They support the effective discharge of the duties and responsibilities of the Board. Each Independent Non-executive Director has provided an annual confirmation of independence to the Company and the Company considers these Directors to be independent under Rule 3.13 of the Listing Rules.

BOARD SUB-COMMITTEES

A. EXECUTIVE COMMITTEE

To assist the board of directors in running the operations on a daily basis, the Board had set up a sub-committee, namely Executive Committee on July 15, 2009. The Executive Committee meets at least six times a year. The terms of reference of the Executive Committee are available on the Company's website at www.rainbowbrothers.com and the website of the Stock Exchange.

The attendance of each member of Executive Committee is set out as follows:

Directors	**Number of Attendance**
Executive Directors	
An Yu Xin *(Vice Chairman) (appointed on January 10, 2011) (note 1)*	6/6
Tong Nai Kan *(appointed on February 24, 2012) (note 2)*	0/0
Ng Chi Man *(resigned with effect from January 10, 2011) (note 3)*	0/0
Wong Tat Tung *(resigned with effect from January 13, 2011) (note 4)*	0/0
Hui Kwan Wah, Hugo *(resigned with effect from July 6, 2011) (note 5)*	1/1
Wong Sai Ming *(resigned with effect from January 4, 2012)*	6/6
Sun Pei Ying *(appointed on January 14, 2011 and resigned with effect from February 24, 2012) (note 6)*	6/6

Notes:

1. Mr. An Yu Xin was appointed on January 10, 2011 and he was eligible to attend 6 Executive Committee meetings.

2. Mr. Tong Nai Kan was appointed on February 24, 2012 and therefore, he did not attend any Executive Committee meetings for the year.

3. Mr. Ng Chi Man was resigned on January 10, 2011 and he was eligible to attend 0 Executive Committee meeting.

4. Mr. Wong Tat Tung was resigned on January 13, 2011 and he was eligible to attend 0 Executive Committee meeting.

5. Mr. Hui Kwan Wah, Hugo was resigned on July 6, 2011 and he was eligible to attend 1 Executive Committee meeting.

6. Ms. Sun Pei Ying was appointed on January 14, 2011 and resigned on February 24, 2012 and she was eligible to attend 6 Executive Committee meetings.

B. REMUNERATION COMMITTEE

The Remuneration Committee was established on October 30, 2007. The Remuneration Committee assists the Board to determine policy and structure for Directors and senior management's remuneration and to develop a formal and transparent remuneration policy.

The Remuneration Committee comprises three Independent Non-executive Directors, namely Mr Chan Cheuk Ming, Mr. Cheung Wah Keung, Mr. Anthony Espina, and one Non-executive Director, namely Mr. Ko Ming Tung, Edward. Mr. Cheung Wah Keung is the Chairman of the Remuneration Committee. The Remuneration Committee meets at least two times a year. The terms of reference of Remuneration Committee are available on the Company's website at www.rainbowbrothers.com and the website of the Stock Exchange.

From January 1, 2011 to December 31, 2011, two Remuneration Committee meetings were held. The attendance of each member of Remuneration Committee is set out as follows:

Directors	**Number of Attendance**
Independent Non-executive Directors	
Cheung Wah Keung *(Chairman)*	2/2
Chan Cheuk Ming *(re-designated from non-executive director to independent non-executive director on July 28, 2011)*	2/2
Anthony Espina	1/2
Wong Che Keung *(resigned with effect from May 9, 2011) (note 1)*	1/1
Non-executive Director	
Ko Ming Tung, Edward *(appointed on May 9, 2011) (note 2)*	1/1

During these meetings, the Remuneration Committee reviewed the remuneration packages for all Directors and senior management, the employee's salary increment proposal and relevant reports.

Notes:

1 Mr. Wong Che Keung was resigned on May 9, 2011 and he was eligible to attend 1 Remuneration Committee meeting.

2 Mr. Ko Ming Tung, Edward was appointed on May 9, 2011 and he was eligible to attend 1 Remuneration Committee meeting.

C. AUDIT COMMITTEE

The Audit Committee was established on October 30, 2007. The Audit Committee is mainly responsible for corporate governance, financial reporting and corporate control.

The Audit Committee comprises three Independent Non-executive Directors, namely Mr. Anthony Espina, Mr. Cheung Wah Keung, Mr. Chan Cheuk Ming and one Non-executive Director, namely Mr. Ko Ming Tung, Edward. Mr. Anthony Espina is the Chairman of the Audit Committee.

The Audit Committee meets at least four times a year. The terms of reference of Audit Committee are available on the Company's website at www.rainbowbrothers.com and the website of the Stock Exchange.

The attendance of each member of Audit Committee is set out as follows:

Directors	**Number of Attendance**
Independent Non-executive Directors	
Anthony Espina *(Chairman)*	4/4
Chan Cheuk Ming *(re-designated from non-executive director to independent non-executive director on July 28, 2011)*	4/4
Cheung Wah Keung	1/4
Wong Che Keung *(resigned with effect from May 9, 2011) (note 1)*	1/1
Non-executive Director	
Ko Ming Tung, Edward *(appointed on May 9, 2011) (note 2)*	2/3

For the Current Year, the work performed by the Audit Committee included:

- reviewing the annual report which comprised the audited consolidated financial statements for the Current Year; and
- reviewing the final result announcement; and
- reviewing the significant accounting issues raised by the management; and
- reviewing the Company's compliance with regulatory and statutory requirements; and
- reviewing the Group's risk management process.

The Audit Committee of the Company has reviewed the Group's financial results for the Current Year.

Notes:

1. Mr. Wong Che Keung was resigned on May 9, 2011 and he was eligible to attend 1 Audit Committee meeting.

2. Mr. Ko Ming Tung, Edward was appointed on May 9, 2011 and he was eligible to attend 3 Audit Committee meetings.

D. NOMINATION COMMITTEE

The Nomination Committee was established on 27 March 2012 and therefore, no meeting was held during the year. The Nomination Committee is mainly responsible for reviewing the structure, size and composition of the board, identifying, individuals suitably qualified to become board members, assessing the independence of independent non-executive directors and making recommendations to the board on relevant matters relating to the appointment or re-appointment of directors.

The Nomination Committee comprises three Independent Non-executive Directors, namely Mr. Anthony Espina, Mr. Cheung Wah Keung, Mr. Chan Cheuk Ming; one Non-executive Director, namely Mr. Ko Ming Tung, Edward and one Executive Director, namely Mr. Tong Nai Kan. Mr. Chan Cheuk Ming is the Chairman of the Nomination Committee.

The Nomination Committee meets at least one time a year. The terms of reference of Nomination Committee are available on the Company's website at www.rainbowbrothers.com and the website of the Stock Exchange.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the consolidated financial statements of the Group for the Current Year and ensure that they are prepared in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of such consolidated financial statements.

The statement of the external auditor of the Company, Cheng & Cheng Limited, with regard to its reporting responsibilities on the Group's consolidated financial statements, is set out in the Independent Auditor's Report included in this annual report.

The Directors confirm that, to the best of their knowledge, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions which may cause the Group not to continue as a going concern.

AUDITOR'S REMUNERATION

For the Current Year, the fees paid/payable to the Company's auditor in respect of audit and non-audit services (internal control review and training) provided by the Company's auditor to the Group were as follows:

	HK$'000
Audit services	900
Non-audit services	130
	1,030

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's Articles of Association. The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of Independent Non-executive Directors.

According to Article 130, one-third of the Directors for the time being, or if their number is not a multiple of three, then the number nearest to but not less than one-third shall retire from office by rotation at every Annual General Meeting provided that every Director shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election. Mr. Cheung Wah Keung and Mr. Chan Cheuk Ming, as Independent Non-Executive Directors, shall both retire from office at Annual General Meeting and shall offer themselves for re-election.

According to Article 114, any Director appointed by the Board either to fill a casual vacancy or as an addition to the Board shall hold office only until the next following general meeting of the Company and shall be eligible for re-election at that meeting. Mr. Ko Ming Tung, Edward and Mr. Tong Nai Kan who were appointed by the Board on May 9, 2011 and February 24, 2012 respectively as Directors shall retire from office at Annual General Meeting and shall offer themselves for re-election.

The Non-executive Director and the Independent Non-executive Directors were appointed for a fixed term and are subject to re-election in compliance with CG Code A.4.1.

INTERNAL CONTROLS

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. The Board requires management to establish and maintain sound and effective internal controls. Evaluation of the Group's internal controls is independently conducted by the management on an on-going basis.

The Board confirms that it has reviewed the effectiveness of the internal control system of the Company and its subsidiaries for the Current Year and that the Board considers such system to be sound and effective. The review covered all material controls, including financial, operational, compliance control and risk management functions.

On behalf of the Board

Chan Cheuk Ming
Chairman

Hong Kong
March 29, 2012

CHENG & CHENG LIMITED
CERTIFIED PUBLIC ACCOUNTANTS
鄭鄭會計師事務所有限公司
10/F. Allied Kajima Building,
138 Gloucester Road, Wanchai, Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF HARMONIC STRAIT FINANCIAL HOLDINGS LIMITED
(Formerly known as "Rainbow Brothers Holdings Limited)
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Harmonic Strait Financial Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 28 to 89, which comprise the consolidated and Company's statements of financial position as at December 31, 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2011 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Cheng & Cheng Limited
Certified Public Accountants (Practising)

Y.Y. Li, Alice
Practising Certificate Number P03373
Hong Kong
March 29, 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2011

	Note	2011 HK$'000	2010 HK$'000
Turnover	3 & 31	**588,103**	550,310
Cost of sales		**(488,702)**	(438,406)
Gross profit		**99,401**	111,904
Other revenue and other net income	4	**29,615**	1,318
Operating expenses		**(99,447)**	(82,813)
Profit from operations		**29,569**	30,409
Finance costs			
On bank borrowing		**(1,436)**	(1,069)
Other loan		**(7,684)**	(3,171)
Notional interest		**(19,293)**	(66,175)
	5	**(28,413)**	(70,415)
Impairment on goodwill		**(256,522)**	—
Loss before taxation	6	**(255,366)**	(40,006)
Income tax	7	**(1,383)**	(3,114)
Loss for the year		**(256,749)**	(43,120)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2011

	Note	2011 *HK$'000*	2010 *HK$'000*
Loss for the year		**(256,749)**	(43,120)
Other comprehensive income			
Exchange differences on translating foreign operations		**8,350**	5,240
Total comprehensive loss for the year		**(248,399)**	(37,880)
Loss for the year attributable to:			
Equity shareholders of the Company		**(255,745)**	(42,522)
Non-controlling interest		**(1,004)**	(598)
	8	**(256,749)**	(43,120)
Total comprehensive loss attributable to:			
Equity shareholders of the Company		**(248,154)**	(37,788)
Non-controlling interest		**(245)**	(92)
		(248,399)	(37,880)
Dividends	*9*	**N/A**	53,094
Loss per share			
— Basic	*10*	**(HK38 cents)**	(HK13 cents)
— Diluted		**N/A**	N/A

The notes on pages 34 to 89 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2011

	Note	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	*13*	**18,829**	18,878
Goodwill	*14*	**3,032,375**	3,288,897
		3,051,204	3,307,775
Current assets			
Investment — loan and receivable	*15*	**—**	23,000
Inventories	*16*	**14,104**	22,318
Trade receivables	*17*	**44,432**	57,294
Prepayments, deposits and other receivables	*18*	**46,558**	35,196
Restricted cash	*19*	**14,794**	49,358
Cash and cash equivalents	*20*	**113,449**	115,996
		233,337	303,162
Total Assets		**3,284,541**	3,610,937
Capital and reserves			
Share capital	*21*	**79,585**	63,585
Reserves	*22*	**2,858,544**	1,641,314
Equity attributable to shareholders of the Company		**2,938,129**	1,704,899
Non-controlling interests	*28*	**15,207**	15,452
Total Equity		**2,953,336**	1,720,351
Non-current liabilities			
Deferred taxation	*26(b)*	**12,038**	202,753
Convertible bond	*27*	**154,946**	1,452,878
		166,984	1,655,631
Current liabilities			
Trade and bills payable	*23*	**8,011**	27,245
Accruals and other payables	*24*	**144,774**	164,930
Bank borrowings-secured	*25*	**9,709**	40,621
Tax payable	*26(a)*	**1,727**	2,159
		164,221	234,955
Total Equity and Liabilities		**3,284,541**	3,610,937
Net current assets		**69,116**	68,207
Total assets less current liabilities		**3,120,320**	3,375,982

Approved and authorised for issue by the Board of Directors on March 29, 2012.

On behalf of the board

Tong Nai Kan — *Director* **Au Yu Xin** — *Director*

The notes on pages 34 to 89 form an integral part of these consolidated financial statements.

STATEMENT OF FINANCIAL POSITION

As at December 31, 2011

	Note	2011 HK$'000	2010 HK$'000
Non-current assets			
Investment in subsidiaries	*29*	**3,052,580**	3,300,103
Current assets			
Prepayments, deposits and other receivables	*18*	**145**	145
Amounts due from subsidiaries	*30*	**55,819**	74,217
Cash and cash equivalents	*20*	**188**	11
		56,152	74,373
Total Assets		**3,108,732**	3,374,476
Capital and reserves			
Share capital	*21*	**79,585**	63,585
Reserves	*22*	**2,858,184**	1,652,368
		2,937,769	1,715,953
Non-current liabilities			
Deferred taxation	*26(b)*	**16,014**	205,607
Convertible bond	*27*	**154,946**	1,452,878
		170,960	1,658,485
Current liabilities			
Accruals and other payables	*24*	**3**	38
Total Equity and Liabilities		**3,108,732**	3,374,476
Net current assets		**56,149**	74,335
Total assets less current liabilities		**3,108,729**	3,374,438

Approved and authorised for issue by the Board of Directors on March 29, 2012.

On behalf of the board

Tong Nai Kan — *Director*

Au Yu Xin — *Director*

The notes on pages 34 to 89 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2011

		Attributable to equity shareholders of the Company							
		Share capital	Share premium	Translation reserve	Capital reserve	Convertible bond reserve	Retained profits/ (Accumulated losses)	Non-controlling interest	Total
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At January 1, 2010		20,000	53,768	107	(15,000)	–	78,032	–	136,907
Dividend paid	9	–	(27,660)	–	–	–	(18,000)	–	(45,660)
Acquisition of subsidiaries		–	–	–	–	1,575,960	–	15,544	1,591,504
Issue of new share upon conversion of convertible bond		43,585	502,197	–	–	(210,262)	–	–	335,520
Deferred tax arising from conversion of convertible bond		–	–	–	–	(260,040)	–	–	(260,040)
Total comprehensive income/(loss) for the year		–	–	4,734	–	–	(42,522)	(92)	(37,880)
At December 31, 2010 and January 1, 2011		63,585	528,305	4,841	(15,000)	1,105,658	17,510	15,452	1,720,351
Dividend paid	9	–	(25,434)	–	–	–	–	–	(25,434)
Issue of new share upon conversion of convertible bond		16,000	106,902	–	–	(122,902)	–	–	–
Deferred tax arising from convertible bond		–	–	–	–	3,152	–	–	3,152
Transfer from convertible bond liability portion to equity portion		–	–	–	–	1,503,666	–	–	1,503,666
Total comprehensive income/(loss) for the year		–	–	7,591	–	–	(255,745)	(245)	(248,399)
At December 31, 2011		**79,585**	**609,773**	**12,432**	**(15,000)**	**2,489,574**	**(238,235)**	**15,207**	**2,953,336**

The notes on pages 34 to 89 form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2011

	Note	2011 HK$'000	2010 HK$'000
Operating activities			
Loss before taxation		**(255,365)**	(40,006)
Adjustments for:			
Interest income		**(455)**	(372)
Interest expenses on bank loan		**1,436**	1,069
Interest expenses on convertible bond		**19,293**	66,175
Interest expenses on other loan		**7,684**	3,171
Depreciation		**8,926**	5,726
Dividend income		**(8,433)**	—
Short-term loan waived by a substantial shareholder		**(18,183)**	—
Impairment loss on property, plant and equipment		**2,648**	—
Increase in translation reserve		**8,350**	5,240
Loss on disposal of property, plant and equipment		**368**	162
Impairment loss on goodwill		**256,522**	—
Operating profit before changes in working capital		**22,791**	41,165
Decrease/(Increase) in inventories		**8,214**	(5,439)
Decrease/(Increase) in trade receivables		**12,862**	(21,344)
Increase in prepayments, deposits and other receivables		**(11,362)**	(3,093)
(Decrease)/Increase in trade and bills payable		**(19,234)**	11,997
(Decrease)/Increase in accruals and other payables		**(1,957)**	6,832
Cash generated from operations		**11,314**	30,118
Hong Kong Profits Tax paid		**(2,937)**	(3,541)
Net cash generated from operating activities		**8,377**	26,577
Investing activities			
Purchase of property, plant and equipment		**(12,328)**	(17,366)
Interest received		**455**	372
Dividend income		**8,433**	—
Decrease/(Increase) in loan and receivable		**23,000**	(23,000)
Proceeds from acquisition of subsidiaries		**—**	139,376
Decrease/(Increase) in restricted cash		**34,564**	(49,358)
Proceeds from disposal of property, plant and equipment		**435**	—
Net cash generated from investing activities		**54,559**	50,024
Financing activities			
Interest paid		**(9,137)**	(1,069)
Repayment of bank borrowings		**(40,621)**	(8,425)
Increase in bank borrowings		**9,709**	40,621
Dividend paid		**(25,434)**	(45,660)
Net cash used in financing activities		**(65,483)**	(14,533)
Net (decrease)/increase in cash and cash equivalents		**(2,547)**	62,068
Cash and cash equivalents at beginning of year		**115,996**	53,928
Cash and cash equivalents at end of year	*20*	**113,449**	115,996

The notes on pages 34 to 89 form an integral part of these consolidated financial statements.

1. CORPORATE INFORMATION

General information

Harmonic Strait Financial Holdings Limited (the "Company") was incorporated and domiciled in the Cayman Islands under Companies Law (2004 Revision) of the Cayman Islands as an exempted company with limited liability on March 20, 2007. The Company's shares were listed on the Stock Exchange on November 19, 2007.

Pursuant to a Special resolution passed at an Extraordinary General Meeting held on March 6, 2012, the name of the Company was changed from Rainbow Brothers Holdings Limited to Harmonic Strait Financial Holdings Limited. The Registrar of Companies in the Cayman Islands issued the certificate of Incorporation on Change of Name with effect on 6 March 2012. Application has been made to the Registrar of Companies in Hong Kong and the Certificate of Registration of Change of Corporate Name of Non-Hong Kong company is expected to be issued very soon.

The Company is an investment holding company. The Group is principally engaged in the credit guarantee and investment business in the PRC, exporting of party products, the operation of concept hotels in Shenzhen and the provision of financial planning services in Hong Kong.

The address of its principal place of business in Hong Kong is Suite No. 1 on 7/F., Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong and the Company has been registered as a non-Hong Kong company under Part XI of the Hong Kong Companies Ordinance on September 4, 2007.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange and the disclosure requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(c) and 2(d) provide information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) Basis of Preparation of the Financial Statements

The consolidated financial statements for the year ended December 31, 2011 comprise the Company and the Group have been prepared in accordance with HKFRSs and under the historical cost convention except where stated otherwise in the accounting polices set out below.

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have a significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 36.

c) Amendments, new standards and interpretations issued and effective for the year ended December 31, 2011

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- HKAS 24 (revised 2009), *Related party disclosures*
- Improvements to HKFRSs (2010)
- HK(IFRIC) 19, *Extinguishing financial liabilities with equity instruments*
- Amendments to HK(IFRIC) 14, HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction — Prepayments of a minimum funding requirement

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The amendments to HK(IFRIC) 14 and HK(IFRIC) 19 have had no material impact on the Group's financial statements as they were consistent with policies already adopted by the Group.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

c) Amendments, new standards and interpretations issued and effective for the year ended December 31, 2011 *(Continued)*

The impacts of other developments are discussed below:

- HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the group because the Group is not a government-related entity.

- Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, Financial instruments: Disclosures. The disclosures about the Group's financial instruments in notes have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

d) Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2011

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 7, *Financial instruments: Disclosures — Transfers of financial assets*	July 1, 2011
Amendments to HKAS 12, *Income taxes — Deferred tax: Recovery of underlying assets*	January 1, 2012
Amendments to HKAS 1, *Presentation of financial statements — Presentation of items of other comprehensive income*	July 1, 2012
HKFRS 9, *Financial instruments*	January 1, 2015
HKFRS 10, *Consolidated financial statements*	January 1, 2013
HKFRS 11, *Joint arrangements*	January 1, 2013
HKFRS 12, *Disclosure of interests in other entities*	January 1, 2013
HKFRS 13, *Fair value measurement*	January 1, 2013
HKAS 27, *Separate financial statements (2011)*	January 1, 2013
HKAS 28, *Investments in associates and joint ventures*	January 1, 2013
Revised HKAS 19, *Employee benefits*	January 1, 2013

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

d) Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2011 *(Continued)*

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

e) Business Combinations under Common Control Combinations

Business combinations under common control are accounted for in accordance with the merger accounting. In applying merger accounting, the combined financial information incorporates the consolidated financial statements items of the combining entities or business in which the common control combination occurs as if they had been combined from the date when the combining entities or business first came under the control of controlling party.

The net assets of the combining entities or businesses are combined using the existing book values prior to the common control combinations from the controlling parties' perspective. No account is recognised in respect of goodwill or excess acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of common control combination.

The comparative amounts in the combined financial information are presented as if the entities or business had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment indicator of an impairment of the asset transferred.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

f) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity.

In the Company's statement of financial position an investment in a subsidiary is stated at cost less any impairment losses unless the investment is classified as held for sale.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

g) Goodwill

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to cash-generating units, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment.

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

h) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and jointly controlled entities, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the statement of financial position at cost less impairment losses.

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 2(u)(v) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 2(u)(ii). When these investments are derecognised or impaired, the cumulative gain or loss is reclassified from equity to profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) Other investments in debt and equity securities *(Continued)*

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

i) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Leasehold improvement	the shorter of lease-term or 4 — 5 years
Plant and machinery	2 — 5 years
Furniture, fixtures and equipment	4 — 5 years
Moulds	5 years
Motor vehicles	3 — 5 years

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

j) Leased Assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

k) Impairment of Assets

(i) Impairment of investment in debt and equity securities and other receivables

Investments in investment in debt and equity securities (other than investments in subsidiaries) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of the reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial re-organisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

— For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective Group.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

k) Impairment of Assets *(Continued)*

(i) Impairment of investment in debt and equity securities and other receivables (Continued)

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment (other than properties carried at revalued amounts);

— pre-paid interests in leasehold land classified as being held under an operating lease;

— investment in subsidiaries (except for those classified as held for sale or included in a disposal group that is classified as held for sale); and

— goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

k) Impairment of Assets *(Continued)*

(ii) Impairment of other assets (Continued)

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash—generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss in reversed if there has been a favorable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

l) Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprise all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

l) Inventories *(Continued)*

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

m) Loans and receivables

Loan and receivables, including investment-loan and receivables and trade and other receivables, are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

n) Convertible bond

Convertible bond that can be converted to equity share capital at the option of the holders, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component. At initial recognition, the liability component of the convertible bond is measured as the present value of the future interest and principal payments, discounted at the market interest rate for similar liabilities that do not have a conversion option. The remaining proceeds are allocated to the conversion option as equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method, until extinguished on conversion or maturity.

The equity component is recognised in equity, net of any tax effects. When the bond is converted, the relevant equity component and the carrying amount of the liability component at the time of conversion are transferred to share capital and share premium for the shares issued. When the note is redeemed, the relevant equity component is transferred to retained profits or accumulated losses.

o) Interest-bearing Borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

p) Trade and Other Payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

q) Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that the repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

r) Employee Benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

s) Income Tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

s) Income Tax *(Continued)*

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Company controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

s) Income Tax *(Continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

— the same taxable entity; or

— different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

t) Financial Guarantees Issued, Provisions and Contingent Liabilities

i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e., the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

ii) Contingent liabilities acquired in business combinations

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined. Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed.

iii) Provision for the guarantee services

Provision for the guarantee services is provided in the amount of 50% on revenue from the credit guarantee business for the year and at 1% on the outstanding guarantee amount at the end of the reporting period as in according to <融資性擔保公司暫行管理規定>.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

t) Financial Guarantees Issued, Provisions and Contingent Liabilities *(Continued)*

iv) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

u) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

iii) Commission income

Commission income for broking business is recorded as income on a trade date basis.

iv) Credit guarantee service and investment income

Credit guarantee service and investment income consists of guarantee fee and related service income is recognised when the service is rendered or the related risks and rewards of ownership is transfered.

v) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

2. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

u) **Revenue Recognition** *(Continued)*

vi) Hotel accommodation service

Hotel accommodation service is recognised when the service is rendered.

vii) Other income not stated above is recognised whenever received or receivable.

v) **Translation of foreign currencies**

i) Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollar, which is the Group's functional and presentation currency.

ii) Transactions and balances

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Items in the consolidated statement of financial position, including goodwill arising on consolidation of foreign operations acquired on or after January 1, 2005, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before January 1, 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

w) Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

x) Related Parties

For the purpose of these consolidated financial statements, parties are considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

y) Segment Reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3. TURNOVER

Turnover represents net amounts received and receivable for goods sold, less sales returns and discounts, insurance brokerage commission income, provision of hotel accommodation service and credit guarantee service and investment income. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2011	2010
	HK$'000	*HK$'000*
Sales of goods	**548,004**	521,085
Insurance brokerage commission income	**20,873**	19,816
Provision of hotel accommodation service	**13,184**	6,738
Credit guarantee service and investment income	**6,042**	2,671
	588,103	550,310

4. OTHER REVENUE AND OTHER NET INCOME

	2011	2010
	HK$'000	*HK$'000*
Other revenue		
Total interest income on financial assets not at fair value through profit or loss	**455**	372
Dividend income	**8,433**	—
Sundry income	**18,901**	946
	27,789	1,318
Other net income		
Net exchange gain	**1,826**	—
	29,615	1,318

5. FINANCE COSTS

	2011	2010
	HK$'000	*HK$'000*
Interest expense on bank borrowings wholly repayable within five years	**1,436**	1,069
Interest expenses on loan advance from a related Company *(note 32(a)(ii))*	**7,684**	3,171
Imputed interest expenses on convertible bond	**19,293**	66,175
Total interest expenses on financial liabilities not at fair value through profit or loss	**28,413**	70,415

The imputed interest expenses of HK$19,293,000 (2010: HK$66,175,000) for the year is in respect of the convertible bond issued by the Company on August 27, 2010. The Company does not have to pay any interest over the life of this convertible bond under the terms of its issuance. It has no real impact on the cash flow of the Group.

6. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting) the following:

	2011	2010
	HK$'000	*HK$'000*
Auditor's remuneration	**900**	820
Cost of inventories *(note 16(b))*	**476,821**	426,758
Depreciation *(note 13)*	**8,926**	5,726
Impairment loss reversed on trade receivables *(note 17(b))*	**—**	(115)
Loss on disposal of property, plant and equipment written off	**368**	162
Staff costs:		
— Salaries, wages and other benefits (including directors' emoluments)	**46,456**	42,686
— Contributions to defined contribution retirement plans	**2,227**	1,370
Operating lease charges on rented premises	**12,518**	11,099
Provision for guarantee contracts	**2,652**	619
Net exchange (gain)/loss	**(1,826)**	2,051
Impairment loss on property, plant and equipment	**2,648**	—

7. INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

a) The amount of taxation charged to the consolidated statement of comprehensive income represents:

	2011	2010
	HK$'000	*HK$'000*
Hong Kong Profits Tax		
Provision for the year	**2,425**	4,371
Under provision in respect of prior years	**80**	38
Deferred tax		
Reversal of temporary differences	**(1,122)**	(1,295)
	1,383	3,114

Hong Kong Profits Tax has been provided for at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits for the year. Taxation of subsidiaries in People's Republic of China and overseas are charged at the appropriate current rates of taxation ruling in the relevant countries.

b) Reconciliation between actual tax expense and notional tax on loss before taxation at the applicable tax rates:

	2011	2010
	HK$'000	*HK$'000*
Loss before taxation	**(255,366)**	(40,006)
Notional tax on loss before taxation, calculated at the applicable tax rate 16.5% (2010: 16.5%)	**(42,135)**	(6,601)
Effect of different tax rate in other country	**(1,760)**	(877)
Tax effect of income not subject to taxation	**(3,040)**	(2,602)
Tax effect of expenses not deductible for taxation purposes	**45,508**	10,945
Unused tax losses not recognised	**2,735**	2,210
Under-provision in prior years	**80**	38
Tax effect of origination and reversal of temporary difference	**(5)**	1
Actual tax expense	**1,383**	3,114

8. LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The loss attributable to equity shareholders of the Company is dealt with in the consolidated financial statements of the Company to the extent of HK$259,568,000 (2010: loss of HK$66,940,000).

9. DIVIDENDS

	Note	**2011** **HK$'000**	2010 *HK$'000*
Interim dividend declared and paid of 3 cents per ordinary share	*22*	—	6,000
Special dividend declared and paid of 5 cents per ordinary share	*22*	—	21,660
Final dividend proposed after the end of the reporting period of 4 cents per ordinary share		—	25,434
		—	53,094
Final dividend of 4 cents (2010: 9 cents) per ordinary share paid in respect of the previous financial year	*22*	**25,434**	18,000

The board of directors of the Company did not recommend any final dividend for the year ended December 31, 2011. The total dividend recognised during the year is HK$25,434,000 (2010: HK$45,660,000).

10. LOSS PER SHARE

a) Basic loss per share

Basic loss per share is calculated by dividing the loss attributable to equity shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	2011	2010
	HK$'000	*HK$'000*
Loss attributable to equity shareholders of the Company	**(255,745)**	(42,522)

	2011	2010
	'000 shares	*'000 shares*
Weighted average number of ordinary shares		
At the beginning of the year	**635,850**	200,000
Effect of conversion of convertible bond	**42,411**	120,963
At the end of the year	**678,261**	320,963

Total ordinary shares outstanding at December 31, 2011 was 795,850,000 shares (2010: 635,850,000 shares).

b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company's only dilutive potential ordinary shares are the convertible bond issued in 2010. The convertible bond is assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expenses. Since the impact of conversion of convertible bond on earnings per share is anti-dilutive, diluted earnings per share was not presented in both years.

11. RETIREMENT BENEFITS COSTS

The Group has implemented a provident fund scheme for its staff in Hong Kong in compliance with the requirements of the Mandatory Provident Fund Schemes Ordinance (the "MPF Ordinance") effective from December 1, 2000. The Group contributed according to the minimum requirements of the MPF Ordinance and the contributions are charged to the consolidated statement of comprehensive income.

The employees of the Group's subsidiaries that operated in the People's Republic of China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute pension, based on a certain percentage of their payroll costs, to the pension schemes. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

12. DIRECTORS' REMUNERATION AND INDIVIDUALS WITH HIGHEST PAY

a) Directors' remuneration disclosed pursuant to section 161 of Hong Kong Companies Ordinance is shown as follows:

	For the year ended December 31, 2011				
	Fees	Basic salaries, allowance and other benefits	Discretionary bonus	Contributions to retirement scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors					
Hui Kwan Wah, Hugo *(resigned with effect from July 6, 2011)*	—	2,554	—	7	2,561
Ng Chi Man *(resigned with effect from January 10, 2011)*	—	146	—	—	146
Wong Sai Ming *(resigned with effect from January 4, 2012)*	—	1,669	—	12	1,681
An Yu Xin *(Vice Chairman) (appointed on January 10, 2011)*	—	628	—	—	628
Sun Pei Ying *(appointed on January 14, 2011 and resigned with effect from February 24, 2012)*	—	77	—	—	77
Non-executive Director					
Ko Ming Tung, Edward *(appointed on May 9, 2011)*	97	—	—	—	97
Independent Non-executive Directors					
Chan Cheuk Ming *(Chairman) (re-designed from non-executive director to independent non-executive director on July 28, 2011)*	177	—	—	—	177
Cheung Wah Keung	150	—	—	—	150
Anthony Espina	150	—	—	—	150
Wong Che Keung *(resigned with effect from May 9, 2011)*	53	—	—	—	53
	627	5,074	—	19	5,720

12. DIRECTORS' REMUNERATION AND INDIVIDUALS WITH HIGHEST PAY *(Continued)*

a) Directors' remuneration disclosed pursuant to section 161 of Hong Kong Companies Ordinance is shown as follows: *(Continued)*

	For the year ended December 31, 2010				
	Fees	Basic salaries, allowance and other benefits	Discretionary bonus	Contributions to retirement scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors					
Hui Kwan Wah, Hugo *(Chairman)*	—	2,770	3,000	12	5,782
Ng Chi Man *(Vice Chairman and Chief Executive Officer)*	—	2,770	3,000	12	5,782
Wong Sai Ming	—	1,300	1,000	12	2,312
Wong Tat Tung	—	1,200	—	12	1,212
Non-executive Director					
Chan Cheuk Ming	60	—	—	—	60
Independent Non-executive Directors					
Cheung Wah Keung	150	—	—	—	150
Anthony Espina	150	—	—	—	150
Wong Che Keung	150	—	—	—	150
	510	8,040	7,000	48	15,598

No director waived any emoluments during the year (2010: Nil). No inducement payment or compensation for loss of office was paid or payable to any director for the year ended December 31, 2011 and December 31, 2010.

As at December 31, 2011, no share option has been granted and held by the directors under the Company's share option scheme (2010: Nil). Details of the share option scheme are disclosed in note 21(b).

b) Individuals with highest emoluments

Of the five individuals with the highest paid in the Group, two (2010: four) were directors of the Company whose emoluments are disclosed in note 12(a) above. The emoluments of the remaining three (2010: one) individual were as follows:

	2011	2010
	HK$'000	*HK$'000*
Salaries and other benefits	**5,239**	2,228
Contributions to defined contribution retirement plans	**36**	12
	5,275	2,240

12. DIRECTORS' REMUNERATION AND INDIVIDUALS WITH HIGHEST PAY *(Continued)*

b) Individuals with highest emoluments *(Continued)*

Their emoluments were within the following bands:

	2011	2010
	Number of employees	*Number of employees*
HK$1,000,001 to HK$1,500,000	**2**	—
HK$2,000,001 to HK$2,500,000	**—**	1
HK$2,500,001 to HK$3,000,000	**1**	—

During both years, no inducement payment or compensation for loss of office was paid to the five highest paid individuals.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement	**Plant and machinery**	**Furniture, fixtures and equipment**	**Moulds**	**Motor vehicles**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost						
At January 1, 2010	5,308	18,085	6,311	1,191	1,255	32,150
Additions	14,731	648	1,668	82	237	17,366
Acquisition of subsidiary	—	—	239	—	—	239
Disposal	(770)	(734)	(876)	—	—	(2,380)
At December 31, 2010 and January 1, 2011	19,269	17,999	7,342	1,273	1,492	47,375
Additions	10,143	625	250	112	1,198	12,328
Impairment	(3,598)	—	—	—	—	(3,598)
Disposal	(2,934)	(150)	(1,927)	(94)	(1,393)	(6,498)
At December 31, 2011	22,880	18,474	5,665	1,291	1,297	49,607
Accumulated depreciation						
At January 1, 2010	3,261	16,028	3,542	903	1,255	24,989
Charge for the year	3,311	1,005	1,254	97	59	5,726
Written back on disposal	(705)	(726)	(787)	—	—	(2,218)
At December 31, 2010 and January 1, 2011	5,867	16,307	4,009	1,000	1,314	28,497
Charge for the year	6,298	797	1,318	102	411	8,926
Written back on impairment	(950)	—	—	—	—	(950)
Written back on disposal	(2,802)	(150)	(1,737)	(58)	(948)	(5,695)
At December 31, 2011	8,413	16,954	3,590	1,044	777	30,778
Net book value						
At December 31, 2011	14,467	1,520	2,075	247	520	18,829
At December 31, 2010	13,402	1,692	3,333	273	178	18,878

14. GOODWILL

	2011	2010
	HK$'000	*HK$'000*
At the beginning of the year	**3,288,897**	35,375
Acquisition of subsidiaries	**—**	3,253,522
Impairment	**(256,522)**	—
At the end of the year	**3,032,375**	3,288,897

All goodwill arose as a result of acquisition of businesses.

Impairment tests for cash-generating units containing goodwill

For the purposes of impairment testing, goodwill has been allocated to the following cash generating units ("CGU"). The carrying amount of goodwill as at the end of the reporting period is allocated as follows:

	2011	2010
	HK$'000	*HK$'000*
Party products manufacturing and trading business	**26,375**	26,375
Wealth management financial planning services business	**—**	9,000
Credit guarantee business	**3,006,000**	3,253,522
	3,032,375	3,288,897

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are assumed to remain constant. The estimated growth rates used are comparable to the growth rate for the industry.

Key assumptions for party products manufacturing and trading businesses used for value-in-use calculations:

	2011	2010
Gross margin	**12%**	14%
Growth rate	**3%**	2%
Discount rate	**19%**	22%

14. GOODWILL *(Continued)*

Impairment tests for cash-generating units containing goodwill *(Continued)*

Key assumptions for wealth management financial planning services business used for value-in-use calculations:

	2011	2010
Gross margin	**42-44%**	52%
Growth rate	**5% got first year and 10% thereafter**	25% and 20% for the first year and second year respectively and 15% for the next 3 years
Discount rate	**19%**	19%

Management determined the budgeted gross margin based on past performance and its expectation for market development. The weighted average growth rate used is consistent with forecasts included in industry reports. The discount rate used is pre-tax and reflect specific risks relating to the relevant segments. The carrying amount of the unit approximates to its recoverable amount. Any adverse change in the key assumptions could reduce the recoverable amount below carrying amount. Based on the impairment tests performed, impairment loss of HK$9,000,000 is recognised for the year (2010: Nil).

The key assumptions for credit guarantee business used, include: there will be no major change in the existing political, legal and economic conditions in the locations in which Market Season's Group is operating; there will be no major change in the current taxation law in the locations in which the business are operating, that the rates of tax payable by Market Season's Group regarding its business operations remain unchanged and that all applicable laws and regulations will be complied by Market Season's Group; the interest rates and exchange rates will not differ materially from those presently prevailing; Market Season's Group is free from any unsettled litigations; Market Season's Group shall have no legal impediment to obtain or renew all necessary permits and approvals to carry out its business; Market Season's Group shall secure and retain competent management, key personnel, marketing and technical staff to carry out and support its existing and planned businesses; the operating assets, management system and trading platform of Market Season's Group are in a good working condition and can perform efficiently accordingly to the purposes for which they were designed and built; the business forecast of Market Season's Group revealed is based on reasonable grounds, reflecting estimates which have been arrived at after due and careful consideration and the availability of finance will be in accordance with business plan and projection and other assumptions, etc. Based on the impairment tests performed, impairment loss of HK$247,522,000 is recognised for the year (2010: Nil).

	2011	2010
Gross margin	**N/A**	N/A
Growth rate	**N/A**	N/A
Discount rate	**12%**	14%

15. INVESTMENT — LOAN AND RECEIVABLE

	2011	2010
	HK$'000	*HK$'000*
Other loan and receivable	—	23,000

16. INVENTORIES

a) Inventories in the consolidated statement of financial position comprise:

	2011	2010
	HK$'000	*HK$'000*
Raw materials	**8,190**	8,598
Work-in-progress	**2,294**	7,570
Finished goods	**3,620**	6,150
	14,104	22,318

b) The analysis of the amount of inventories recognised as an expense is as follows:

		2011	2010
	Note	*HK$'000*	*HK$'000*
Carrying amount of inventories sold	*6*	**476,821**	426,758

17. TRADE RECEIVABLES

Customers are usually offered a credit period of up to 90 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. Further details on the Group's credit policy are set out in note 35(a)(i).

a) An ageing analysis of trade receivables is as follows:

	2011	2010
	HK$'000	*HK$'000*
Within 30 days	**17,397**	40,955
31 to 60 days	**13,511**	9,278
61 to 90 days	**6,257**	1,546
Over 90 days	**7,267**	5,765
	44,432	57,544
Less: Provision for impairment	—	(250)
	44,432	57,294

17. TRADE RECEIVABLES *(Continued)*

a) An ageing analysis of trade receivables is as follows: *(Continued)*

Trade receivables included HK$7,267,000 (2010: HK$5,515,000) which were past due at December 31, 2011. Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

b) Impairment loss on trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

Movements in the allowance for doubtful debts:

	Note	**2011**	2010
		HK$'000	*HK$'000*
At the beginning of the year		**250**	365
Impairment loss reversed	*6*	**—**	(115)
Uncollectible amount written off		**(250)**	—
At the end of the year		**—**	250

For the year ended December 31, 2011, trade receivables of the Group amounting to HK$250,000 (2010: Nil) were uncollectible and written off. None of trade receivables were individually determined to be impaired.

c) Trade receivables denominated in other currency

Included in the trade receivables are the following amounts denominated in a currency other than the functional currency, which is Hong Kong dollar:

	2011	2010
	US$'000	*US$'000*
	1,581	5,036

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	The Group		The Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade deposits and other receivables	**40,770**	15,695	**—**	—
Prepayments	**1,218**	16,033	**145**	145
Rental, utility and sundry deposits	**2,144**	3,167	**—**	—
Staff advances	**2,426**	301	**—**	—
	46,558	35,196	**145**	145

The carrying amounts of prepayments, deposits and other receivables at the end of the reporting period approximated their fair values. As at December 31, 2011 and 2010, none of the prepayments, deposits and other receivables were impaired. All of the prepayment, trade deposits and other receivables are expected to be recovered, capitalised as fixed assets or recognised as expenses within one year.

19. RESTRICTED CASH

Approximately HK$14,794,000 (RMB12 million) (2010: HK$49,358,000 (RMB42 million)) of the bank balances is restricted to be drawn down since the balance is served as guarantee for its guarantee business.

20. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**113,449**	57,234	**188**	11
Time deposits	**—**	58,762	**—**	—
Cash and cash equivalents	**113,449**	115,996	**188**	11

Cash and cash equivalents in the consolidated cash flow statements as at December 31, 2011 and 2010 were HK$113,449,000 and HK$115,996,000 respectively.

Cash and cash equivalents include short-term bank deposit, carrying interest at prevailing market rates. The carrying amounts at the end of the reporting period approximated their fair values.

20. CASH AND CASH EQUIVALENTS *(Continued)*

Included in cash and cash equivalents are the following amounts denominated in currencies other than the functional currency, which is Hong Kong dollar:

	The Group	
	2011	2010
	'000	*'000*
	US$268	US$568
	RMB86,110	RMB88,043

21. SHARE CAPITAL

	The Group and the Company	
	Number of shares	Amount
	'000	*HK$'000*
Ordinary shares of HK$0.1 each		
Authorised:		
As at January 1, 2010	**1,000,000**	100,000
Increase in authorised share capital	**4,000,000**	400,000
As at December 31, 2010 and December 31, 2011	**5,000,000**	500,000
Issued and fully paid:		
As at January 1, 2010	**200,000**	20,000
Issue of new shares upon conversion of convertible bond	**435,850**	43,585
As at January 1, 2011 and December 31, 2010	**635,850**	63,585
Issue of new shares upon conversion of convertible bond	**160,000**	16,000
As at December 31, 2011	**795,850**	79,585

a) The Company was incorporated in the Cayman Islands on March 20, 2007. Details of the changes in par value, total number of authorised share capital and fully paid-up share capital can be found in the Company's Prospectus and previous annual reports.

b) The Company has a share option scheme, under which the Company may grant options to any employee or director to subscribe for shares in the Company, up to a maximum of 10% of the issued share capital of the Company (absolute maximum number of share option: 635.85 million shares).

c) By an ordinary resolution by the shareholders on August 24, 2010, the authorised share capital of the Company was increased from HK$100 million divided into 1,000 million ordinary shares in the capital of the Company of a par value of HK$0.10 each (each a "Share") to HK$500 million divided into 5,000 million Shares by the creation of 4,000 million additional new Shares.

d) During the year, convertible bond with principal amount of HK$200,000,000 were converted into 160,000,000 ordinary shares of the Company of HK$0.1 each at a conversion price of HK$1.25 each.

22. RESERVES

The Group

	Note	Share premium	Translation reserve	Capital reserve	Convertible bond reserve	Retained profits/ (Accumulated losses)	Total
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At January 1, 2010		53,768	107	(15,000)	—	78,032	116,907
Dividend paid	9	(27,660)	—	—	—	(18,000)	(45,660)
Acquisition of subsidiaries		—	—	—	1,575,960	—	1,575,960
Issue of new share upon conversion of convertible bond		502,197	—	—	(210,262)	—	291,935
Deferred tax arising from conversion of convertible bond		—	—	—	(260,040)	—	(260,040)
Total comprehensive income/(loss) for the year		—	4,734	—	—	(42,522)	(37,788)
At December 31, 2010 and at January 1, 2011		528,305	4,841	(15,000)	1,105,658	17,510	1,641,314
Dividend paid	9	(25,434)	—	—	—	—	(25,434)
Issue of new share upon conversion of convertible bond		106,902	—	—	(122,902)	—	(16,000)
Transfer from convertible bond liability portion to equity portion		—	—	—	1,503,666	—	1,503,666
Deferred tax arising from convertible bond		—	—	—	3,152	—	3,152
Total comprehensive income/(loss) for the year		—	7,591	—	—	(255,745)	(248,154)
At December 31, 2011		**609,773**	**12,432**	**(15,000)**	**2,489,574**	**(238,235)**	**(2,858,544)**

22. RESERVES *(Continued)*

The Company

	Share premium	Contributed surplus	Convertible bond reserve	Retained profits/ (Accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At January 1, 2010	53,768	31,971	—	71,374	157,113
Dividend paid	(27,660)	—	—	(18,000)	(45,660)
Acquisition of subsidiaries	—	—	1,575,960	—	1,575,960
Issue of new share upon conversion of convertible bond	502,197	—	(210,262)	—	291,935
Deferred tax arising from conversion of convertible bond	—	—	(260,040)	—	(260,040)
Total comprehensive loss for the year	—	—	—	(66,940)	(66,940)
At December 31, 2010 and January 1, 2011	528,305	31,971	1,105,658	(13,566)	1,652,368
Dividend paid	(25,434)	—	—	—	(25,434)
Issue of new share upon conversion of convertible bond	106,902	—	(122,902)	—	(16,000)
Transfer from convertible bond liability portion to equity portion	—	—	1,503,666	—	1,503,666
Deferred tax arising from conversion of convertible bond	—	—	3,152	—	3,152
Total comprehensive loss for the year	—	—	—	(259,568)	(259,568)
At December 31, 2011	609,773	31,971	2,489,574	(273,134)	2,858,184

22. RESERVES *(Continued)*

i) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the Companies Law of the Cayman Islands, the funds in share premium account are distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

ii) Translation reserve

Translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operation.

iii) Capital reserve

Capital reserve of the Group represents the difference between the nominal values of the ordinary shares issued by the Company and the share capital of Silver Pattern Limited acquired through the share swap pursuant to the Reorganisation.

iv) Contributed surplus

Contributed surplus represents the excess of the fair value of the shares of Silver Pattern Limited determined on the basis of the consolidated net assets of Silver Pattern Limited at the date of the Reorganisation over the nominal value of the shares issued by the Company in exchange thereof.

v) Convertible bond reserve

The convertible bond reserve represents the unexercised equity component of the convertible bond issued by the Company recognised in accordance with the accounting policy adopted for convertible bond in Note 2(n).

vi) Distributability of reserves

At December 31, 2011, the aggregate amount of reserves available for distribution to equity shareholders of the Company was approximately HK$327,640,000 (2010: HK$514,739,000).

23. TRADE AND BILLS PAYABLE

The ageing analysis of trade and bills payable is as follows:

	2011	2010
	HK$'000	*HK$'000*
0 to 30 days	**7,293**	23,584
31 to 60 days	**693**	1,240
61 to 90 days	**—**	182
Over 90 days	**25**	2,239
	8,011	27,245

The trade and bills payable are non-interest bearing and are normally settled on 90-day terms. The carrying amounts of the trade and bills payable at the end of the reporting period approximated their fair values.

Included in trade and bills payable are the following amounts denominated in currencies other than the functional currency, which is Hong Kong dollar:

	2011	2010
	'000	*'000*
	—	US$12
	RMB6,150	RMB11,808

24. ACCRUALS AND OTHER PAYABLES

	The Group		**The Company**	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Interest payables	**1,930**	3,556	**—**	—
Accrued salaries and bonuses	**7,091**	11,256	**—**	—
Trade deposits received	**2,165**	6,577	**—**	—
Accrued expenses	**18,588**	10,342	**3**	38
Other short-term loan	**115,000**	133,199	**—**	—
	144,774	164,930	**3**	38

The carrying amounts of accruals and other payables at the end of the reporting period approximated their fair values. All of the accruals and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

25. BANK BORROWINGS — SECURED

The analysis of the carrying amount of bank borrowings is as follows:

	2011	2010
	HK$'000	*HK$'000*
Current liabilities		
Portion of bank borrowing due for repayment within one year	**6,340**	15,989
Portion of bank borrowing due for repayment after one year which contain a repayment on demand clause	**3,369**	24,632
	9,709	40,621

The carrying amounts at the end of the reporting period approximated their fair values. Bank borrowings of the Group consisted of fixed-rate borrowings and floating-rate borrowings. Fixed-rate borrowings bore interest at effective interest rate ranging from 2.0% to 5.0% (2010: 2.0% to 5.0%) over Hong Kong Interbank Offered Rate or Singapore Interbank Offered Rate. Floating-rate borrowings bore interest at effective interest rate ranging from 1.0% to 3.0% per annum (2010: 1.0% to 3.0%) over Hong Kong Interbank Offered Rate or Singapore Interbank Offered Rate.

At December 31, 2011, interest-bearing bank loans were due for repayment as follows:

	2011	2010
	HK$'000	*HK$'000*
Portion of bank borrowing due for repayment within one year	**6,340**	15,989
Bank borrowing due for repayment after one year *(Note 1)*:		
After 1 year but within 2 years	**1,220**	8,363
After 2 years but within 5 years	**2,149**	16,269
	9,709	40,621

Note 1 — The amounts due are based on the scheduled repayment dates set out in the loan agreements

The Company, and its wholly-owned subsidiaries, Rainbow Brothers Limited and Silver Lining Limited have provided corporate guarantees and, in association therewith, floating charges on monies standing to the credits of, or owing to, the Group's accounts with Banks, to secure banking facilities granted to the Group.

26. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

a) Tax payable in the consolidated statement of financial position represents:

	2011	2010
	HK$'000	*HK$'000*
At the beginning of the year	**(2,159)**	(1,291)
Provision for Hong Kong Profits tax	**(2,425)**	(4,371)
Under-provision in prior years	**(80)**	(38)
Hong Kong Profits Tax paid	**2,937**	3,541
At the end of the year	**(1,727)**	(2,159)

b) Deferred tax liabilities/(assets) recognised:

The component of deferred tax liabilities/(assets) recognised in the consolidated statement of financial position and the movements during the year are as follows:

The Group

	Depreciation allowance in excess of the related depreciation	**Unused tax losses**	**Convertible bond**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At January 1, 2010	173	(1,732)	—	(1,559)
Recognised upon issuance of convertible bond	—	—	260,040	260,040
Credited to reserve	—	—	(54,433)	(54,433)
Credited to profit or loss	(191)	(1,104)	—	(1,295)
At December 31, 2010	(18)	(2,836)	205,607	202,753
Deferred tax released as the repayment right waived	—	—	(186,441)	(186,441)
Credited to reserve	—	—	(3,152)	(3,152)
Credited to profit or loss	180	(1,302)	—	(1,122)
At December 31, 2011	162	(4,138)	16,014	12,038

	2011	2010
	HK$'000	*HK$'000*
Deferred tax assets recognised	**16,176**	205,607
Deferred tax liabilities recognised	**4,138**	2,854

26. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

b) Deferred tax liabilities/(assets) recognised: *(Continued)*

The Company

	Convertible bond	Total
	HK$'000	*HK$'000*
At January 1, 2010	—	—
Recognised upon issuance of convertible bond	260,040	260,040
Credited to reserve	(54,433)	(54,433)
At December 31, 2010	205,607	205,607
Deferred tax released as the repayment right waived	(186,441)	(186,441)
Credited to reserve	(3,152)	(3,152)
At December 31, 2011	16,014	16,014

27. CONVERTIBLE BOND

On August 27, 2010, the Company issued convertible bond with an aggregated principal amount of HK$3,243,750,000 with a term of five years as consideration for the acquisition of 90% beneficial interest in 和協海峽信用擔保有限公司. The bond is unsecured and carry zero coupon interest rate. The bond is convertible into ordinary shares of the Company at a conversion price of HK$1.25 per conversion share at any time during the period commencing from the date of issue of convertible bond.

At the initial recognition on August 27, 2010 which was the issue date of the convertible bond, the fair value of the embedded derivatives portion of the convertible bond were determined by an independent professional valuer, Asset Appraisal Limited, using the binominal options pricing model; the liability component of the convertible bond at the issue date is the residual amount after recognising the fair value of the embedded derivatives and subsequently carried at amortised cost using an effective interest rate of 14% per annum.

During the year, a majority convertible bond holder, Market Speed Limited covenanted by deed with the Company that it will (1) convert all the Market Speed Limited Remaining convertible bond into fully-paid shares of the Company on or before the Maturity Date, subject to existing terms and conditions under which the Issued convertible bond was issued by the Company and approved by the Stock Exchange, and waive its right to demand repayment from the Company in respect of any Market Speed Limited Remaining convertible bond not so converted on the Maturity Date; and (2) procure all its future transferees, if any, of the Market Speed Limited Remaining convertible bond to observe and comply with this covenant.

27. CONVERTIBLE BOND *(Continued)*

	The Group and Company		
	Equity portion	**Liability portion**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At January 1, 2010	—	—	—
Principal value of convertible bond on the date of issue	1,575,960	1,667,790	3,243,750
Imputed interest amortised charged to consolidated statement of comprehensive income	—	66,175	66,175
Conversion into new shares	(210,262)	(281,087)	(491,349)
Deferred tax arising from conversion of convertible bond	(260,040)	—	(260,040)
At December 31, 2010	1,105,658	1,452,878	2,558,536
Imputed interest amortised charged to consolidated statement of comprehensive income	—	19,293	19,293
Transfer from convertible bond liability portion to equity portion	1,503,666	(1,317,225)	186,441
Conversion into new shares	(122,902)	—	(122,902)
Deferred tax arising from convertible bond	3,152	—	3,152
At December 31, 2011	2,489,574	154,946	2,644,520

28. NON-CONTROLLING INTERESTS

	2011	2010
	HK$'000	*HK$'000*
At the beginning of the year	**15,452**	—
Non-controlling interests arising on the acquisition	**—**	15,544
Total comprehensive loss for the year	**(245)**	(92)
At the end of the year	**15,207**	15,452

29. INVESTMENT IN SUBSIDIARIES

Investment in subsidiaries represents investments in unlisted shares at cost.

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of establishment/ incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activities
Silver Pattern Limited	British Virgin Islands	US$1	100%	Investment holdings
Rainbow Brothers Limited	Hong Kong	HK$200,000	100%	General trading
Silver Lining Limited	Hong Kong	HK$1	100%	General trading and production of party products
Cheerful Arts Limited	Hong Kong	HK$1	100%	Investment holdings
呼嚕棧酒店管理(深圳)有限公司 #, ####	The People's Republic of China	US$2,000,000	100%	Hotel management and general trading
潮藝酒店管理(深圳)有限公司 #, ###, ####	The People's Republic of China	US$1,000,000	100%	Hotel management
Hotel Zzz Franchise Limited	British Virgin Islands	US$1	100%	Franchise holdings
Soccer Sky Limited	British Virgin Islands	US$1	100%	Investment holdings
Clear Action Limited	British Virgin Islands	US$1	100%	Investment holdings
Channel 8 Financial Services Limited	British Virgin Islands	US$1	100%	Investment holdings
Channel 8 Financial Planning Limited	Hong Kong	HK$100	100%	Inactive
Channel 8 Wealth Management Limited	Hong Kong	HK$10,000,000	100%	Provision of wealth management financial planning service

29. INVESTMENT IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activities
Channel 8 Securities Limited	Hong Kong	HK$1	100%	Inactive
Channel 8 Immigration Consulting Limited	Hong Kong	HK$1	100%	Provision of immigration consulting service
Market Season Limited	British Virgin Islands	US$1	100%	Investment holdings
Green Link Holdings Limited	Hong Kong	HK$1	100%	Investment holdings
Hong Kong New Smart Energy Group Limited	Hong Kong	HK$1,000,000	100%	Investment holdings
和協海峽信用擔保有限公司 ##, ####	The Peoples's Republic of China	US$20,000,000	90%	Provision of credit service and conduct investment business
Harmonic Strait (HK) Limited	Hong Kong	HK$1	100%	Investment holdings
Castle Ascent Limited	Hong Kong	HK$1	100%	Investment holdings
Earn Right Limited	Hong Kong	HK$1	100%	Inactive

The Group's effective interest in Silver Pattern Limited and Market Season Limited is held directly by the Company. Effective interest in all other subsidiaries is held indirectly.

These subsidiaries are registered as wholly-owned foreign enterprises under the PRC law.

This subsidiary is registered as a sino-foreign joint venture limited liability company incorporated in PRC.

Changed name to 呼嚕棧酒店(深圳)有限公司 subsequent to end of the reporting period.

The statutory reports were issued by PRC auditors.

30. AMOUNTS DUE FROM SUBSIDIARIES

The amounts are unsecured, interest-free and repayable on demand.

31. SEGMENT REPORTING

(a) Segment Revenues and Results

The following is an analysis of the Group's revenue and results by operation segment:

Year ended December 31, 2011

	Credit guarantee and investment business	Exporting business	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue				
External sales	6,042	548,004	34,057	588,103
Result				
Segment results	(9,934)	24,108	(1,746)	12,428
Interest revenue				455
Other income				29,425
Unallocated corporate expenses				(1,448)
Interest expense				(28,413)
Impairment loss on goodwill				(256,522)
Impairment loss on property, plant and equipment				(2,649)
Depreciation and amortisation				(8,642)
Loss before taxation				(255,366)
Income tax expenses				(1,383)
Loss for the year				(256,749)

31. SEGMENT REPORTING *(Continued)*

(a) Segment Revenues and Results *(Continued)*

Year ended December 31, 2010

	Credit guarantee and investment business	Exporting business	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue				
External sales	2,671	521,086	26,553	550,310
Result				
Segment results	(2,409)	42,125	(2,024)	37,692
Interest revenue				372
Other income				946
Unallocated corporate expenses				(2,875)
Interest expense				(70,415)
Depreciation and amortisation				(5,726)
Loss before taxation				(40,006)
Income tax expenses				(3,114)
Loss for the year				(43,120)

The accounting policies of the operating segments are the same as the accounting policies of the Group. Segment profit represents the profit earned by each segment without allocation of administrative expenses, other income, other gains and losses (except impairment loss on goodwill), and finance cost. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and performance assessment.

31. SEGMENT REPORTING *(Continued)*

(b) Segment Assets and Liabilities

The following is an analysis of the Group's assets and liabilities by operating segment:

Year ended December 31, 2011

	Credit guarantee business	**General trading business**	**Other**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
ASSETS				
Segment assets	**38,648**	**64,026**	**2,274**	**104,948**
Bank balances and cash				**128,243**
Unallocated corporate assets				**3,051,350**
Consolidated total assets				**3,284,541**
LIABILITIES				
Segment liabilities	**4,438**	**24,131**	**4,868**	**33,437**
Bank borrowings				**9,709**
Unallocated corporate liabilities				**288,059**
Consolidated total liabilities				**331,205**

Year ended December 31, 2010

	Credit guarantee business	General trading business	Other	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS				
Segment assets	51,530	100,823	11,667	164,020
Bank balances and cash				115,996
Unallocated corporate assets				3,330,921
Consolidated total assets				3,610,937
LIABILITIES				
Segment liabilities	4,623	48,406	16,216	69,245
Bank borrowings				40,621
Unallocated corporate liabilities				1,780,720
Consolidated total liabilities				1,890,586

31. SEGMENT REPORTING *(Continued)*

(b) Segment Assets and Liabilities *(Continued)*

For the purpose of monitoring segment performances and allocating resources between segments:

— all assets are allocated to operating segments other than certain plant and equipment, prepaid lease payments, other receivables, bank balance and cash; and

— all liabilities are allocated to operating segments other than certain other payables and bank borrowings.

Information About Major Customers

Revenue from the only customer in the corresponding years contributing over 10% of the total sales of the Group from the general trading business is as follows:

	2011	2010
	HK$'000	*HK$'000*
Customer A	**352,262**	322,477

32. RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related parties:

a) Related party transactions included in the consolidated statement of comprehensive income:

	2011	2010
	HK$'000	*HK$'000*
Commission paid to an ex-director *(note (i))*	**10,182**	—
Interest on loan advance from a related company *(note (ii))*	**7,684**	3,171
Short-term loan waived by a substantial shareholder	**18,183**	—
License fee paid to an associate of a substantial shareholder	**242**	—

Note:

i) In January 2011, the Group entered into a sales agency agreement with Mr. Ng Chi Man (an Executive Director resigned with effect from January 10, 2011) whereby the Group paid Mr. Ng 4% as commissions on sales to certain customers of the Group. The annual cap for such sales commission was HK$ 9.6 million and subsequently was revised to HK$ 20.0 million in July 2011. Such sales agency agreement was subsequently terminated in August 2011. This transaction was regarded as a continuing connected transaction in accordance with the Listing Rules.

32. RELATED PARTY TRANSACTIONS *(Continued)*

a) Related party transactions included in the consolidated statement of comprehensive income: *(Continued)*

ii) Wider Sun Limited, the related company, gave a loan advance to a subsidiary of the Company as part of the contributed registered capital of Harmonic Strait which the Company acquired on August 27, 2010. On May 6, 2011, the Group extended the above said loan advance to August 30, 2011 and charged shares of its wholly-owned subsidiaries, Market Season Limited and Green Link Holdings Limited in association of the loan advance in favour of Wider Sun Limited. The loan from Wider Sun Limited bears interest at 3% per annum before October 30, 2011 and 5% per annum thereafter till August 30, 2011. The interest for the period after the expiration of repayment date on August 31, 2011 was calculated at the HSBC default rate minus 3%, or 10%, whichever is lower. Wider Sun Limited was a company beneficially owned by Mr. Hui Kwan Wah, Hugo (an Executive Director resigned with effect from July 6, 2011) and Mr. Ng Chi Man (an Executive Director resigned with effect from January 10, 2011).

b) Compensation of key management of the Group:

	2011	2010
	HK$'000	*HK$'000*
Salaries, allowance and other benefits	**9,800**	18,664
Contributions to defined contribution retirement plans	**133**	108
	9,933	18,772

Note: Further details of post-employment benefits and directors' and employees' emoluments are included in note 12 to the consolidated financial statements. Total remuneration is included in "staff costs" (see note 6).

c) Financing arrangements

	2011	2010
	HK$'000	*HK$'000*
Loan from a related company[#]	**116,930**	118,505
Loan from a substantial shareholder[##]	**—**	18,199
Loan from associates of a substantial shareholder[###]	**2,642**	—

The above loans are part of the contributed registered capital of a subsidiary acquired on August 27, 2010.

[#] See Note 32(a)(ii)

[##] The loan from Tong Nai Kan, substantial shareholder, is unsecured, interest-free and repayable on demand.

[###] The loan is unsecured, interest-free and repayable on demand.

33. COMMITMENTS

a) Capital Commitments

As at December 31, 2011, the Group had the following capital commitments:

	2011	2010
	HK$'000	*HK$'000*
Contracted but not provided for	—	554,400

b) Operating Lease Commitments

The Group leases office premises under operating lease arrangements. At the end of each reporting period, the Group had future aggregate minimum lease payment under non-cancellable operating leases arrangements as follows:

	2011	2010
	HK$'000	*HK$'000*
Within one year	**3,898**	5,945
In the second to fifth year, inclusive	**7,673**	8,282
	11,571	14,227

34. FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

The Group, through, Harmonic Strait, has entered into contracts with banks in the PRC to guarantee non-group companies, under which, the maximum contingent liabilities that Harmonic Strait would take up is about HK$69 million (RMB59 million) (2010: HK$69 million (RMB59 million)).

At December 31, 2011, the loan drawn down by the Group amounted to approximately HK$9.7 million (2010: HK$40.6 million).

As at December 31, 2011, except for those disclosed above, the Board of Directors was not aware of any possible material contingent liabilities.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

a) Financial risk factors

The Group's major financial instruments include, cash and cash equivalents, trade and other receivables, trade and bills payable, other payables and bank borrowings. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, interest rate risk and currency risk. The Group does not hold or issue derivate financial instruments either for hedging or trading purposes. The policies on how to mitigate these risks are set out as below.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

i) Credit risk

Credit risk arises from the possibility that the counterparty to transaction is unwilling or unable to fulfill its obligation thereby incurring financial loss to the Group.

— Trade and other receivables

As at December 31, 2011, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

In respect of trade and other receivables, in order to minimise risk, management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of customers' financial position and condition are performed on all customers periodically. In addition, credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are usually due within 90 days from the date of billing. Debtors with overdue balances, which will be reviewed on a case-by-case basis, are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collaterals from customers.

In respect of trade receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk. At December 31, 2011, the Group has a certain concentration of credit risk as approximately equals to 38.9% (2010: 54.5%) and 78.0% (2010: 85.1%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

a) Financial risk factors *(Continued)*

i) Credit risk (Continued)

— Deposits with banks

The Group mitigates its exposure to credit risk by placing deposits with the financial institutions with established credit rating. Given the high credit ratings of the banks, management does not expect any counterparty to fail to meet its obligations.

— Financial guarantee

It represents financing guarantee to customers under the financial guarantee business, individual credit evaluations are performed on all customers. These evaluations focus on the customer's financial background and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers.

ii) Liquidity risk

Liquidity risk is the risk of non-availability of funds to meet all contractual financial commitments as they fall due.

The Group is responsible for its own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demand, subject to board approval. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following liquidity risk tables set out the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current rates at the end of the reporting period) and the earliest date the Group is required to pay.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

a) Financial risk factors *(Continued)*

ii) Liquidity risk (Continued)

Specifically, for term loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other bank borrowings is prepared based on the scheduled repayment dates.

	As at December 31, 2011					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total undiscounted cash flows	Total carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade and bill payable	8,011	—	—	—	8,011	8,011
Accruals and other payables	144,774	—	—	—	144,774	144,774
Bank borrowings subject to a repayment on demand clause	9,709	—	—	—	9,709	9,709
Convertible bond	—	—	—	252,000	252,000	154,946
Tax payable	1,727	—	—	—	1,727	1,727
	164,221	—	—	252,000	416,221	319,167

	As at December 31, 2010					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total undiscounted cash flows	Total carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade and bill payable	27,245	—	—	—	27,245	27,245
Accruals and other payables	164,930	—	—	—	164,930	164,930
Bank borrowings subject to a repayment on demand clause	40,621	—	—	—	40,621	40,621
Convertible bond	—	—	—	2,698,938	2,698,938	1,452,878
Tax payable	2,159	—	—	—	2,159	2,159
	234,955	—	—	2,698,938	2,933,893	1,687,833

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

a) Financial risk factors (Continued)

ii) Liquidity risk (Continued)

The table that follows summaries the maturity analysis of term loans with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the "on demand" time band in the maturity analysis. Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Term loans subject to a repayment on demand clause based on scheduled repayments					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total undiscounted cash flows	Total carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
December 31, 2011	6,340	3,369	—	—	9,709	9,709
December 31, 2010	16,233	8,554	16,492	—	41,279	40,621

iii) Interest rate risk

The Group's interest rate risk arises primarily from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group currently does not have any interest rate hedging policy in relation to fair value and cash flow interest rate risks. The directors monitor the Group's exposure on ongoing basis and will consider hedging the interest rate should the need arise.

1) Interest rate profile

The effective interest rate of bank loans is disclosed in note 25. The interest rates and terms of repayment of the other payable to a related company is disclosed in notes 32.

2) Sensitivity analysis

At December 31, 2011, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's (loss)/profit after tax and retained profits by approximately HK$924,000 (2010: HK$984,000). Other components of consolidated equity would not be affected (2010: Nil) in response to the general increase/decrease in interest rates.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

a) Financial risk factors *(Continued)*

iii) Interest rate risk (Continued)

2) Sensitivity analysis *(Continued)*

The sensitivity analysis above indicates the instantaneous change in the Group's (loss)/profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the group at the end of the reporting period, the impact on the Group's (loss)/profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2010.

iv) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars and Renminbi.

1) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency which is Hong Kong dollar of the entity to which they relate. The Group is mainly exposed to the fluctuation of United States dollar and Renminbi.

	December 31, 2011	
	US$'000	***RMB'000***
Cash and cash equivalents	**268**	**86,110**
Trade and other receivables	**1,581**	**31,348**
Trade and other payables	**—**	**(10,049)**
Overall exposure arising from recognised assets and liabilities	**1,849**	**107,409**

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

a) Financial risk factors *(Continued)*

iv) Currency risk (Continued)

1) Exposure to currency risk *(Continued)*

	December 31, 2010	
	US$'000	*RMB'000*
Cash and cash equivalents	568	130,043
Trade and other receivables	5,036	9,201
Trade and other payables	(12)	(24,639)
Overall exposure arising from recognised assets and liabilities	5,592	114,605

Management closely monitors currency risk position to ensure that the net exposure is kept at an acceptable level.

2) Sensitivity analysis

The following table indicates the instantaneous change in the Group's (loss)/profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

	December 31, 2011		December 31, 2010	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits
		HK$'000		*HK$'000*
Renminbi	**5%**	**6,691**	5%	5,857
	(5%)	**(6,691)**	(5%)	(5,857)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' (loss)/profit after tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

a) Financial risk factors *(Continued)*

iv) Currency risk (Continued)

2) Sensitivity analysis *(Continued)*

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including intercompany payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2010.

v) Fair values of financial instruments carried at other than fair value

The fair values of cash and cash equivalents, bank deposits, trade and other receivables, trade and bills payable and accruals and other payables are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments. The carrying amount of bank borrowings and overdrafts approximated its fair value.

b) Capital risk management

The primary objective of the Group's capital risk management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives or policies during the year.

The Group monitors capital on the basis of the debt-to-equity ratio, which is calculated as net debt divided by total equity. Net debt is calculated as interest-bearing bank borrowings and overdrafts less cash and cash equivalents. Total equity represents equity attributable to the equity shareholders of the Group.

A subsidiary of the Group (the "Regulated Subsidiary") is registered with Securities and Futures Commission ("SFC") for the business they operate in. The Regulated Subsidiary is subject to liquid capital requirements under Securities and Futures (Financial Resources) Rules ("SF(FR)R") adopted by the SFC. Under the SF(FR)R, the Regulated Subsidiary must maintain its liquid capital in excess of HK$3 million or 5% of its total adjusted liabilities, whichever is higher. The required information is filed with SFC on a monthly basis. This Regulated Subsidiary is also a member of The Hong Kong Conferderation of Insurance Brokers and is required to maintain a minimum net asset value of HK$100,000 at all times.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

b) Capital risk management *(Continued)*

Another subsidiary of the Group operated in PRC is subject to the capital requirements under《融資性擔保公司暫行管理規定》. The subsidiary is required to maintain a minimum paid up capital of RMB50,000,000.

c) Estimation of fair values

The fair values of interest-bearing bank borrowings are estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

36. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

a) Key sources of estimation uncertainty

In the process of applying the Group's accounting policies which are described in note 2, management has made certain key assumptions concerning the future, and other key sources of estimated uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts and liabilities within the next financial year, as discussed below.

i) Impairment of property, plant and equipment

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which requires significant judgement relating to level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

ii) Impairment of receivables

The Group maintains impairment allowance for doubtful accounts based on periodic evaluation of the recoverability of the trade and other receivables. The estimates are based on the ageing of the trade and other receivables and the historical write-off experience, net of recoveries. If the financial condition of the debtors were to deteriorate, additional impairment allowance may be required.

36. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

a) Key sources of estimation uncertainty *(Continued)*

iii) Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. If the recoverable amount exceeds the estimated value in use of the cash generating unit, additional impairment allowance may be required.

iv) Estimated net realisable value of inventories

The Group's management writes down slow-moving or obsolete inventories based on an assessment of the net realisable value of the inventories. Inventories will be written down where events or changes in circumstances indicates that the net realisable value is less than cost. The determination of net realisable value requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will have an impact on the carrying value of the inventories and revision on the amount of inventories written down in the period in which such estimate has been changed is required to be made.

b) Critical accounting judgements in applying the Group's accounting policies

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions for the effects of uncertain future events on those assets and liabilities at the end of the reporting period. These estimates involve assumptions about such items as cash flows and discount rates used. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

37. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, Harmonic Strait has set up a project company with Taikang Life Insurance Limited, CITIC Group and CITIC Real Estate Limited for the purpose of the investment in and development of the Land located in Chaoyang District, Beijing, the PRC. According to the Articles of the project company, the total capital contribution by all partners will be RMB200 million in aggregate, RMB3 millions will be contributed in cash by Harmonic Strait.

38. ULTIMATE HOLDING COMPANY AND CONTROLLING PARTY

The directors consider Market Speed Limited, a company incorporated in British Virgin Islands, to be the ultimate holding company. The directors regard Mr. Tong Nai Kan, through his direct shareholding in Market Speed Limited, as being the ultimate controlling party.

FINANCIAL SUMMARY

The financial results and the assets and liabilities of the Group for the last five years/periods are summarised as follows:

Results	**12 Months ended December 31, 2011**	12 months ended December 31, 2010	12 months ended December 31, 2009	9 Months ended December 31, 2008	12 Months ended March 31, 2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**588,103**	550,310	389,186	335,739	371,558
(Loss)/Profit before taxation	**(255,366)**	(40,006)	33,648	12,686	29,229
Income tax	**(1,383)**	(3,114)	(1,113)	(1,705)	(3,689)
(Loss)/Profit for the year/ period	**(256,749)**	(43,120)	32,535	10,981	25,540
Attributable to:					
Equity shareholders of the Company	**(255,745)**	(42,522)	32,535	10,981	25,540

	As at December 31, 2011	As at December 31, 2010	As at December 31, 2009	As at December 31, 2008	As at March 31, 2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets and liabilities					
Total assets	**3,284,541**	3,610,937	182,925	134,384	153,968
Total liabilities	**(331,205)**	(1,890,586)	(46,018)	(30,119)	(42,684)
Total equity	**2,953,336**	1,720,351	136,907	104,265	111,284