Harmonic Strait Financial Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 33

2012
ANNUAL REPORT

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

CORPORATE INFORMATION

Executive Directors

An Yu Xin *(Vice Chairman)*
Tong Nai Kan *(appointed on February 24, 2012)*
Wong Sai Ming *(resigned with effect from January 4, 2012)*
Sun Pei Ying *(resigned with effect from February 24, 2012)*

Non-executive Directors
Ko Ming Tung, Edward
Cheng Wai Lam, James *(appointed on March 26, 2013)*

Independent Non-executive Directors
Chan Cheuk Ming *(Chairman)*
Cheung Wah Keung
Anthony Espina

Executive Committee

An Yu Xin
Tong Nai Kan *(appointed on February 24, 2012)*
Wong Sai Ming *(resigned with effect from January 4, 2012)*
Sun Pei Ying *(resigned with effect from February 24, 2012)*

Audit Committee

Anthony Espina *(Chairman)*
Cheung Wah Keung
Chan Cheuk Ming
Ko Ming Tung, Edward
Cheng Wai Lam, James *(appointed on March 26, 2013)*

Remuneration Committee

Cheung Wah Keung *(Chairman)*
Anthony Espina
Chan Cheuk Ming
Ko Ming Tung, Edward
Cheng Wai Lam, James *(appointed on March 26, 2013)*

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

Company Secretary

Kwan Yiu Ming, Patrick

Website

www.harmonics33.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

Unit B, 35/F.
No. 169 Electric Road
North Point
Hong Kong

Principal Share Registrar and Transfer Office

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

CORPORATE INFORMATION

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 Hongkong and Shanghai Banking Corporation Limited
The Bank of East Asia, Limited

Legal Adviser

Patrick Mak & Tse
Rooms 905-907, 9th Floor
Nan Fung Tower
173 Des Voeux 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 People's Republic of China ("PRC"), the exporting of business, the operation of concept hotels in Shenzhen and the provision of financial planning services in Hong Kong.

As at December 31, 2012, the Group had 121 employees, 35 of them are located in Hong Kong.

MANAGEMENT DISCUSSION AND ANALYSIS

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 March 6, 2012. The Registrar of Companies in Hong Kong also issued the Certificate of Registration of Change of Corporate Name of Non-Hong Kong Company on March 29, 2012.

BUSINESS REVIEW

— **Credit guarantee and investment business**

In Current Year, the credit guarantee and investment business recorded revenue of HK$78.9 million and segmental profit of HK$56.3 million, both of which have great improvement from revenue of HK$6.0 million and segment loss of HK$9.9 million. The handsome return was mainly contributed by the disposal of its equity interest in a project company in respect of a piece of land located in Chaoyang District, Beijing, PRC.

In view of the increased inherent default risk of the overall market, the Group has determined to scale down the financial guarantee operations, which suspend the opening and expanding of the regional offices and branch offices and the upgrading the Taiwan operation.

During the Current Year, Market Speed Limited which is wholly-owned by the executive director of the Company, Mr. Tong Nai Kan, further covenanted by deed with the Company that it will (1) convert all its HK$150.0 million convertible bond, which were newly transferred to Market Speed Limited during the year, into fully-paid shares of the Company on or before the maturity date on August 26, 2015, subject to existing terms and conditions under which the 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 its convertible bond not so converted on the maturity date; and (2) procure all Market Speed Limited future transferees, if any, of the convertible bond transferred to observe and comply with the covenant. Therefore, the Company will no longer be required to provide for notional interest in respect of such amount of convertible bond in the future.

— **Other business units**

During the Current Year, the Group's export business was affected by the unfavorable operating conditions aroused in last year. The Group has appointed capable staff in the key positions of this segment and improved its operation efficiency by the effective cost control and simplifying the structure. Subjected to the recovery of banking facilities, the management believes the performance will be stabilized in next year.

The operation of our concept hotel business in Shenzhen during the Current Year was stable but facing a rapid change external business environmental and strong competitions. While the financial planning services business in Hong Kong was threaten by the unfavorable business environments including intense market competition and recruitment difficulties.

FINANCIAL REVIEW

For the year ended December 31, 2012 ("Current Year"), the Group's turnover was HK$270.3 million, representing a drop of 54% from HK$588.1 million for the year ended December 31, 2011 ("Prior Year"), due to reduced customer orders of the exporting business, consequential to our high staff turnover, difficult industry environment and dwindling bank support aroused at the end of 2011.

Gross profit during Current Year was HK$110.4 million, representing an increase of 11.1% from HK$99.4 million for Prior Year. In terms of gross profit margin, the relevant figure for Current Year was 41%, representing an increase of 24% from 17% for Prior Year. The increases in both gross profit and gross profit margin were mainly due to the return of credit guarantee and investment business as mentioned before.

Other revenue was HK$5.1 million in the Current Year, which decreased significantly from the HK$29.6 million of Prior Year as the Prior Year included a loan of HK$18.2 million waived by a substantial shareholder (and an executive director appointed on February 24, 2012) and an investment return of HK$8.5 million from a Liaoning project. For operating expenses, the relevant figure for Current Year was HK$57.4 million, representing a drop of 42.3% from HK$99.4 million for Prior Year. The decrease was mainly attributable to the simplification of corporate and export business structure, and a tight cost control. Operating expenses as a percentage of turnovers increased from 17% for Prior Year to 21% for Current Year.

Finance cost during the Current Year was HK$20.7 million which decreased from HK$28.4 million. Such decrease was mainly attributable to the reduction of notional interest which in turn was due to the further waiving, by a director, of the right to demand for repayment in respect of convertible bonds with face value of approximately to HK$150 million.

Owing to the PRC government's tightened monetary policy and expanded property-purchasing limitations, and the delay by a potential partner in development of a project, the development on credit guarantee and investment business of Harmonic Strait Credit Guarantee Co., Ltd. ("Harmonic Strait") was hindered. The investment projects under negotiation were abolished. In this connection, its goodwill has been impaired by HK$3,004.0 million.

LIQUIDITY AND FINANCIAL RESOURCES

As at December 31, 2012, net current assets were HK$109.3 million (December 31, 2011: HK$69.1 million). Current ratio as at December 31, 2012 was 1.63 (December 31, 2011: 1.42). The gearing ratio, total bank borrowings divided by total assets at the end of each period, was 2.5% as at December 31, 2012, representing an increase of 2.2% from 0.3% as at December 31, 2011; the significant decrease is due to the impairment on the goodwill as mentioned above.

As at December 31, 2012, the Group had cash and bank balances of HK$201.3 million (December 31, 2011: HK$128.2 million) including restricted cash of HK$41.9 million (December 31, 2011: HK$14.8 million), and bank borrowings of HK$8.2 million (December 31, 2011: HK$9.7 million) which was mainly denominated in Renminbi, HK dollar and US dollar. The bank borrowings bore floating interest rates.

As at December 31, 2012, the face value of the outstanding convertible bond of the Company was HK$1,628,937,500 (December 31, 2011: HK$2,498,937,500) including amount of HK$1,526,937,500 (December 31, 2011: HK$2,246,937,500) being waived its right to demand for repayment.

The Company has provided corporate guarantees to secure banking facilities granted to its subsidiaries. Harmonic Strait had provided guarantees to its customers amounted to approximately HK$39 million (December 31, 2011: HK$69 million) in return of service income as its ordinary business. The Group has also charged shares of the Hong Kong New Smart Energy Group Limited (a 100%-owned subsidiary of the Company, which directly holds 90%-owned Harmonic Strait), a floating charge of the Company, a deed of assignment regarding the assignment of current accounts due to group companies by Hong Kong New Smart Energy Group Limited and a personal guarantee from a director as securities in relation to a loan of HK$115 million 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.

No significant exchange risk is expected as the Group's cash, borrowings, income and expenses are settled in Hong Kong dollars, RMB or US dollars. As the exchange rate of RMB and US dollars against Hong Kong dollars is relatively stable, the Group did not perform any foreign currency hedging activities during the year. Nevertheless, the Group will from time to time review and adjust the Group's investment and financing strategies based on the RMB, US dollars and Hong Kong dollars exchange rate movement.

As at December 31, 2012, the Group had no material capital commitments (December 31, 2011: Nil) or investment commitments. The operating lease commitment for the Group as at December 31, 2012 was around HK$14.2 million (December 31, 2011: HK$11.6 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.

MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES

During the year ended December 31, 2012, the Group has acquired the entire capital of 北京和協海峽科貿有限公司 at a consideration of RMB1 million.

Except for the above, the Group did not make any material acquisition or disposal of subsidiaries and affiliated companies during the year ended December 31, 2012.

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, 2012, the Group had 121 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

As the expectation of the unfavorable environment leading the impairment of the goodwill in the Current Year will be lasted, the credit guarantee and investment business may not have any critical improvement in the next few years. However, the management is still looking good the China market and the Group will explore and capture any other new opportunities in any industries in China by utilizing its networks in Hong Kong, Taiwan and China.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. An Yu Xin *(安宇新)*, aged 57, 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 54, 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 "INNOMAXX 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 Directors

Mr. Ko Ming Tung, Edward *(高明東)*, aged 52, 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. 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 an independent non-executive director of Kai Yuan Holdings Limited (Stock Code: 1215), whose shares are listed on the Main Board of the Stock Exchange.

Mr. Cheng Wai Lam, James *(鄭暐霖)*, aged 52, was appointed as a Non-Executive Director on March 26, 2013. Mr. Cheng holds a Master of Business Administrations. Mr. Cheng is currently the Executive Director of Pizu Group Holdings Limited (Stock Code: 8053) whose shares are listed on the Growth Enterprise Market of the Stock Exchange. He has over 25 years of experience in various industries including banking and finance, manufacturing and telecommunications, of which over 20 years were in senior management positions.

Independent Non-Executive Directors

Mr. Chan Cheuk Ming *(陳卓明)*, aged 55, 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. Chan 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 51, 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 *(艾秉禮)*, aged 64, was appointed as an Independent Non-Executive Director of the Company on June 4, 2007. Mr. Espina has over 40 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 Securities Association. 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.

SENIOR MANAGEMENT

Mr. Cheng Feng-shih *(鄭逢時)*, aged 71, has been appointed as the president of the Company in May 2012 and is responsible for operation of projects in Taiwan region and Shandong Province, the People's Republic of China. He was a member of the 7th Taipei County Council* (臺北縣第七屆縣議員), a member of the 7th and 8th Taiwan Provincial Assembly* (臺灣省第七、八屆省議員), a representative of Taipei County — Taiwan Province for the 1st National Assembly* (第一屆國民大會臺灣省臺北縣代表), President of Chairmen Board for the 6th session of the 1st National Assembly* (第一屆國民大會第六次會議主席團主席), a councilor of the 4th and 5th Legislative Yuan* (立法院第四、五屆立法委員), a member of the 16th Central Standing Committee of Kuomintang of China* (中國國民黨第十六屆中央常務委員), President of the 17th Chairmen Board for Central Advisory Council Meetings of Kuomintang of China* (中國國民黨第十七屆中央評議委員會議主席團主席), chairman of Taiwan Television Enterprise, Ltd. (臺灣電視事業股份有限公司董事長), managing director of First Commercial Bank (第一商業銀行常務董事), director of Taiwan Stock Exchange Corporation (臺灣證券交易所董事), consultant of Taiwan Provincial Consultative Council* (臺灣省諮議會諮詢顧問). He assisted in the election campaign for the 7th Legislative Yuan election and the 12th Presidential and Vice-Presidential election* (第七屆立法委員與第十二任總統副總統選舉輔選). Mr. Cheng was also a visiting professor of Jilin University (吉林大學客座教授) and Shandong University of Technology (山東理工大學客座教授). He is currently the secretary-general of the Association of Legislative Councilors of the Republic of China* (中華民國立法委員協會秘書長), leading advisor to the Legislative Yuan* (立法院最高顧問), advisor to New Taipei Municipal Government* (新北市政府市政顧問), advisor to Taoyuan County Government* (桃園縣政府縣政顧問), advisor to Taiwan External Trade Development Council (中華民國對外貿易發展協會諮詢顧問), director of Cross-Straits Common Market Foundation* (財團法人兩岸共同市場基金會董事), deputy director-general of the World League For Freedom and Democracy ROC Chapter* (世界自由民主聯盟中華民國總會副理事長), deputy director-general of Private Education Association of the ROC* (中華民國私立教育事業協會副理事長), supervisor of Tayfon Investment Holding Limited (太豐投資股份有限公司董事監察人), chairman of Taipei Chengshih University of Science and Technology (城市學校財團法人台北城市科技大學董事長), vice-chairman of United Real Estate Management Co., Ltd. (合眾建築經理股份有限公司副董事長). Mr. Cheng has extensive experience in managing business operation in Hong Kong, Taiwan and mainland China. Mr. Cheng holds a master degree in Public Administration from Tunghai University (東海大學公共事務碩士學位), a PhD in Arts from Jilin University (吉林大學文學博士學位), an honorary PhD from The Dubna International University in Russia (俄羅斯杜納大學榮譽哲學博士學位), an honorary PhD in Business Administration from Graduate School of Kyonggi University of South Korea (韓國京畿大學校大學院經營學榮譽博士學位) and an International honorary PhD (Doctor of Earth Environment Science) of Earth Environment University Roundtable (EEUR) and the Earth Environment Academy of America (EEAA), New York, U.S.A..

Mr. Han Bang Kun *(韓邦琨)*, aged 49, holds a bachelor's degree. He worked as the secretary and special assistant to Mr. Cheng Feng-shih, 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 Feng-shih, 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 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.

* *For identification purposes only*

Mr. Wang Wei Min *(王維敏)*, aged 54, 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 34, Financial Controller who is responsible for the segments of exporting business, financial planning services as well as the hotels, joined the Group in June 2009. He has over 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, 2012.

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 March 6, 2012. The Registrar of Companies in Hong Kong also issued the Certificate of Registration of Change of Corporate Name of Non-Hong Kong company on March 29, 2012.

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, 2012 are set out in the note 21 to the consolidated financial statements.

DONATION

No donation has been made by the Group during the year (2011: HK$12,000).

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 20 to the consolidated financial statements.

DIRECTORS

The Directors up to the date of this report were:

Executive Directors

An Yu Xin *(Vice Chairman)*
Tong Nai Kan *(appointed on February 24, 2012)*
Wong Sai Ming *(resigned with effect from January 4, 2012)*
Sun Pei Ying *(resigned with effect from February 24, 2012)*

Non-executive Directors

Ko Ming Tung, Edward
Cheng Wai Lam, James *(appointed on March 26, 2013)*

Independent Non-executive Directors

Chan Cheuk Ming *(Chairman)*
Cheung Wah Keung
Anthony Espina

According to Article 130, Mr. An Yu Xin and Mr. Anthony Espina, as Executive Director and Independent Non-Executive Director respectively, shall both retire from office at Annual General Meeting and shall offer themselves for re-election.

According to Article 114, Mr. Cheng Wai Lam, James who was appointed by the Board on March 26, 2013 as a Non-Executive Director shall retire from office at the Annual General Meeting and shall offer himself 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 Directors 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, 2012, 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. Tong Nai Kan	Interest of a controlled corporation *(Note)*	1,528,750,000 (long position)	102.47%

Note: Market Speed Limited, a company wholly-owned by Mr. Tong Nai Kan, holds 387,200,000 shares and HK$1,426,937,500 convertible bond of the Company which can be converted into 1,141,550,000 shares upon conversion at an exercise price of HK$1.25.

Save as disclosed above, as at December 31, 2012, as far as the Directors are aware, none of the Directors 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. As at December 31, 2012, the Company had no Chief Executive Officer.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

So far as is known to any Director, as at December 31, 2012, 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. The number of issued share capital as at December 31,2012 was 1,491,850,000.

Name	Nature of Interests	Number of shares	Percentage to the issued share capital of the Company
Market Speed Limited	Beneficial Owner	1,528,750,000 (long position)	102.47%
Jin Run Investments Limited	Beneficial Owner	183,980,000 (long position)	12.33%
		90,000,000 (short position)	6.03%
Leung Ka Ki	Interest of a controlled corporate	183,980,000 (long position)	12.33%
		90,000,000 (short position)	6.03%
	Beneficial Owner	516,000 (long position)	0.03%
New Stature Limited	Beneficial Owner	144,728,000 (long position)	9.70%
Skill Effort Limited	Interest of a controlled corporate	144,728,000 (long position)	9.70%
Fong Stanley Kai Yuen	Interest of a controlled corporate	144,728,000 (long position)	9.70%
Direct Value Limited	Beneficial Owner	135,300,000 (long position)	9.07%
Hui Kwan Wah, Hugo	Interest of a controlled corporate	135,300,000 (long position)	9.07%

Name	Nature of Interests	Number of shares	Percentage to the issued share capital of the Company
Yardley Finance Limited	Person having a security interest in shares	90,000,000 (long position)	6.03%
Chan Kin Sun	Interest of a controlled corporate	90,000,000 (long position)	6.03%
CITIC Merchant Co., Limited	Beneficial Owner	80,000,000 (long position)	5.36%
Lee Hung Shing	Beneficial Owner	80,000,000 (long position)	5.36%

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 the licence fee paid to an associate of a director, Mr. Tong Nai Kan, there was 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, 2012, the Group had 121 employees (December 31, 2011: 124 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, 2012.

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 26 to the consolidated financial statements.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

For the year ended December 31, 2012, 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 five largest suppliers combined were 9.2% and 24.2%, respectively (December 31, 2011: 12.0% and 27.1%). For the Current Year, the percentages of sales attributable to the Group's largest customer and 5 largest customers combined were 28.6% and 73.6%, respectively (December 31, 2011: 60.0% and 79.3%). 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.

AUDITOR

The consolidated financial statements of the Group for the Current Year have been audited by Cheng & Cheng Limited ("C&C"). C&C was re-appointed on May 11, 2012 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 26, 2013

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 adopted the Code on Corporate Governance Practices (the "CG Code") and the revised version of it which took effect from April 2012 (the "New CG Code"), as contained in Appendix 14 of the Listing Rules.

The Board is pleased to report compliance with the code provisions of the CG Code for the period from January 1, 2012 up to March 31, 2012 and the code provisions of the New CG Code for the period from April 1, 2012 to December 31, 2012, except CG Code and New CG Code A.2.1, New CG Code A.6.5 and A.6.7.

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, 2012 to December 31, 2012, 7 Board meetings, one Annual General Meeting held on May 11, 2012 ("2012 AGM") and one Extraordinary General Meeting held on March 6, 2012 ("2012 EGM") were held and the attendance of each director is set out as follows:

	Number of Attendance		
Directors	**Board Meetings**	**2012 AGM**	**2012 EGM**
Executive Directors			
An Yu Xin *(Vice Chairman)*	7/7	1/1	1/1
Tong Nai Kan *(appointed on February 24, 2012) (note 1)*	5/5	1/1	1/1
Wong Sai Ming *(resigned with effect from January 4, 2012) (note 2)*	0/0	N/A	N/A
Sun Pei Ying *(resigned with effect from February 24, 2012) (note 3)*	1/2	N/A	N/A
Non-executive Directors			
Ko Ming Tung, Edward	6/7	0/1	0/1
Cheng Wai Lam, James *(appointed on March 26, 2013) (note 4)*	N/A	N/A	N/A
Independent Non-executive Directors			
Chan Cheuk Ming *(Chairman)*	4/7	1/1	0/1
Cheung Wah Keung	4/7	0/1	0/1
Anthony Espina	5/7	0/1	0/1

The Chairman attended 2012 AGM to answer questions and collect views of shareholders. Though the other two independent non-executive directors and one non-executive director were unable to attend 2012 AGM due to other business engagements, the company secretary and the auditors had attended the meeting to answer questions at the meeting.

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

Notes:

1. Mr. Tong Nai Kan was appointed on February 24, 2012 and he was eligible to attend 5 board meetings, 2012 AGM and 2012 EGM.

2. Mr. Wong Sai Ming was resigned on January 4, 2012 and he did not attend any board meeting, 2012 AGM and 2012 EGM.

3. Ms. Sun Pei Ying was resigned on February 24, 2012 and she was eligible to attend 2 board meetings and did not attend 2012 AGM and 2012 EGM.

4. Mr. Cheng Wai Lam, James was appointed on March 26, 2013 and he did not attend any board meetings for the year, 2012 AGM and 2012 EGM.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

For the year ended December 31, 2012, the Company has complied with the code provisions set out in the CG Code and New CG Code as set out in Appendix 14 of the Listing Rules except the followings.

Under A.2.1 of the CG Code and New 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.6.5 of the New CG Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. One of the Directors, Mr. Anthony Espina has not taken any courses for the period from April 1, 2012 to December 31, 2012 as required by the New CG Code due to frequent travel. However, Mr. Anthony Espina has self-studied of relevant materials. He has promised to take appropriate courses in 2013 of at least 5 hours.

Under A.6.7 of New CG Code, Independent Non-executive Directors and other Non-executive Directors should attend Annual General Meetings and develop a balanced understanding of the views of shareholders. Mr. Ko Ming Tung, Edward, Non-executive Director; and Mr. Cheung Wah Keung and Mr. Anthony Espina, Independent Non-executive Directors, were unable to attend the Annual General Meeting of the Company held on May 6, 2012 as provided for in New CG Code A.6.7 as they had other business engagements.

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.

NON-EXECUTIVE DIRECTORS

Each of the service contract of Independent Non-executive Directors, Mr. Chan Cheuk Ming, Mr. Cheung Wah Keung, Mr. Anthony Espina was renewed for two years commencing from November 19, 2012, the Non-executive Directors, Mr. Ko Ming Tung, Edward was appointed for three years commencing from May 9, 2011 and Mr. Cheng Wai Lam, James was appointed for two years commencing from March 26, 2013 and are subject to retirement by rotation at the Annual General Meeting.

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.harmonics33.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	6/6
Tong Nai Kan *(appointed on February 24, 2012) (note 1)*	6/6
Wong Sai Ming *(resigned with effect from January 4, 2012) (note 2)*	0/0
Sun Pei Ying *(resigned with effect from February 24, 2012) (note 3)*	0/0

Notes:

1. Mr. Tong Nai Kan was appointed on February 24, 2012 and he was eligible to attend 6 Executive Committee meetings.

2. Mr. Wong Sai Ming was resigned on January 4, 2012 and he was eligible to attend 0 Executive Committee meeting.

3. Ms. Sun Pei Ying was resigned on February 24, 2012 and she was eligible to attend 0 Executive Committee meeting.

B. Remuneration Committee

The Remuneration Committee was established on October 30, 2007. The Remuneration Committee assists the Board to determine the policy for the remuneration of executive directors and senior management, assessing performance of executive directors and senior management and approving the terms of executive directors' and senior management's service contracts and to develop a formal and transparent remuneration policy. The Remuneration Committee makes recommendations to the board on the remuneration packages of individual executive directors and senior management.

The Remuneration Committee comprises three Independent Non-executive Directors, namely Mr. Chan Cheuk Ming, Mr. Cheung Wah Keung, Mr. Anthony Espina, and two Non-executive Directors, namely Mr. Ko Ming Tung, Edward and Mr. Cheng Wai Lam, James. 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.harmonics33.com and the website of the Stock Exchange.

From January 1, 2012 to December 31, 2012, 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)*	1/2
Chan Cheuk Ming	2/2
Anthony Espina	2/2
Non-executive Directors	
Ko Ming Tung, Edward	2/2
Cheng Wai Lam, James *(appointed on March 26, 2013) (note 1)*	N/A

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.

Note:

1. Mr. Cheng Wai Lam, James was appointed on March 26, 2013 and therefore, he did not attend any Remuneration Committee meeting for the year.

Details of remuneration paid to members of senior management fell within the following bands:

	Number of individuals
HK$0 — HK$1,000,000	5

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 two Non-executive Directors, namely Mr. Ko Ming Tung, Edward and Mr. Cheng Wai Lam, James. 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.harmonics33.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	4/4
Cheung Wah Keung	4/4
Non-executive Directors	
Ko Ming Tung, Edward	4/4
Cheng Wai Lam, James *(appointed on March 26, 2013) (note 1)*	N/A

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 interim report and interim 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; and
- reviewing the Group's internal control system.

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

Note:

1. Mr. Cheng Wai Lam, James was appointed on March 26, 2013 and therefore, he did not attend any Audit Committee meeting for the year.

D. Nomination Committee

The Nomination Committee was established on March 27, 2012. The Nomination Committee assists the Board to determine the policy, procedures, process and criteria adopted by the Nomination Committee to select and recommend candidates for directorship. In addition, the Nomination Committee is also 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.harmonics33.com and the website of the Stock Exchange.

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

Directors	**Number of Attendance**
Independent Non-executive Directors	
Chan Cheuk Ming *(Chairman)*	1/1
Anthony Espina	1/1
Cheung Wah Keung	1/1
Non-executive Director	
Ko Ming Tung, Edward	1/1
Executive Director	
Tong Nai Kan	1/1

During this meeting, the Nomination Committee reviewed the board structure of the Company.

Corporate Governance Functions

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies and practices on corporate governance; reviewing and monitoring the training and continuous professional development of directors and senior management; reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; and reviewing the Company's compliance with the code and disclosure in this Corporate Governance Report.

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.

Going concern

The Group has borrowed a loan of HK$115,000,000 to finance the capital contribution of Harmonic Strait Credit Guarantee Co., Limited ("Harmonic Strait") in February 2010. In order to extend the loan repayment date to March 13, 2013, the Group created a share charge of Hong Kong New Smart Energy Group Limited (a 100% owned subsidiary of the Company, which directly holds 90%-owned Harmonic Strait), a floating charge of the Company and a deed of assignment regarding the assignment of current accounts due to group companies by Hong Kong New Smart Energy Group Limited to the lender as additional securities on December 20, 2012.

On March 26, 2013, the Company and the lender have agreed to extend the loan repayment date to April 28, 2013 with additional terms which were disclosed in the announcement dated March 26, 2013. If the loan could not be further extended, the Group would settle the loan by the fund of Harmonic Strait, in which our interest was effectively pledged to the lender to secure the loan, it is inevitable adversely affect the business operation of our credit guarantee and investment business and the Group cannot quantify the financial effect of that at this moment or the lender exercises his right to transfer our effective interest in Harmonic Strait to himself, our Group will lose the whole segment of credit guarantee and investment business.

In case the Group could not get the further loan extension from the lender and he requests immediate repayment, the Group would not have sufficient freely working capital available to repay the loan from existing internal resources and available banking facilities and the Group may not continue as a going concern. The auditor of the Company has given an emphasis of matter in respect of the Company's ability to continue as a going concern in its report.

BUSINESS MODEL AND STRATEGY

The Group has the mission to excelling credit guarantee and investment business, exporting of party products business, operation of concept hotels business and provision of financial planning services business whilst maintaining long term profitability and assets growth with adoption of flexible business model and strategy and prudential risk and capital management framework. The Board have played and will continue to play a proactive role in the Group's development of business model to preserve the culture of the Group in serving customers well with premium service quality; the Group's business strategic drive for business expansion and opportunities; and the Group's setting of strategic goals, priorities and initiatives undertaken to motivate staff to achieve business and financial targets. Details of the Group's Business Review and Financial Review in the year 2012 are set out in the "Management Discussion and Analysis" section of this annual report.

AUDITOR'S REMUNERATION

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

	HK$'000
Audit services	900
Non-audit services	30
	930

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. An Yu Xin and Mr. Anthony Espina, as Executive Director and Independent Non-Executive Director respectively, shall both retire from office at Annual General Meeting and shall offer themselves for re-election.

According to Article 114, Mr. Cheng Wai Lam, James who was appointed by the Board on March 26, 2013 as a Non-Executive Director shall retire from office at the Annual General Meeting and shall offer himself 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 and New CG Code A.4.1.

Board Process

The Board held meetings from time to time whenever necessary. At least 14 days notice of regular Board meetings is given to all directors and they can include matters for discussion in the agenda as they think fit. The agenda accompanying Board papers are sent to all directors at least 3 days before the date of every Board meeting in order to allow sufficient time for the directors to review the documents.

Minutes of every Board meeting are circulated to all directors for their perusal and comments prior to confirmation of the minutes. The Board also ensures that it is supplied in a timely manner with all necessary information in a form and of a quality appropriate to enable it to discharge its duties.

Every Board member has full access to the advice and services of the company secretary with a view to ensuring that Board procedures, and all applicable rules and regulations are followed and they are also entitled to have full access to Board papers and related materials so that they are able to make an informed decision and to discharge their duties and responsibilities.

Professional Development

To assist directors' continuing professional development, the Company recommends directors to attend relevant seminars to develop and refresh their knowledge and skills. All directors except Mr. Anthony Espina, also participate in continuous professional development programmes such as external seminars organised by qualified professionals, to develop and refresh their knowledge and skills in relation to their contribution to the Board. A record of the training received by the respective directors except Mr. Anthony Espina are kept and updated by the Company Secretary of the Company.

The individual training record of each director received for the year ended December 31, 2012 is summarized below:

	Attending seminar(s)/ programme(s)/conference(s) relevant to the business or directors' duties
Executive Directors	
An Yu Xin *(Vice Chairman)*	✓
Tong Nai Kan *(appointed on February 24, 2012)*	✓
Wong Sai Ming *(resigned with effect from January 4, 2012)*	N/A
Sun Pei Ying *(resigned with effect from February 24, 2012)*	N/A
Non-executive Directors	
Ko Ming Tung, Edward	✓
Cheng Wai Lam, James *(appointed on March 26, 2013)*	N/A
Independent Non-executive Directors	
Chan Cheuk Ming *(Chairman)*	✓
Cheung Wah Keung	✓
Anthony Espina	Note 1

Note 1:

Due to frequent travel, Mr. Anthony Espina has not taken any courses for the period from April 1, 2012 to December 31, 2012 as required by the New CG Code A.6.5. However, Mr. Anthony Espina has self-studied of relevant materials. He has promised to take appropriate courses in 2013 of at least 5 hours.

All the Directors also understand the importance of continuous professional development and are committed to participating any suitable training to develop and refresh their knowledge and skills.

COMPANY SECRETARY

Mr. Kwan Yiu Ming, Patrick ("Mr. Kwan") was appointed as the company secretary of the Company on September 1, 2011. The biographical details of Mr. Kwan are set out under the section headed "Directors and Senior Management". According to the newly introduced Rule 3.29 of the Listing Rules, Mr. Kwan has taken no less than 15 hours of relevant professional training during the financial year ended December 31, 2012.

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.

Shareholders' Rights

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an Annual General Meeting, shall be called an Extraordinary General Meeting ("EGM").

— Right to convene Extraordinary General Meeting

Any two or more members or any one member of the Company which is a recognised clearing house (or its nominee(s)) holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company, shall at all times have the right, by written requisition sent to the Company's principal office as set out in the manner below, to require an EGM to be called by the Board for the transaction of any business specified in such requisition.

The written requisition must state the purposes of the meeting, signed by the requisitionist(s) and deposit it to the Board or the company secretary of the Company at the Company's principal place of business at Unit B, 35/F., No. 169 Electric Road, North Point, Hong Kong.

The request will be verified with the Company's branch share registrar in Hong Kong and upon their confirmation that the request is proper and in order, the company secretary of the Company will ask the Board to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the registered members. On the contrary, if the request has been verified is not in order, the shareholders will be advised of this outcome and accordingly, an EGM will not be convened as requested. If within twenty one days from the date of the deposit of the requisition the Board fails to proceed to convene such meeting to be held within a further 21 days, the requisitionist(s), may convene a meeting in the same manner within three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed by the Company to the requisitionist(s).

The notice period to be given to all the registered members for consideration of the proposal raised by the requisitionist(s) concerned at the EGM varies according to the nature of the proposal, as follows:

— At least 14 clear days' notice in writing (and not less than 10 business days) if the proposal constitutes an ordinary resolution of the Company;

— At least 21 clear days' notice in writing (and not less than 10 business days) if the proposal constitutes a special resolution of the Company in EGM.

— Right to put enquiries to the Board

Shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post to the principal place of business of the Company in Hong Kong for the attention of the company secretary.

— Right to put forward proposals at general meetings

There are no provisions allowing shareholders to purpose new resolutions at the general meetings under the Cayman Islands Companies Law (2011 Revision). However, shareholders are requested to follow Article 79 of the Company's Articles of Association for including a resolution at an EGM. The requirements and procedures are set out above. Pursuant to Article 116 of the Company's Articles of Association, no person shall, unless recommended by the Board, be eligible for election to the office of Director at any general meeting unless during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary notice in writing by a member of the Company (not being the person to be proposed), entitled to attend and vote at the meeting for which such notice is given, of his intention to propose such person for election and notice in writing signed by the person to be proposed of his willingness to be elected. The written notice must state that person's biographical details as required by Rule 13.51(2) of the Listing Rules. The procedures for shareholders of the Company to propose a person for election as director is posted on the Company's website.

Investor Relations

The Company has established a range of communication channels between itself and its shareholders, investors and other stakeholders. These include the annual general meeting, the annual and interim reports, notices, announcements and circulars and the Company's website at www.harmonics33.com.

Change of Company's constitutional documents

The following table shows the comparison between the previous and existing Clauses and Articles of the Memorandum and Articles of Association which were passed at the EGM on March 6, 2012.

A. Memorandum of Association of the Company

Clause No.	Previous Clauses	Clauses adopted at the EGM on March 6, 2012
1	The name of the Company is Rainbow Brothers Holdings Limited, and the Chinese name for identification purposes only is 十友控股有限公司.	The name of the Company is Harmonic Strait Financial Holdings Limited 和協海峽金融集團有限公司.
2	The Registered Office of the Company shall be at the offices of M&C Corporate Services Limited, PO Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands or at such other place in the Cayman Islands as the Board may from time to time decide.	The Registered Office of the Company shall be at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands or at such other place in the Cayman Islands as the Board may from time to time decide.

Clause No.	Previous Clauses	Clauses adopted at the EGM on March 6, 2012
4	Except as prohibited or limited by the Companies Law (2007 Revision), the Company shall have full power and authority to carry out any object not prohibited by any law as provided by Section 7(4) of the Companies Law (2007 Revision) and shall have and be capable of from time to time and at all times exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate, irrespective of any question of corporate benefit, in doing in any part of the world whether as principal, agent, contractor or otherwise whatever may be considered by it necessary for the attainment of its objects and whatever else may be considered by it as incidental or conducive thereto or consequential thereon, including, but without in any way restricting the generality of the foregoing, the power to make any alterations or amendments to this Memorandum of Association and the Articles of Association of the Company considered necessary or convenient in the manner set out in the Articles of Association of the Company, and the power to do any of the following acts or things, viz: to pay all expenses of and incidental to the promotion, formation and incorporation of the Company; to register the Company to do business in any other jurisdiction; to sell, lease or dispose of any property of the Company; to draw, make, accept,	Except as prohibited or limited by the Companies Law (2011 Revision), the Company shall have full power and authority to carry out any object not prohibited by any law as provided by Section 7(4) of the Companies Law (2011 Revision) and shall have and be capable of from time to time and at all times exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate, irrespective of any question of corporate benefit, in doing in any part of the world whether as principal, agent, contractor or otherwise whatever may be considered by it necessary for the attainment of its objects and whatever else may be considered by it as incidental or conducive thereto or consequential thereon, including, but without in any way restricting the generality of the foregoing, the power to make any alterations or amendments to this Memorandum of Association and the Articles of Association of the Company considered necessary or convenient in the manner set out in the Articles of Association of the Company, and the power to do any of the following acts or things, viz: to pay all expenses of and incidental to the promotion, formation and incorporation of the Company; to register the Company to do business in any other jurisdiction;

Clause No.	Previous Clauses	Clauses adopted at the EGM on March 6, 2012
	endorse, discount, execute and issue promissory notes, debentures, debenture stock, loans, loan stock, loan notes, bonds, convertible bonds, bills of exchange, bills of lading, warrants and other negotiable or transferable instruments; to lend money or other assets and to act as guarantors; to borrow or raise money on the security of the undertaking or on all or any of the assets of the Company including uncalled capital or without security; to invest monies of the Company in such manner as the Directors determine; to promote other companies; to sell the undertaking of the Company for cash or any other consideration; to distribute assets in specie to members of the Company; to contract with persons for the provision of advice, the management and custody of the Company's assets, the listing of the Company's shares and its administration; to make charitable or benevolent donations; to pay pensions or gratuities or provide other benefits in cash or kind to Directors, officers, employees, past or present and their families; to purchase Directors and officers liability insurance; to carry on any trade or business and generally to do all acts and things which, in the opinion of the Company or the Directors, may be conveniently or profitably or usefully acquired and dealt with, carried on, executed or done by the Company in connection with the business aforesaid PROVIDED THAT the Company shall only carry on the businesses for which a licence is required under the laws of the Cayman Islands when so licensed under the terms of such laws.	to sell, lease or dispose of any property of the Company; to draw, make, accept, endorse, discount, execute and issue promissory notes, debentures, debenture stock, loans, loan stock, loan notes, bonds, convertible bonds, bills of exchange, bills of lading, warrants and other negotiable or transferable instruments; to lend money or other assets and to act as guarantors; to borrow or raise money on the security of the undertaking or on all or any of the assets of the Company including uncalled capital or without security; to invest monies of the Company in such manner as the Directors determine; to promote other companies; to sell the undertaking of the Company for cash or any other consideration; to distribute assets in specie to members of the Company; to contract with persons for the provision of advice, the management and custody of the Company's assets, the listing of the Company's shares and its administration; to make charitable or benevolent donations; to pay pensions or gratuities or provide other benefits in cash or kind to Directors, officers, employees, past or present and their families; to purchase Directors and officers liability insurance; to carry on any trade or business and generally to do all acts and things which, in the opinion of the Company or the Directors, may be conveniently or profitably or usefully acquired and dealt with, carried on, executed or done by the Company in connection with the business aforesaid PROVIDED THAT the Company shall only carry on the businesses for which a licence is required under the laws of the Cayman Islands when so licensed under the terms of such laws.

Clause No.	Previous Clauses	Clauses adopted at the EGM on March 6, 2012
6	The share capital of the Company is HK$100,000,000 divided into 1,000,000,000 shares of a nominal or par value of HK$0.10 each with power for the Company insofar as is permitted by law, to redeem or purchase any of its shares and to increase or reduce the said capital subject to the provisions of the Companies Law (2007 Revision) and the Articles of Association and to issue any part of its capital, whether original, redeemed or increased with or without any preference, priority or special privilege or subject to any postponement of rights or to any conditions or restrictions and so that unless the conditions of issue shall otherwise expressly declare every issue of shares whether declared to be preference or otherwise shall be subject to the powers hereinbefore contained.	The share capital of the Company is HK$500,000,000 divided into 5,000,000,000 shares of a nominal or par value of HK$0.10 each with power for the Company insofar as is permitted by law, to redeem or purchase any of its shares and to increase or reduce the said capital subject to the provisions of the Companies Law (2011 Revision) and the Articles of Association and to issue any part of its capital, whether original, redeemed or increased with or without any preference, priority or special privilege or subject to any postponement of rights or to any conditions or restrictions and so that unless the conditions of issue shall otherwise expressly declare every issue of shares whether declared to be preference or otherwise shall be subject to the powers hereinbefore contained.
7	If the Company is registered as exempted, its operations will be carried on subject to the provisions of Section 193 of the Companies Law (2007 Revision) and, subject to the provisions of the Companies Law (2007 Revision) and the Articles of Association, it shall have the power to register by way of continuation as a body corporate limited by shares under the laws of any jurisdiction outside the Cayman Islands and to be deregistered in the Cayman Islands.	If the Company is registered as exempted, its operations will be carried on subject to the provisions of Section 174 of the Companies Law (2011 Revision) and, subject to the provisions of the Companies Law (2011 Revision) and the Articles of Association, it shall have the power to register by way of continuation as a body corporate limited by shares under the laws of any jurisdiction outside the Cayman Islands and to be deregistered in the Cayman Islands.

B. Articles of Association of the Company

Article No.	Previous Clauses	Articles adopted at the EGM on March 6, 2012
2	—	"business day" shall mean a day on which the Exchange generally is open for the business of dealing in securities in Hong Kong. For the avoidance of doubt, where the Exchange is closed for business of dealing in securities in Hong Kong on a day by reason of a Number 8 or higher typhoon signal, black rainstorm warning or other similar event, such day shall for the purpose of these Articles be counted as a business day;
2	"the Companies Law" or "the Law" shall mean the Companies Law (2007 Revision), Cap. 22 of the Cayman Islands and any amendments thereto or re-enactments thereof for the time being in force and includes every other law incorporated therewith or substituted therefor;	"the Companies Law" or "the Law" shall mean the Companies Law (2011 Revision), Cap. 22 of the Cayman Islands and any amendments thereto or re-enactments thereof for the time being in force and includes every other law incorporated therewith or substituted therefor;
2	"the Company" or "this Company" shall mean Rainbow Brothers Holdings Limited;	"the Company" or "this Company" shall mean Harmonic Strait Financial Holdings Limited 和協海峽金融集團有限公司;
2	"electronic" shall have the meaning given to it in the Electronic Transactions Law 2000 of the Cayman Islands and any amendment thereto or re-enactments thereof for the time being in force and includes every other law incorporated therewith or substituted therefor;	"electronic" shall have the meaning given to it in the Electronic Transactions Law;
2	—	"electronic means" includes sending or otherwise making available to the intended recipients of the communication in electronic format;
2	—	"Electronic Transactions Law" shall mean the Electronic Transactions Law (2003 Revision) of the Cayman Islands and any amendment thereto or re-enactments thereof for the time being in force and includes every other law incorporated therewith or substituted therefor;
2	—	sections 8 and 19 of the Electronic Transactions Law shall not apply;

Article No.	Previous Clauses	Articles adopted at the EGM on March 6, 2012
6	If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Law, be varied or abrogated with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of shares of that class. To every such separate meeting all the provisions of these Articles relating to general meetings shall mutatis mutandis apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class, and that any holder of shares of the class present in person (or in the case of a corporation, by its duly authorised representative) or by proxy may demand a poll.	If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Law, be varied or abrogated with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of shares of that class. To every such separate meeting all the provisions of these Articles relating to general meetings shall mutatis mutandis apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.
8A	—	The Board may accept the surrender for no consideration of any fully paid share.

Article No.	Previous Clauses	Articles adopted at the EGM on March 6, 2012
80	An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by not less than 21 days' notice in writing and any other extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be inclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place, and agenda of the meeting, particulars of the resolutions to be considered at the meeting and in the case of special business (as defined in Article 85) the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the Auditors and to all members other than such as, under the provisions hereof or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company.	An annual general meeting shall be called by not less than 21 days' and not less than 20 business days' notice in writing, any extraordinary general meeting called for the passing of a special resolution shall be called by not less than 21 days' and not less than 10 business days' notice in writing and any other extraordinary general meeting shall be called by not less than 14 days' and not less than 10 business days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place, and agenda of the meeting, particulars of the resolutions to be considered at the meeting and in the case of special business (as defined in Article 85) the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the Auditors and to all members other than such as, under the provisions hereof or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company.
82	There shall appear with reasonable prominence in every notice of general meetings of the Company a statement that a member entitled to attend and vote is entitled to appoint a proxy to attend and, on a poll, vote instead of him and that a proxy need not be a member of the Company.	There shall appear with reasonable prominence in every notice of general meetings of the Company a statement that a member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of him and that a proxy need not be a member of the Company.

Article No.	Previous Clauses	Articles adopted at the EGM on March 6, 2012
90	At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded or otherwise required under the Listing Rules. A poll may be demanded by: 90.1 the Chairman of the meeting; or 90.2 at least five members present in person (or in the case of a corporation, by its duly authorised representative) or by proxy and entitled to vote; or 90.3 any member or members present in person (or in the case of a corporation, by its duly authorised representative) or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all members having the right to attend and vote at the meeting; or 90.4 any member or members present in person (or in the case of a corporation, by its duly authorised representative) or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.	At any general meeting a resolution put to the vote of the meeting shall be decided on a poll save that the Chairman may, in good faith, allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

Article No.	Previous Clauses	Articles adopted at the EGM on March 6, 2012
91	Unless a poll is so required or demanded and, in the latter case, not withdrawn, a declaration by the Chairman that a resolution has on a show of hands been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the Company's book containing the minutes of proceedings of meetings of the Company shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.	Where a resolution is voted on by a show of hands as permitted under the Listing Rules, a declaration by the Chairman that a resolution has been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the Company's book containing the minutes of proceedings of meetings of the Company shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.
92	If a poll is required or demanded as aforesaid, it shall (subject as provided in Article 94) be taken in such manner (including the use of ballot or voting papers or tickets) and at such time and place, not being more than 30 days from the date of the meeting or adjourned meeting at which the poll was required or demanded as the Chairman directs. No notice need be given of a poll not taken immediately. The result of the poll shall be deemed to be the resolution of the meeting at which the poll was required or demanded. The demand for a poll may be withdrawn, with the consent of the Chairman, at any time before the close of the meeting at which the poll was demanded or the taking of the poll, whichever is earlier.	A poll shall (subject as provided in Article 94) be taken in such manner (including the use of ballot or voting papers or tickets) and at such time and place, not being more than 30 days from the date of the meeting or adjourned meeting at which the poll was taken as the Chairman directs. No notice need be given for a poll not taken immediately. The result of the poll shall be deemed to be the resolution of the meeting at which the poll was taken.
93	The demand of a poll shall not prevent the continuance of a meeting for the transaction of any business other than the question on which a poll has been demanded.	[intentionally omitted]
94	Any poll duly demanded on the election of a Chairman of a meeting or on any question of adjournment shall be taken at the meeting and without adjournment.	Any poll on the election of a Chairman of a meeting or on any question of adjournment shall be taken at the meeting and without adjournment.
95	In the case of an equality of votes, whether on a show of hands or on a poll, the Chairman of the meeting at which the show of hands takes place or at which the poll is required or demanded, shall be entitled to a second or casting vote.	In the case of an equality of votes, whether on a show of hands or on a poll, the Chairman of the meeting at which the show of hands or the poll is taken, shall be entitled to a second or casting vote.

Article No.	Previous Clauses	Articles adopted at the EGM on March 6, 2012
97	Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a show of hands every member who is present in person (or, in the case of a member being a corporation by its duly authorised representative) shall have one vote, and on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register. Notwithstanding anything contained in these Articles, where more than one proxy is appointed by a recognised clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll a member entitled to more than one vote is under no obligation to cast all his votes in the same way.	Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting where a show of hands is allowed, every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) shall have one vote, and on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register. On a poll a member entitled to more than one vote is under no obligation to cast all his votes in the same way. For the avoidance of doubt, where more than one proxy is appointed by a recognised clearing house or its nominee(s)), each such proxy shall have one vote on a show of hands and is under no obligation to cast all his votes in the same way on a poll.
101	A member in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote, whether on a show of hands or on a poll, by any person authorised in such circumstances to do so, and such person may vote on a poll by proxy.	A member in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote, by any person authorised in such circumstances to do so, and such person may vote by proxy.
104	Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person (who must be an individual) as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. On a poll votes may be given either personally or by proxy. A proxy need not be a member of the Company. A member may appoint any number of proxies to attend in his stead at any one general meeting (or at any one class meeting).	Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person (who must be an individual) as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. Votes may be given either personally or by proxy. A proxy need not be a member of the Company. A member may appoint any number of proxies to attend in his stead at any one general meeting (or at any one class meeting).

Article No.	Previous Clauses	Articles adopted at the EGM on March 6, 2012
108	The instrument appointing a proxy to vote at a general meeting shall: (a) be deemed to confer authority to demand or join in demanding a poll and to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit; and (b) unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates, provided that the meeting was originally held within 12 months from such date.	The instrument appointing a proxy to vote at a general meeting shall: (a) be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit; and (b) unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates, provided that the meeting was originally held within 12 months from such date.
111	If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person so authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee(s)) which he represents as that recognised clearing house (or its nominee(s)) could exercise as if such person were an individual member of the Company holding the number and class of shares specified in such authorisation, including the right to vote individually on a show of hands, notwithstanding any contrary provision contained in these Articles.	If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. The person so authorised will be deemed to have been duly authorised without the need of producing any documents of title, notarised authorisation and/or further evidence to substantiate that it is so authorised. A person so authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee(s)) which he represents as that recognised clearing house (or its nominee(s)) could exercise as if such person were an individual member of the Company holding the number and class of shares specified in such authorisation, including, where a show of hands is allowed, the right to vote individually on a show of hands, notwithstanding any contrary provisions contained in these Articles.

Article No.	Previous Clauses	Articles adopted at the EGM on March 6, 2012
134.3	any proposal concerning any other company in which the Director or any of his Associates is/are interested only, whether directly or indirectly, as an officer or executive or shareholder or in which the Director or any of his Associates is/are beneficially interested in the shares of that company, provided that, the Director and any of his Associates is/are not, in aggregate, beneficially interested in 5 per cent. or more of the issued shares of any class of such company (or of any third company through which his interest or that of any of his Associates is derived) or of the voting rights;	[intentionally omitted]
148	A Director may, and on request of a Director the Secretary shall, at any time summon a meeting of the Board. Failing any determination by the Board, not less than 48 hours notice thereof shall be given to each Director either in writing or by telephone or by facsimile, telex or telegram at the address or telephone, facsimile or telex number from time to time notified to the Company by such Director or in such other manner as the Board may from time to time determine provided that notice need not be given to any Director or alternate Director for the time being absent from Hong Kong.	A Director may, and on request of a Director the Secretary shall, at any time summon a meeting of the Board. Failing any determination by the Board, not less than 48 hours notice thereof shall be given to each Director either in writing or by telephone or by facsimile, telex or telegram at the address or telephone, facsimile or telex number from time to time notified to the Company by such Director or in such other manner as the Board may from time to time determine.

Article No.	Previous Clauses	Articles adopted at the EGM on March 6, 2012
158	A resolution in writing signed by each and every one of the Directors (or their respective alternates pursuant to Article 121) shall be as valid and effectual as if it had been passed at a meeting of the Board duly convened and held and may consist of several documents in like form each signed by one or more of the Directors or alternate Directors.	Unless required otherwise by the Listing Rules, a resolution in writing signed by each and every one of the Directors (or their respective alternates pursuant to Article 121) shall be as valid and effectual as if it had been passed at a meeting of the Board duly convened and held and may consist of several documents in like form each signed by one or more of the Directors or alternate Directors. Notwithstanding the foregoing, a resolution in writing shall not be valid and effective if the resolution relates to any matter or business in which a member of the Company with a substantial shareholding in the Company, or a Director, has an interest conflicting with that of the Company which the Board determines, prior to the passing of such resolution, to be material.

On behalf of the Board

Chan Cheuk Ming
Chairman

Hong Kong
March 26, 2013

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 44 to 103, which comprise the consolidated and Company's statements of financial position as at December 31, 2012, 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, 2012 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.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to note 2(b) in the consolidated financial statements in relation to the loan of HK$115,000,000 which expired on 13 March 2013 and was extended to 28 April 2013. This loan, along with other matters as set forth in note 2(b), indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Cheng & Cheng Limited
Certified Public Accountants (Practising)

Y.Y. Li, Alice
Practising Certificate Number P03373
Hong Kong
March 26, 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2012

	Note	**2012** **HK$'000**	2011 HK$'000
Turnover	3 & 31	**270,296**	588,103
Cost of sales		**(159,891)**	(488,702)
Gross profit		**110,405**	99,401
Other revenue and other net income	4	**5,143**	29,615
Operating expenses		**(57,392)**	(99,447)
Profit from operations		**58,156**	29,569
Finance costs			
On bank borrowing		**(232)**	(1,436)
Other loan		**(11,550)**	(7,684)
Notional interest		**(8,946)**	(19,293)
	5	**(20,728)**	(28,413)
Profit before impairment and taxation		**37,428**	1,156
Impairment on goodwill		**(3,004,007)**	(256,522)
Loss before taxation	6	**(2,966,579)**	(255,366)
Income tax	7	**(9,799)**	(1,383)
Loss for the year		**(2,976,378)**	(256,749)
Other comprehensive income			
Exchange differences on translating foreign operations		**11**	8,350
Total comprehensive loss for the year		**(2,976,367)**	(248,399)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2012

	Note	2012 HK$'000	2011 HK$'000
Loss for the year attributable to:			
Equity shareholders of the Company		**(2,981,612)**	(255,745)
Non-controlling interest		**5,234**	(1,004)
	8	**(2,976,378)**	(256,749)
Total comprehensive loss attributable to:			
Equity shareholders of the Company		**(2,981,602)**	(248,154)
Non-controlling interest		**5,235**	(245)
		(2,976,367)	(248,399)
Dividends	9	**N/A**	N/A
Loss per share			
— Basic	10	**HK$2.73**	HK$0.38
— Diluted		**N/A**	N/A

The notes on pages 50 to 103 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2012

	Note	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	13	**13,963**	18,829
Goodwill	14	**28,368**	3,032,375
Deferred taxation	25(b)	**237**	–
		42,568	3,051,204
Current assets			
Inventories	15	**18,478**	14,104
Trade receivables	16	**19,895**	44,432
Prepayments, deposits and other receivables	17	**43,463**	46,558
Restricted cash	18	**41,931**	14,794
Cash and cash equivalents	19	**159,323**	113,449
		283,090	233,337
Total Assets		**325,658**	3,284,541
Capital and reserves			
Share capital	20	**149,185**	79,585
Reserves	21	**(89,420)**	2,858,544
Equity attributable to shareholders of the Company		**59,765**	2,938,129
Non-controlling interests	27	**20,442**	15,207
Total Equity		**80,207**	2,953,336
Non-current liabilities			
Deferred taxation	25(b)	**–**	12,038
Convertible bond	26	**71,661**	154,946
		71,661	166,984
Current liabilities			
Amount due to a director	32(c)	**11,498**	–
Trade and bills payable	22	**10,215**	8,011
Accruals and other payables	23	**133,887**	144,774
Bank borrowings — secured	24	**8,240**	9,709
Tax payable	25(a)	**9,950**	1,727
		173,790	164,221
Total Equity and Liabilities		**325,658**	3,284,541
Net current assets		**109,300**	69,116
Total assets less current liabilities		**151,868**	3,120,320

Approved and authorised for issue by the Board of Directors on March 26, 2013.

On behalf of the board

Tong Nai Kan — *Director*

An Yu Xin — *Director*

The notes on pages 50 to 103 form an integral part of these consolidated financial statements.

STATEMENT OF FINANCIAL POSITION

As at December 31, 2012

	Note	2012 HK$'000	2011 HK$'000
Non-current assets			
Investment in subsidiaries	28	**48,574**	3,052,580
Current assets			
Prepayments, deposits and other receivables	17	**330**	145
Amounts due from subsidiaries	29	**53,404**	55,819
Cash and cash equivalents	19	**288**	188
		54,022	56,152
Total Assets		**102,596**	3,108,732
Capital and reserves			
Share capital	20	**149,185**	79,585
Reserves	21	**(123,259)**	2,858,184
		25,926	2,937,769
Non-current liabilities			
Deferred taxation	25(b)	**5,006**	16,014
Convertible bond	26	**71,661**	154,946
		76,667	170,960
Current liabilities			
Accruals and other payables	23	**3**	3
Total Equity and Liabilities		**102,596**	3,108,732
Net current assets		**54,019**	56,149
Total assets less current liabilities		**102,593**	3,108,729

Approved and authorised for issue by the Board of Directors on March 26, 2013.

On behalf of the board

Tong Nai Kan — *Director*

An Yu Xin — *Director*

The notes on pages 50 to 103 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2012

		Attributable to equity shareholders of the Company								
	Note	Share capital HK$'000	Share premium HK$'000	Translation reserve HK$'000	Capital reserve HK$'000	Convertible bond reserve HK$'000	Statutory reserve HK$'000	Retained profits/ (Accumulated losses) HK$'000	Non-controlling interest HK$'000	Total HK$'000
At 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 and January 1, 2012		79,585	609,773	12,432	(15,000)	2,489,574	–	(238,235)	15,207	2,953,336
Issue of new share upon conversion of convertible bond		69,600	465,023	–	–	(534,623)	–	–	–	–
Deferred tax arising from convertible bond		–	–	–	–	1,476	–	–	–	1,476
Transfer from convertible bond liability portion to equity portion		–	–	–	–	101,762	–	–	–	101,762
Total comprehensive income/(loss) for the year		–	–	10	–	–	–	(2,981,612)	5,235	(2,976,367)
Transfer to statutory reserve from retained profits		–	–	–	–	–	3,420	(3,420)	–	–
At December 31, 2012		149,185	1,074,796	12,442	(15,000)	2,058,189	3,420	(3,223,267)	20,442	80,207

The notes on pages 50 to 103 form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2012

	Note	2012 HK$'000	2011 HK$'000
Operating activities			
Loss before taxation		**(2,966,579)**	(255,365)
Adjustments for:			
Interest income		**(1,519)**	(455)
Interest expenses on bank loan		**232**	1,436
Interest expenses on convertible bond		**8,946**	19,293
Interest expenses on other loan		**11,550**	7,684
Depreciation		**7,741**	8,926
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		**431**	8,350
Loss on disposal of property, plant and equipment		**15**	368
Impairment loss on goodwill		**3,004,007**	256,522
Operating profit before changes in working capital		**64,824**	22,791
(Decrease)/Increase in inventories		**(4,374)**	8,214
Decrease in trade receivables		**24,537**	12,862
Decrease/(Increase) in prepayments, deposits and other receivables		**3,095**	(11,362)
Increase in amount due to a director		**11,498**	–
Increase/(Decrease) in trade and bills payable		**2,204**	(19,234)
Decrease in accruals and other payables		**(8,942)**	(1,957)
Cash generated from operations		**92,842**	11,314
Hong Kong Profits Tax paid		**(2,863)**	(2,937)
Net cash generated from operating activities		**89,979**	8,377
Investing activities			
Purchase of property, plant and equipment		**(3,270)**	(12,328)
Interest received		**1,519**	455
Dividend income		**–**	8,433
Decrease in loan and receivable		**–**	23,000
(Increase)/Decrease in restricted cash		**(27,137)**	34,564
Proceeds from disposal of property, plant and equipment		**380**	435
Acquisition of a subsidiary	30	**(401)**	–
Net cash (used in)/generated from investing activities		**(28,909)**	54,559
Financing activities			
Interest paid		**(13,727)**	(9,137)
Repayment of bank borrowings		**(6,340)**	(40,621)
Increase in bank borrowings		**4,871**	9,709
Dividend paid		**–**	(25,434)
Net cash used in financing activities		**(15,196)**	(65,483)
Net increase/(decrease) in cash and cash equivalents		**45,874**	(2,547)
Cash and cash equivalents at beginning of year		**113,449**	115,996
Cash and cash equivalents at end of year	19	**159,323**	113,449

The notes on pages 50 to 103 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 Company is an investment holding company. The Group is principally engaged in the credit guarantee and investment business in the PRC, exporting business, 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 Unit B, 35/F, No. 169 Electric Road, North Point, 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(d) and 2(e) 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.

(b) Adoption of Going Concern basis

The consolidated financial statements of the Group have been prepared on a going concern basis even though the Group has a loan of HK$115,000,000 from an ex-director of the Company which expired on 13 March 2013. The lender of the loan agreed not to take immediate action to enforce his rights until 28 April 2013. The cash and cash equivalents balance as shown on the consolidated statement of financial position as at 31 December 2012 could not be fully utilized to repay this loan as a large portion of the cash is located in the PRC, and cannot be remitted to Hong Kong in a short period of time.

Regardless of the above, the directors are of the opinion that adoption of the going concern basis is appropriate because a director provided guarantee to the ex-director regarding the loan and has agreed to provide continuing financial support, if necessary, to the Company to meet its obligations as and when they fall due. Accordingly, it is not necessary to include any adjustments that might be necessary should the Group fail to continue as a going concern.

(c) Basis of Preparation of the Financial Statements

The consolidated financial statements for the year ended December 31, 2012 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 policies 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.

(d) Amendments, new standards and interpretations issued and effective for the year ended December 31, 2012

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2012:

Amendments to HKFRS 7	Financial instruments: Disclosures — Transfers of financial assets
Amendments to HKAS 12	Income taxes — Deferred tax: Recovery of underlying assets

Amendments to HKFRS 7, Financial instruments: Disclosures

The amendments to HKFRS 7 require certain disclosures to be included in the financial statements in respect of transferred financial assets that are not derecognised in their entirety and for any continuing involvement in transferred financial assets that are derecognised in their entirety, irrespective of when the related transfer transaction occurred. However, an entity need not provide the disclosures for the comparative period in the first year of adoption. The Group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

Amendments to HKAS 12, Income taxes

Under HKAS 12 deferred tax is required to be measured with reference to the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of the asset(s) in question. In this regard, the amendments to HKAS 12 introduced a rebuttable presumption that the carrying amount of investment property carried at fair value under HKAS 40, Investment property, will be recovered through sale. This presumption is rebutted on a property-by-property basis if the investment property in question is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

The adoption of the new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

(e) Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2012

At the date of authorisation of these consolidated financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new or amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Certain other new and amended HKFRSs have been issued but are not expected to have a material impact on the Group's consolidated financial statements.

	Effective for accounting periods beginning on or after
Amendments to HKAS 1, *Presentation of financial statements*	
— Presentation of items of other comprehensive income	July 1, 2012
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
Annual Improvements to HKFRSs 2009–2011 Cycle	January 1, 2013
Amendments to HKFRS 7, *Financial instruments: Disclosures*	
— Disclosures — Offsetting financial assets and financial Liabilities	January 1, 2013
HK(IFRIC)-INT 20, *Stripping costs in the production phase of a surface mine*	January 1, 2013
Amendments to HKAS 32, *Financial instruments: Presentation*	
— Offsetting financial assets and financial liabilities	January 1, 2014
HKFRS 9, *Financial instruments*	January 1, 2015

(f) 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.

(g) 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.

(h) 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.

(i) 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(v)(vi) 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(v)(iii). When these investments are derecognised or impaired, the cumulative gain or loss is reclassified from equity to profit or loss.

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

(j) 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.

(k) 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.

(l) 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.

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.

— 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.

(m) 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.

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.

(n) 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.

(o) 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.

(p) 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.

(q) 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.

(r) 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.

(s) 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.

(t) 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.

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.

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.

(u) 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>.

(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 nonoccurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(v) 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) 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 transferred.

(ii) 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.

(iii) Interest income

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

(iv) Commission income

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

(v) Hotel accommodation service

Hotel accommodation service is recognised when the service is rendered.

(vi) Dividend income

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

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

(w) Foreign currencies

The Group's consolidated financial statements are presented in euros, which is also the parent company's functional currency. For each entity the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and has elected to recycle the gain or loss that arises from using this method.

(i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

(ii) Group companies

On consolidation, the assets and liabilities of foreign operations are translated into euros at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

(x) 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.

(y) 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.

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

	2012	2011
	HK$'000	HK$'000
Credit guarantee service and investment income	**78,910**	6,042
Sales of goods	**162,529**	548,004
Insurance brokerage commission income	**14,201**	20,873
Provision of hotel accommodation service	**14,656**	13,184
	270,296	588,103

4. OTHER REVENUE AND OTHER NET INCOME

	2012	2011
	HK$'000	HK$'000
Other revenue		
Total interest income on financial assets not at fair value through profit or loss	**1,519**	455
Dividend income	**–**	8,433
Sundry income	**3,395**	18,901
	4,914	27,789
Other net income		
Net exchange gain	**229**	1,826
	5,143	29,615

5. FINANCE COSTS

	2012	2011
	HK$'000	HK$'000
Interest expense on bank borrowings wholly repayable within five years	**232**	1,436
Interest expenses on loan advance from an ex-director	**11,550**	7,684
Imputed interest expenses on convertible bond	**8,946**	19,293
Total interest expenses on financial liabilities not at fair value through profit or loss	**20,728**	28,413

The imputed interest expenses of HK$8,946,000 (2011: HK$19,293,000) 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:

	2012	2011
	HK$'000	HK$'000
Auditor's remuneration	**900**	900
Cost of inventories (note 15(b))	**147,067**	476,821
Depreciation (note 13)	**7,741**	8,926
Loss on disposal of property, plant and equipment written off	**15**	368
Staff costs:		
— Salaries, wages and other benefits (including directors' emoluments)	**20,981**	46,456
— Contributions to defined contribution retirement plans	**1,923**	2,227
Operating lease charges on rented premises	**11,690**	12,518
Provision for guarantee contracts	**796**	2,652
Net exchange gain	**(229)**	(1,826)
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:

	2012 HK$'000	2011 HK$'000
Hong Kong Profits Tax		
Provision for the year	**345**	2,425
(Over)/under provision in respect of prior years	**(10)**	80
	335	2,505
PRC Tax		
Provision for the year	**10,731**	–
Deferred tax		
Reversal of temporary differences	**(1,267)**	(1,122)
	9,799	1,383

Hong Kong Profits Tax has been provided for at the rate of 16.5% (2011: 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:

	2012 HK$'000	2011 HK$'000
Loss before taxation	**(2,966,579)**	(255,366)
Notional tax on loss before taxation, calculated at the applicable tax rate 16.5% (2011: 16.5%)	**(489,486)**	(42,135)
Effect of different tax rate in other country	**5,028**	(1,760)
Tax effect of income not subject to taxation	**(764)**	(3,040)
Tax effect of expenses not deductible for taxation purposes	**1,739**	45,508
Tax effect of prior year's tax losses utilized in this year	**(4,914)**	–
Unused tax losses not recognised	**498,301**	2,735
(Over)/under-provision in prior years	**(10)**	80
Tax effect of origination and reversal of temporary difference	**(95)**	(5)
Actual tax expense	**9,799**	1,383

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$3,015,081,000 (2011: loss of HK$259,568,000).

9. DIVIDENDS

	Note	**2012** **HK$'000**	2011 HK$'000
No final dividend was paid (2011: 4 cents per ordinary share) in respect of the previous financial year	21	**–**	25,434

The board of directors of the Company did not recommend any final dividend for the year ended December 31, 2012. No dividend was paid during the year (2011: HK$25,434,000).

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.

	2012 **HK$'000**	2011 HK$'000
Loss attributable to equity shareholders of the Company	**(2,981,612)**	(255,745)

	2012 **'000 shares**	2011 '000 shares
Weighted average number of ordinary shares		
At the beginning of the year	**795,850**	635,850
Effect of conversion of convertible bond	**295,868**	42,411
At the end of the year	**1,091,718**	678,261

Total ordinary shares outstanding at December 31, 2012 was 1,491,850,000 shares (2011: 795,850,000 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, 2012				
	Fees HK$'000	Basic salaries, allowance and other benefits HK$'000	Discretionary bonus HK$'000	Contributions to retirement scheme HK$'000	Total HK$'000
Executive Directors					
An Yu Xin *(Vice Chairman)*	**150**	**725**	**–**	**–**	**875**
Tong Nai Kan *(appointed on February 24, 2012)*	**–**	**715**	**–**	**5**	**720**
Wong Sai Ming *(resigned with effect from January 4, 2012)*	**–**	**17**	**–**	**1**	**18**
Sun Pei Ying *(resigned with effect from February 24, 2012)*	**16**	**–**	**–**	**–**	**16**
Non-executive Director					
Ko Ming Tung, Edward	**150**	**–**	**–**	**–**	**150**
Independent Non-executive Directors					
Chan Cheuk Ming *(Chairman)*	**300**	**–**	**–**	**–**	**300**
Cheung Wah Keung	**150**	**–**	**–**	**–**	**150**
Anthony Espina	**150**	**–**	**–**	**–**	**150**
	916	**1,457**	**–**	**6**	**2,379**

	For the year ended December 31, 2011				
	Fees HK$'000	Basic salaries, allowance and other benefits HK$'000	Discretionary bonus HK$'000	Contributions to retirement scheme HK$'000	Total 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	–	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)*	–	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

No director waived any emoluments during the year (2011: Nil). No inducement payment or compensation for loss of office was paid or payable to any director for the year ended December 31, 2012 and December 31, 2011.

As at December 31, 2012, no share option has been granted and held by the directors under the Company's share option scheme (2011: Nil). Details of the share option scheme are disclosed in note 20(a).

(b) Individuals with highest emoluments

Of the five individuals with the highest paid in the Group, two (2011: two) were directors of the Company whose emoluments are disclosed in note 12(a) above. The emoluments of the remaining three (2011: three) individual were as follows:

	2012	2011
	HK$'000	HK$'000
Salaries and other benefits	**2,520**	5,239
Contributions to defined contribution retirement plans	**39**	36
	2,559	5,275

Their emoluments were within the following bands:

	2012	2011
	Number of employees	Number of employees
Below HK$1,000,001	**3**	–
HK$1,000,001 to HK$1,500,000	**–**	2
HK$1,500,001 to HK$2,500,000	**–**	–
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, 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 and January 1, 2012	22,880	18,474	5,665	1,291	1,297	49,607
Additions	2,189	779	203	99	–	3,270
Disposal	–	–	–	–	(593)	(593)
At December 31, 2012	25,069	19,253	5,868	1,390	704	52,284
Accumulated depreciation						
At 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 and January 1, 2012	8,413	16,954	3,590	1,044	777	30,778
Charge for the year	5,812	721	1,050	95	63	7,741
Written back on disposal	–	–	–	–	(198)	(198)
At December 31, 2012	14,225	17,675	4,640	1,139	642	38,321
Net book value						
At December 31, 2012	10,844	1,578	1,228	251	62	13,963
At December 31, 2011	14,467	1,520	2,075	247	520	18,829

14. GOODWILL

	2012	2011
	HK$'000	HK$'000
At the beginning of the year	**3,032,375**	3,288,897
Impairment	**(3,004,007)**	(256,522)
At the end of the year	**28,368**	3,032,375

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:

	2012	2011
	HK$'000	HK$'000
Party products manufacturing and trading business	**26,375**	26,375
Credit guarantee business and investment business	**1,993**	3,006,000
	28,368	3,032,375

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:

	2012	2011
Gross margin	**10%**	12%
Growth rate	**5% for the first three years and stable for the next two years**	3%
Discount rate	**18%**	19%

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$3,004,007,000 is recognised for the year (2011: 247,522,000).

	2012	2011
Gross margin	**N/A**	N/A
Growth rate	**N/A**	N/A
Discount rate	**12%**	12%

15. INVENTORIES

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

	2012	2011
	HK$'000	HK$'000
Raw materials	**7,059**	8,190
Work-in-progress	**6,406**	2,294
Finished goods	**5,013**	3,620
	18,478	14,104

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

		2012	2011
	Note	**HK$'000**	HK$'000
Carrying amount of inventories sold	6	**147,067**	476,821

16. 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:

	2012	2011
	HK$'000	HK$'000
Within 30 days	**14,907**	17,397
31 to 60 days	**1,766**	13,511
61 to 90 days	**480**	6,257
Over 90 days	**2,742**	7,267
	19,895	44,432

Trade receivables included HK$2,742,000 (2011: HK$7,267,000) which were past due at December 31, 2012. 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:

	2012	2011
	HK$'000	HK$'000
At the beginning of the year	**–**	250
Uncollectible amount written off	**–**	(250)
At the end of the year	**–**	–

For the year ended December 31, 2012, no trade receivables of the Group were uncollectible and written off (2011: 250,000). 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:

	2012	2011
	US$'000	US$'000
	81	1,581

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	The Group		**The Company**	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade deposits and other receivables	**36,005**	40,770	**–**	–
Prepayments	**905**	1,218	**330**	145
Rental, utility and sundry deposits	**2,503**	2,144	**–**	–
Staff advances	**4,050**	2,426	**–**	–
	43,463	46,558	**330**	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, 2012 and 2011, none of the prepayments, deposits and other receivables were impaired. All of the prepayment, trade deposits and other receivables are expected to be recovered, or recognised as expenses within one year.

18. RESTRICTED CASH

Approximately HK$41,931,000 (RMB34 million) (2011: HK$14,794,000 (RMB12 million)) of the bank balances is restricted to be drawn down since the balance is served as guarantee for the guarantee and investment business.

19. CASH AND CASH EQUIVALENTS

	The Group		**The Company**	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**159,323**	113,449	**288**	188
Cash and cash equivalents	**159,323**	113,449	**288**	188

Cash and cash equivalents in the consolidated cash flow statements as at December 31, 2012 and 2011 were HK$159,323,000 and HK$113,449,000 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.

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	
	2012	2011
	'000	'000
	US$111	US$268
	RMB110,133	RMB86,110

20. 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, 2011, December 31, 2011 and December 31, 2012	5,000,000	500,000
Issued and fully paid:		
As at January 1, 2011	635,850	63,585
Issue of new shares upon conversion of convertible bond	160,000	16,000
As at December 31, 2011 and January 1, 2012	795,850	79,585
Issue of new shares upon conversion of convertible bond	696,000	69,600
As at December 31, 2012	1,491,850	149,185

(a) 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: 795.85 million shares).

(b) During the year, convertible bond with principal amount of HK$870,000,000 were converted into 696,000,000 ordinary shares of the Company of HK$0.1 each at a conversion price of HK$1.25 each.

21. RESERVES

The Group

	Note	Share premium HK$'000	Translation reserve HK$'000	Capital reserve HK$'000	Convertible bond reserve HK$'000	Statutory reserve HK$'000	Retained profits/ (Accumulated losses) HK$'000	Total HK$'000
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 and at January 1, 2012		609,773	12,432	(15,000)	2,489,574	–	(238,235)	2,858,544
Issue of new share upon conversion of convertible bond		465,023	–	–	(534,623)	–	–	(69,600)
Transfer from convertible bond liability portion to equity portion		–	–	–	101,762	–	–	101,762
Deferred tax arising from convertible bond		–	–	–	1,476	–	–	1,476
Total comprehensive income/(loss) for the year		–	10	–	–	–	(2,981,612)	(2,981,602)
Transfer to statutory reserve from retain profits		–	–	–	–	3,420	(3,420)	–
At December 31, 2012		**1,074,796**	**12,442**	**(15,000)**	**2,058,189**	**3,420**	**(3,223,267)**	**(89,420)**

The Company

	Share premium	Contributed surplus	Convertible bond reserve	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 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 and January 1, 2012	609,773	31,971	2,489,574	(273,134)	2,858,184
Issue of new share upon conversion of convertible bond	465,023	–	(534,623)	–	(69,600)
Transfer from convertible bond liability portion to equity portion	–	–	101,762	–	101,762
Deferred tax arising from conversion of convertible bond	–	–	1,476	–	1,476
Total comprehensive loss for the year	–	–	–	(3,015,081)	(3,015,081)
At December 31, 2012	1,074,796	31,971	2,058,189	(3,288,215)	(123,259)

(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(o).

(vi) Statutory reserve

The Company's subsidiaries incorporated in the PRC are required to make appropriations to statutory reserves from their profit for the year after offsetting accumulated losses carried forward from prior years as determined under the PRC accounting regulations and before distribution to equity holders. The percentages to be appropriated to such statutory reserve are determined according to relevant regulations in the PRC. Enterprises in Mainland China are required to transfer at least 10% of their profit after taxation to the statutory surplus reserve until the balance of the reserve is equal to 50% of their registered capital.

(vii) Distributability of reserves

At December 31, 2012, no reserves was available for distribution to equity shareholders of the Company (2011: HK$336,640,000).

22. TRADE AND BILLS PAYABLE

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

	2012 HK$'000	2011 HK$'000
0 to 30 days	**7,669**	7,293
31 to 60 days	**2,349**	693
61 to 90 days	**133**	–
Over 90 days	**64**	25
	10,215	8,011

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:

	2012 '000	2011 '000
	US$19	–
	RMB6,153	RMB6,150

23. ACCRUALS AND OTHER PAYABLES

	The Group		The Company	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Interest payables	**–**	1,930	**–**	–
Accrued salaries and bonuses	**6,374**	7,091	**–**	–
Trade deposits received	**10**	2,165	**–**	–
Accrued expenses	**12,503**	18,588	**3**	3
Other short-term loan	**115,000**	115,000	**–**	–
	133,887	144,774	**3**	3

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.

24. BANK BORROWINGS — SECURED

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

	2012 HK$'000	2011 HK$'000
Current liabilities		
Portion of bank borrowing due for repayment within one year	**6,091**	6,340
Portion of bank borrowing due for repayment after one year which contain a repayment on demand clause	**2,149**	3,369
	8,240	9,709

The carrying amounts at the end of the reporting period approximated their fair values. Bank borrowings of the Group bore floating-rate borrowings which effective interest rate was 3% per annum (2011: 1.0% to 3.0%) over Hong Kong Interbank Offered Rate or 0.5% below the prime rate.

At December 31, 2012, interest-bearing bank loans were due for repayment as follows:

	2012 HK$'000	2011 HK$'000
Portion of bank borrowing due for repayment within one year	**6,091**	6,340
Bank borrowing due for repayment after one year (Note 1):		
After 1 year but within 2 years	**1,279**	1,220
After 2 years but within 5 years	**870**	2,149
	8,240	9,709

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

The Company has provided corporate guarantees to secure banking facilities granted to the Group.

25. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2012	2011
	HK$'000	HK$'000
At the beginning of the year	**(1,727)**	(2,159)
Provision for Hong Kong Profits tax	**(11,076)**	(2,425)
Under-provision in prior years	**(10)**	(80)
Hong Kong Profits Tax paid	**2,863**	2,937
At the end of the year	**(9,950)**	(1,727)

(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, 2011	(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)
Charged/(credited) to profit or loss	180	(1,302)	–	(1,122)
At December 31, 2011	162	(4,138)	16,014	12,038
Deferred tax released as the repayment right waived	–	–	(9,532)	(9,532)
Credited to reserve	–	–	(1,476)	(1,476)
Credited to profit or loss	(96)	(1,171)	–	(1,267)
At December 31, 2012	66	(5,309)	5,006	(237)

	2012	2011
	HK$'000	HK$'000
Deferred tax assets recognised	**5,072**	16,176
Deferred tax liabilities recognised	**5,309**	4,138

The Company

	Convertible bond	**Total**
	HK$'000	HK$'000
At January 1, 2011	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
Deferred tax released as the repayment right waived	(9,532)	(9,532)
Credited to reserve	(1,476)	(1,476)
At December 31, 2012	5,006	5,006

26. 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 和協海峽融資擔保有限公司, formerly known as 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 years ended 2011 and 2012, a majority convertible bond holder, Market Speed Limited covenanted by deeds with the Company that it will (1) convert all the Market Speed Limited 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 convertible bond not so converted on the Maturity Date; and (2) procure all its future transferees, if any, of the Market Speed Limited convertible bond to observe and comply with this covenant. In accordingly, the (fair value) liability portion of the Market Speed Limited Remaining Convertible Bond was transferred to the equity portion.

	The Group and Company		
	Equity portion	**Liability portion**	**Total**
	HK$'000	HK$'000	HK$'000
At January 1, 2011	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 conversion of convertible bond	3,152	–	3,152
At December 31, 2011	2,489,574	154,946	2,644,520
Imputed interest amortised charged to consolidated statement of comprehensive income	–	8,946	8,946
Transfer from convertible bond liability portion to equity portion	101,762	(92,231)	9,531
Conversion into new shares	(534,623)	–	(534,623)
Deferred tax arising from convertible bond	1,476	–	1,476
At December 31, 2012	2,058,189	71,661	2,129,850

27. NON-CONTROLLING INTERESTS

	2012	2011
	HK$'000	HK$'000
At the beginning of the year	**15,207**	15,452
Total comprehensive income/(loss) for the year	**5,235**	(245)
At the end of the year	**20,442**	15,207

28. 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
Directly held				
Silver Pattern Limited	British Virgin Islands	US$1	100%	Investment holdings
Market Season Limited	British Virgin Islands	US$1	100%	Investment holdings
Zhong Wai Holdings Limited	British Virgin Islands	US$1	100%	Investment holdings
Giant Success Developments Limited	British Virgin Islands	US$1	100%	Investment holdings
Best Silver Investments Limited	British Virgin Islands	US$1	100%	Investment holdings
Flourish Great Limited	British Virgin Islands	US$1	100%	Investment holdings
Indirectly held				
Harmonic Strait Trading Limited (Formerly known as Rainbow Brothers Limited)	Hong Kong	HK$200,000	100%	General trading
Harmonic Strait Export Limited (Formerly known as Silver Lining Limited)	Hong Kong	HK$1	100%	Exporting business
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

Name of company	Place of establishment/ incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activities
呼嚕棧酒店(深圳)有限公司 (Formerly known as 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
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
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
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
和協海峽融資擔保有限公司 (Formerly known as 和協海峽信用擔保有限公司) ##, ###	The People'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

Name of company	Place of establishment/ incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activities
China City Development Corporations Limited	Hong Kong	HK$1	100%	Investment holdings
Harmonic Strait Investments (China) Limited	Hong Kong	HK$1	100%	Investment holdings
Harmonic Strait Investments Limited	Hong Kong	HK$1	100%	Investment holdings
Harmonic Strait Consultancy & Management Limited	Hong Kong	HK$1	100%	Investment holdings
北京和協海峽科貿有限公司 #, ###	The People's Republic of China	RMB1,000,000	90%	General trading

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.

The statutory reports were issued by PRC auditors.

29. AMOUNTS DUE FROM SUBSIDIARIES

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

30. ACQUISITION OF A SUBSIDIARY

The Company paid an amount of HK$1,233,274 as consideration for the acquisition of 北京和協海峽科貿有限公司 on November, 2012.

The fair value of the net assets acquired and consideration in the transaction are as follows:

	HK$'000
Purchase consideration	
Cash	1,233
Recognised amounts of identifiable assets acquired and liabilities assumed	
Other receivables	398
Prepayments	74
Cash and bank balances	832
Other payables	(71)
	1,233
Net cash outflow arising on acquisition	
Cash and cash equivalent acquired	832
Cash consideration	(1,233)
	(401)

The gross contractual amount of the other receivables is same as the fair value of it as they are estimated to be recovered in nearly future and none of them is expected to be uncollectible.

Had 北京和協海峽科貿有限公司 been consolidated January 1, 2012 the consolidated statement of comprehensive income would show nil turnover and nil profit.

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, 2012

	Credit guarantee and investment business HK$'000	Exporting business HK$'000	Others HK$'000	Total HK$'000
Revenue				
External sales	78,910	162,529	28,857	270,296
Result				
Segment results	56,326	6,413	(3)	62,736
Interest revenue				1,519
Other income				3,624
Unallocated corporate expenses				(2,147)
Interest expense				(20,728)
Impairment loss on goodwill				(3,004,007)
Depreciation and amortisation				(7,576)
Loss before taxation				(2,966,579)
Income tax expenses				(9,799)
Loss for the year				(2,976,378)

Only three customers contributing over 10% of the total sales of the Group, their amount were HK$73,996,000, HK$68,141,000 and HK$28,901,000.

Year ended December 31, 2011

	Credit guarantee and investment business HK$'000	Exporting business HK$'000	Others HK$'000	Total HK$'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)

Only one customer of the exporting business contributed (revenue) over 10% of the total sales of the Group amounted to HK$352,262,000.

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.

(b) Segment Assets and Liabilities

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

Year ended December 31, 2012

	Credit guarantee and investment business HK$'000	**Exporting business HK$'000**	**Other HK$'000**	**Total HK$'000**
ASSETS				
Segment assets	**39,534**	**40,221**	**2,078**	**81,833**
Bank balances and cash				**201,254**
Unallocated corporate assets				**42,571**
Consolidated total assets				**325,658**
LIABILITIES				
Segment liabilities	**5,102**	**17,333**	**4,263**	**26,698**
Bank borrowings				**8,240**
Unallocated corporate liabilities				**210,513**
Consolidated total liabilities				**245,451**

Year ended December 31, 2011

	Credit guarantee and investment business HK$'000	Exporting business HK$'000	Other HK$'000	Total HK$'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

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.

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:

	2012	2011
	HK$'000	HK$'000
Commission paid to an ex-director (note (i))	**–**	10,182
Interest on loan advance from an ex-director and a substantial shareholder (note (ii))	**8,657**	7,684
Short-term loan waived by a director/substantial shareholder	**–**	18,183
License fee paid to an associate of a director	**704**	242
Rent for motor vehicles paid to non-controlling interest shareholder	**407**	–

Notes:

(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.

(ii) Mr. Hui Kwan Wah ("Mr. Hui"), an ex-director of the Company gave a loan advance to a subsidiary of the Company as part of the contributed registered capital of 和協海峽融資擔保有限公司, formerly known as 和協海峽信用擔保有限公司 which the Company acquired on August 27, 2010. 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. On December 20, 2012, the Group has extended the loan to March 13, 2013 by charging the shares of Hong Kong New Smart Energy Group Limited (a 100% owned subsidiary of the Company, which directly holds 90%-owned Harmonic Strait Credit Guarantee Co., Limited), a floating charge of the Company, a deed of assignment regarding the assignment of current accounts due to group companies by Hong Kong New Smart Energy Group Limited and a personal guarantee from a director as securities. Mr. Hui Kwan Wah was resigned from the position of executive director on July 6, 2011 and was the substantial shareholder of the Company up to September 2012.

(b) Compensation of key management of the Group:

	2012	2011
	HK$'000	HK$'000
Salaries, allowance and other benefits	**5,223**	9,800
Contributions to defined contribution retirement plans	**129**	133
	5,352	9,933

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

	2012	2011
	HK$'000	HK$'000
Loan from an ex-director and a substantial shareholder#	**115,000**	116,930
Amount due to a director##	**11,498**	–
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, 2012, the Group had no material capital commitments (December 31, 2011: Nil) or investment commitments. The operating lease commitment for the Group as at December 31, 2012 was around HK$14.2 million (December 31, 2011: HK$11.6 million).

(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:

	2012	2011
	HK$'000	HK$'000
Within one year	**8,361**	3,898
In the second to fifth year, inclusive	**5,795**	7,673
	14,156	11,571

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$39 million (RMB31 million) (2011: HK$69 million (RMB59 million)).

At December 31, 2012, the bank loan drawn down by the Group amounted to approximately HK$8.2 million (2011: HK$9.7 million).

On December 20, 2012, the Group has extended the loan from ex-director by charging the shares of Hong Kong New Smart Energy Group Limited (a 100% owned subsidiary of the Company, which directly holds 90%-owned Harmonic Strait Credit Guarantee Co., Limited), a floating charge of the Company, a deed of assignment regarding the assignment of current accounts due to group companies by Hong Kong New Smart Energy Group Limited and a personal guarantee from a director as securities.

As at December 31, 2012, 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, 2012, 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, 2012, the Group has a certain concentration of credit risk as approximately equals to 62.1% (2011: 38.9%) and 89.4% (2011: 78.0%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

— 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.

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, 2012					
	Within 1 year or on demand HK$'000	**More than 1 year but less than 2 years HK$'000**	**More than 2 years but less than 5 years HK$'000**	**More than 5 years HK$'000**	**Total undiscounted cash flows HK$'000**	**Total carrying amount HK$'000**
Amount due to a director	**11,498**	**–**	**–**	**–**	**11,498**	**11,498**
Trade and bill payable	**10,215**	**–**	**–**	**–**	**10,215**	**10,215**
Accruals and other payables	**133,887**	**–**	**–**	**–**	**133,887**	**133,887**
Bank borrowings subject to a repayment on demand clause	**8,240**	**–**	**–**	**–**	**8,240**	**8,240**
Convertible bond	**–**	**–**	**102,000**	**–**	**102,000**	**71,661**
Tax payable	**9,950**	**–**	**–**	**–**	**9,950**	**9,950**
	173,790	**–**	**102,000**	**–**	**275,790**	**245,451**

	As at December 31, 2011					
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount HK$'000
Amount due to a director	–	–	–	–	–	–
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

The following table 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, 2012	6,091	1,279	870	–	8,240	8,240
December 31, 2011	6,340	1,220	2,149	–	9,709	9,709

(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 24. 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, 2012, 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$1,437,000 (2011: HK$924,000). Other components of consolidated equity would not be affected (2011: Nil) in response to the general increase/decrease in interest rates.

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 2011.

(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, 2012	
	US$'000	**RMB'000**
Cash and cash equivalents, and restricted cash	**111**	**144,140**
Trade and other receivables	**81**	**3,746**
Trade and other payables	**(19)**	**(6,153)**
Overall exposure arising from recognised assets and liabilities	**173**	**141,733**

	December 31, 2011	
	US$'000	RMB'000
Cash and cash equivalents and restricted cash	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

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, 2012		December 31, 2011	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits HK$'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits HK$'000
Renminbi	**5%**	**6,949**	5%	6,691
	(5%)	**(6,949)**	(5%)	(6,691)

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.

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 2011.

(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 Confederation of Insurance Brokers and is required to maintain a minimum net asset value of HK$100,000 at all times.

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.

(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, the loan of HK$115 million from an ex-director expired and was extended to 28 April 2013. The Group may need to settle the loan by the fund of a subsidiary, Harmonic Strait Credit Guarantee Co., Limited ("Harmonic Strait"), the interest of which was effectively pledged to the ex-director to secure the loan. This will inevitably affect the business operation of the credit guarantee and investment business and the Group cannot quantify the financial impact of that at this moment. If the ex-director exercises his right to transfer the interest of Harmonic Strait to himself, the Group will lose the whole segment of credit guarantee and investment business.

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, 2012 HK$'000**	12 Months ended December 31, 2011 HK$'000	12 Months ended December 31, 2010 HK$'000	12 Months ended December 31, 2009 HK$'000	9 Months ended December 31, 2008 HK$'000
Turnover	**270,296**	588,103	550,310	389,186	335,739
(Loss)/Profit before taxation	**(2,966,579)**	(255,366)	(40,006)	33,648	12,686
Income tax	**(9,799)**	(1,383)	(3,114)	(1,113)	(1,705)
(Loss)/Profit for the year/ period	**(2,976,378)**	(256,749)	(43,120)	32,535	10,981
Attributable to:					
Equity shareholders of the Company	**(2,981,612)**	(255,745)	(42,522)	32,535	10,981

	As at December 31, 2012 HK$'000	As at December 31, 2011 HK$'000	As at December 31, 2010 HK$'000	As at December 31, 2009 HK$'000	As at December 31, 2008 HK$'000
Assets and liabilities					
Total assets	**325,658**	3,284,541	3,610,937	182,925	134,384
Total liabilities	**(245,451)**	(331,205)	(1,890,586)	(46,018)	(30,119)
Total equity	**80,207**	2,953,336	1,720,351	136,907	104,265