

Harmonic Strait Financial Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 33



2013

INTERIM REPORT

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

CORPORATE INFORMATION

Board of Directors

Executive Directors

An Yu Xin (*Vice Chairman*)
Tong Nai Kan

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

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

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

Authorised Representatives

Tong Nai Kan
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

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)

MANAGEMENT DISCUSSION AND ANALYSIS

(All figures are approximates)

BUSINESS REVIEW

During the six months ended June 30, 2013 (the “Current Half Year”), the revenue of the credit guarantee and investment business was only HK\$1.2 million and resulted a segmental loss of HK\$7.5 million, as it operated in a very conservative manner in view of the increased inherent default risk of the overall market as mentioned in last year, which also hindered the expansion of the business.

During the Current Half Year, the exporting business was in weakening, as it was continuously affected by the unfavorable operating conditions aroused from previous years. The operations of the hotel business segment in Shenzhen and financial planning services business segment in Hong Kong were stable but both faced the intense market competition and rapid change external business environment.

FINANCIAL REVIEW

During the Current Half Year, the Group’s turnover was HK\$73.8 million, representing a decrease of 54.6% from HK\$162.6 million for the six months ended June 30, 2012 (the “Previous Half Year”). The decrease in turnover was mainly due to there was an investment return on the disposal of equity interest of the investment project in respect of a piece of land in Beijing, the PRC for the Previous Half Year whereas there is none for the Current Half Year.

Gross profit during the Current Half Year was HK\$11.1 million, representing a significant decrease of 88.0% from the HK\$92.7 million for the Previous Half Year. In terms of gross profit margin, the current figure was 15.0%, representing a decrease of 42.0 percentage point from the 57.0% for the Previous Half Year. The significant decreases in both gross profit and gross profit margin were mainly due to the investment return during the Previous Half Year as described above. Operating expenses during the Current Half Year was HK\$27.4 million, representing a decrease of 7.9% from HK\$29.8 million for the Previous Half Year.

Finance costs during the Current Half Year were HK\$18.2 million which increased from HK\$10.2 million of the Previous Half Year. The increase was mainly attributable to the interest rate increase in related to a loan of HK\$115 million.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at June 30, 2013, net current assets were HK\$86.9 million (December 31, 2012: HK\$109.3 million). The Group's current ratio was 1.53 (December 31, 2012: 1.63), based on current assets of HK\$250.9 million and current liabilities of HK\$164.1 million. The gearing ratio, which is total bank borrowings divided by total assets, was 2.5% as at June 30, 2013 (December 31, 2012: 2.5%). As at June 30, 2013, the Group had cash and bank balances of HK\$149.0 million (December 31, 2012: HK\$201.3 million) including restricted cash of HK\$11.3 million (December 31, 2012: HK\$41.9 million) and total bank borrowings of HK\$7.3 million (December 31, 2012: HK\$8.2 million). The cash and bank balances were denominated in Renminbi, HK dollar and US dollar and the bank borrowings were denominated in HK dollar. The bank borrowings bore floating interest rates. The Group continued to have no structured investment products, foreign exchange contracts and investment in listed shares, bonds and debentures. The Group is not exposed to material fluctuations in exchange rates. As at June 30, 2013, the face value of the outstanding convertible bond of the Company was HK\$1,428,937,500 (December 31, 2012: HK\$1,628,937,500) including amount of HK\$1,326,937,500 (December 31, 2012: HK\$1,526,937,500) being waived its right to demand for repayment.

The Company has provided corporate guarantees to secure banking facilities granted to its subsidiaries. Harmonic Strait Credit Guarantee Co., Limited ("Harmonic Strait") had provided guarantees to its customers amounted to approximately HK\$11.3 million (December 31, 2012: HK\$39.0 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\$115.0 million for our part of the registered capital of Harmonic Strait. The Company is still under negotiation with the lender regarding this loan of HK\$115.0 million to the Group, including but not limited to further extend the loan repayment date. Further announcement will be made as soon as practicable upon the completion of negotiation. As at June 30, 2013, the Group had prepayments, deposits and other receivables of HK\$56.1 million, which represented an increase of HK\$12.6 million (29.0%) from HK\$43.5 million at December 31, 2012. As at June 30, 2013, the Group had no material capital commitments (December 31, 2012: Nil). The operating lease commitment for the Group as at June 30, 2013 was around HK\$11.1 million (December 31, 2012: HK\$14.2 million). It is the Group's policy to adopt a prudent financial management strategy and maintain a suitable level of liquidity and banking facilities to meet operation requirements and acquisition opportunities.

CONTINGENT LIABILITIES

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

MANAGEMENT DISCUSSION AND ANALYSIS

HUMAN RESOURCES

As at June 30, 2013, the Group had 123 employees (December 31, 2012: 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.

INTERIM DIVIDEND

The Board did not recommend any interim dividend for the six months ended June 30, 2013 (June 30, 2012: Nil).

OUTLOOK

The unfavorable business environment of the credit guarantee and investment business was expected to be lasted in the next few years; the group will be more conservative in its business strategies. However, the management is still confident of the China market in future and continues to explore any business opportunities and will try to finance them both internally and externally to satisfy any additional capital requirements.

DISCLOSURE OF INTERESTS

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

As at June 30, 2013, 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 of director | Nature of Interests | Number of shares | Percentage of the issued share capital of the Company |
|------------------|--|----------------------------------|---|
| Mr. Tong Nai Kan | Interest of a controlled corporation (<i>Note</i>) | 1,275,448,000 (long position) | 77.21% |

Note: Market Speed Limited, a company wholly-owned by Mr. Tong Nai Kan, holds 213,898,000 shares and HK\$1,326,937,500 convertible bond of the Company which can be converted into 1,061,550,000 shares upon conversion at an exercise price of HK\$1.25.

Save as disclosed above, as at June 30, 2013, 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 June 30, 2013, the Company had no Chief Executive Officer.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at June 30, 2013, the register of substantial shareholders' interests maintained by the Company pursuant to Section 336 of the SFO shows that other than the interest disclosed above in respect of certain Directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company and the Company had calculated the percentage to the issued share capital of the Company based on the number of issued share capital of 1,651,850,000 shares of the Company as at June 30, 2013.

DISCLOSURE OF INTERESTS

| Name | Nature of Interests | Number of shares | Percentage to the issued share capital of the Company |
|---------------------------|------------------------------------|----------------------------------|--|
| Market Speed Limited | Beneficial owner | 1,275,448,000 (long position) | 77.21% |
| New Stature Limited | Beneficial owner | 144,728,000 (long position) | 8.76% |
| Skill Effort Limited | Interest of a controlled corporate | 144,728,000 (long position) | 8.76% |
| Mr. Fong Stanley Kai Yuen | Interest of a controlled corporate | 144,728,000 (long position) | 8.76% |
| Direct Value Limited | Beneficial owner | 135,300,000 (long position) | 8.19% |
| Mr. Hui Kwan Wah, Hugo | Interest of a controlled corporate | 135,300,000 (long position) | 8.19% |
| Huang Huiquan | Beneficial owner | 120,000,000 (long position) | 7.26% |

CORPORATE GOVERNANCE AND OTHER INFORMATION

SHARE OPTION SCHEME

The Company adopted a share option scheme on October 30, 2007, but the Company had not granted any share options.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended June 30, 2013.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

For the six months ended June 30, 2013, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Listing Rules except the following:

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the directors. Having made specific enquiries to all directors, all directors have confirmed that they have complied with the required standard set out in the Model Code during the six months ended June 30, 2013 except the following:

Mr. Tong Nai Kan, Executive Director of the Company, has been forced sales of the shares of the Company held by its wholly-owned company, Market Speed Limited, by securities companies on March 1, 6, 14, 15 and 21 2013, totalling 53,302,000 shares.

CORPORATE GOVERNANCE AND OTHER INFORMATION

AUDIT COMMITTEE

The Audit Committee was established on October 30, 2007 and it assists the Board in discharging its responsibilities for corporate governance, financial reporting and internal control. As at June 30, 2013, the Audit Committee comprises of Mr. Anthony Espina (Chairman of Audit Committee and Independent Non-executive Director), Mr. Cheung Wah Keung (Independent Non-executive Director), Mr. Chan Cheuk Ming (Independent Non-executive Director), Mr. Ko Ming Tung, Edward (Non-executive Director) and Mr. Cheng Wai Lam, James (Non-executive Director appointed on March 26, 2013). The Audit Committee has reviewed the condensed consolidated financial statements of the Group for the six months ended June 30, 2013. The Audit Committee has also discussed auditing, internal control, the accounting principles and practices adopted by the Group.

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51(B) of the Listing Rules, the change in information of directors since the date of the 2012 annual report of the Company is set out below:

| <u>Name of Director</u> | <u>Details of Change</u> |
|-------------------------|---|
| Cheng Wai Lam, James | Mr. Cheng Wai Lam, James has resigned as an executive director of Pizu Group Holdings Limited (Stock Code: 8053) on April 15, 2013. |

By Order of the Board
Harmonic Strait Financial Holdings Limited
Tong Nai Kan
Executive Director

Hong Kong, August 30, 2013

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The board of directors (the “Board”) of Harmonic Strait Financial Holdings Limited (the “Company”) present herewith the condensed consolidated interim financial statements of the Company and its subsidiaries (collectively the “Group”) for the six months ended June 30, 2013, together with the comparative figures. These condensed consolidated interim financial statements have been reviewed by the Company’s audit committee, but have not been reviewed by the Company’s auditor.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | <i>Notes</i> | Six months ended June 30, | |
|-------------------------------|--------------|----------------------------------|------------------------|
| | | 2013 | 2012 |
| | | <i>HK\$’000</i> | <i>HK\$’000</i> |
| | | (Unaudited) | (Unaudited) |
| Turnover | 5 | 73,773 | 162,573 |
| Cost of sales | | (62,695) | (69,910) |
| Gross profit | | 11,078 | 92,663 |
| Other revenue | | 2,762 | 960 |
| Operating expenses | | (27,429) | (29,769) |
| (Loss)/Profit from operations | | (13,589) | 63,854 |
| Finance costs | 6 | (18,187) | (10,170) |
| Impairment on goodwill | | – | (1,688,000) |
| Loss before taxation | 7 | (31,776) | (1,634,316) |
| Taxation | 8 | – | (11,484) |
| Loss for the period | | (31,776) | (1,645,800) |

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | <i>Notes</i> | Six months ended June 30, | |
|--|--------------|--|--|
| | | 2013 | 2012 |
| | | <i>HK\$'000</i> (Unaudited) | <i>HK\$'000</i> (Unaudited) |
| Loss for the period | | (31,776) | (1,645,800) |
| Other comprehensive income/(loss): | | | |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods: | | | |
| Exchange differences on translating foreign operations | | <u>3,595</u> | <u>(773)</u> |
| Other comprehensive income/(loss) for the period, net of tax | | <u>3,595</u> | <u>(773)</u> |
| Total comprehensive loss for the period | | <u>(28,181)</u> | <u>(1,646,573)</u> |
| Loss for the period attributable to: | | | |
| Equity shareholders of the Company | | (31,257) | (1,651,202) |
| Non-controlling interests | | <u>(519)</u> | <u>5,402</u> |
| | | <u>(31,776)</u> | <u>(1,645,800)</u> |
| Total comprehensive loss attributable to: | | | |
| Equity shareholders of the Company | | (28,013) | (1,651,900) |
| Non-controlling interests | | <u>(168)</u> | <u>5,327</u> |
| | | <u>(28,181)</u> | <u>(1,646,573)</u> |
| Dividend | <i>9</i> | <u>—</u> | <u>—</u> |
| Loss per share | | | |
| — Basic | <i>10</i> | <u>(HK\$0.020)</u> | <u>(HK\$1.890)</u> |
| — Diluted | <i>10</i> | <u>N/A</u> | <u>N/A</u> |

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | | As at June 30, 2013 | As at December 31, 2012 |
|--|--------------|--------------------------------|-------------------------------|
| | <i>Notes</i> | <u>HK\$'000</u> (Unaudited) | <u>HK\$'000</u> (Audited) |
| Non-current assets | | | |
| Property, plant and equipment | 11 | 11,090 | 13,963 |
| Goodwill | | 28,368 | 28,368 |
| Deferred taxation | | 1,048 | 237 |
| | | <u>40,506</u> | <u>42,568</u> |
| Current assets | | | |
| Inventories | | 24,610 | 18,478 |
| Trade receivables | 12 | 20,074 | 19,895 |
| Tax recoverable | | 1,154 | – |
| Prepayments, deposits and other receivables | | 56,080 | 43,463 |
| Restricted cash | | 11,296 | 41,931 |
| Cash and bank balances | | 137,718 | 159,323 |
| | | <u>250,932</u> | <u>283,090</u> |
| Total assets | | <u>291,438</u> | <u>325,658</u> |
| Equity | | | |
| Share capital | 13 | 165,185 | 149,185 |
| Reserves | | (132,622) | (89,419) |
| Equity attributable to shareholders of the Company | | 32,563 | 59,766 |
| Non-controlling interests | | 18,266 | 20,441 |
| Total equity | | <u>50,829</u> | <u>80,207</u> |
| Non-current liabilities | | | |
| Convertible bond | 14 | 76,546 | 71,661 |
| | | <u>76,546</u> | <u>71,661</u> |
| Current liabilities | | | |
| Trade payables | 15 | 8,551 | 10,215 |
| Accruals and other payables | | 146,211 | 133,887 |
| Amount due to a director | | 2,049 | 11,498 |
| Bank borrowings — secured | | 7,252 | 8,240 |
| Tax payable | | – | 9,950 |
| | | <u>164,063</u> | <u>173,790</u> |
| Total equity and liabilities | | <u>291,438</u> | <u>325,658</u> |
| Net current assets | | <u>86,869</u> | <u>109,300</u> |
| Total assets less current liabilities | | <u>127,375</u> | <u>151,868</u> |

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share capital | Share premium | Translation reserve | Capital reserve | Convertible bond reserve | Accumulated loss | Non- controlling interests | Total |
|---|------------------|------------------|------------------------|--------------------|--------------------------------|---------------------|----------------------------------|------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At January 1, 2012 (Audited) | 79,585 | 609,773 | 12,432 | (15,000) | 2,489,574 | (238,235) | 15,207 | 2,953,336 |
| Transfer from convertible bond liability portion to equity portion | - | - | - | - | 101,903 | - | - | 101,903 |
| Deferred tax arising from convertible bond | - | - | - | - | 708 | - | - | 708 |
| Issue of new shares upon conversion of convertible bond | 32,000 | 213,804 | - | - | (245,804) | - | - | - |
| Total comprehensive (loss)/income for the period | - | - | (698) | - | - | (1,651,202) | 5,327 | (1,646,573) |
| At June 30, 2012 (Unaudited) | <u>111,585</u> | <u>823,577</u> | <u>11,734</u> | <u>(15,000)</u> | <u>2,346,381</u> | <u>(1,889,437)</u> | <u>20,534</u> | <u>1,409,374</u> |

| | Share capital | Share premium | Translation reserve | Capital reserve | Convertible bond reserve | Statutory reserve | Accumulated loss | Non- controlling interests | Total |
|---|------------------|------------------|------------------------|--------------------|--------------------------------|----------------------|---------------------|----------------------------------|---------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At January 1, 2013 (Audited) | 149,185 | 1,074,796 | 12,442 | (15,000) | 2,058,189 | 3,420 | (3,223,267) | 20,442 | 80,207 |
| Issuance of new shares upon conversion of convertible bonds | 16,000 | 110,118 | - | - | (126,118) | - | - | - | - |
| Deferred tax arising from convertible bond | - | - | - | - | 811 | - | - | - | 811 |
| Dividend paid to non-controlling interests | - | - | - | - | - | - | - | (2,008) | (2,008) |
| Total comprehensive income/(loss) for the period | - | - | 3,244 | - | - | - | (31,257) | (168) | (28,181) |
| At June 30, 2013 (Unaudited) | <u>165,185</u> | <u>1,184,914</u> | <u>15,686</u> | <u>(15,000)</u> | <u>1,932,882</u> | <u>3,420</u> | <u>(3,254,524)</u> | <u>18,266</u> | <u>50,829</u> |

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | Six months ended June 30, | |
|--|---------------------------|-----------------|
| | 2013 | 2012 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) |
| Net cash (outflow)/inflow from operating activities | (14,372) | 43,887 |
| Net cash outflow from investing activities | (1,409) | (963) |
| Net cash outflow from financing activities | (5,824) | (19,756) |
| Net (decrease)/increase in cash and cash equivalents | (21,605) | 23,168 |
| Cash and cash equivalents at beginning of period | 159,323 | 113,449 |
| Cash and cash equivalents at end of period | <u>137,718</u> | <u>136,617</u> |

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated and domiciled in the Cayman Islands. Its shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The condensed consolidated interim financial statements of the Company as at and for the six months ended June 30, 2013 comprises the Company and its subsidiaries (together referred to as the “Group”). The Company is an investment holding company. The Group is principally engaged in the credit guarantee and investment business in the PRC, exporting business, operating two concept hotels in Shenzhen and provision of financial 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.

2. BASIS OF PREPARATION

(a) Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”) and the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the consolidated financial statements for the year ended December 31, 2012.

(b) Judgments and estimates

Preparing the interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, significant judgments made by management in applying the group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2012.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied in these condensed consolidated interim financial statements are consistent with those of the consolidated financial statements for the year ended December 31, 2012.

- Amendments to HKAS 1 (Revised) “Presentation of Items of Other Comprehensive Income”
- Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – “Transition Guidance”
- Amendments to HKFRS 7 “Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities”
- Annual Improvements to HKFRS 2009–2011 Cycle
- HKFRS 10 “Consolidated Financial Statements”
- HKFRS 11 “Joint Arrangements”
- HKFRS 12 “Disclosure of Interests in Other Entities”
- HKFRS 13 “Fair Value Measurement”
- HKAS 19 (Revised 2011) “Employee Benefits”
- HKAS 27 (Revised 2011) “Separate Financial Statements”
- HKAS 28 (Revised 2011) “Investments in Associates and Joint Ventures”
- HK(IFRIC)-Int 20 “Stripping Costs in the Production Phase of a Surface Mine”

The application of the above amendments to HKFRSs new/revised HKFRS/HKAS and interpretations in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements. Accordingly, no prior period adjustments are required.

Tax on profits in the interim periods is accrued using the tax rate that would be applicable to expected total profits for the period.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

4. OPERATING SEGMENTS

The disclosure and allocation basis among operating segments were varied from previous years because the segments of hotel business and the financial planning services business have contributed more than 10% for the period and reported separately, the comparatives are therefore consistently presented in this regard.

For six months ended June 30, 2013

| | Credit Guarantee and Investment Business | Export Business | Hotel Business | Financial Planning Services Business | Total |
|--------------------------------|---|--------------------|-------------------|---|-----------------|
| | <u>HK\$'000</u> | <u>HK\$'000</u> | <u>HK\$'000</u> | <u>HK\$'000</u> | <u>HK\$'000</u> |
| Revenue | | | | | |
| External sales | <u>1,159</u> | <u>58,254</u> | <u>7,418</u> | <u>6,942</u> | <u>73,773</u> |
| Result | | | | | |
| Segment results | <u>(7,545)</u> | <u>(2,484)</u> | <u>(2,316)</u> | <u>49</u> | (12,296) |
| Interest revenue | | | | | 775 |
| Other income | | | | | 1,987 |
| Unallocated corporate expenses | | | | | (4,055) |
| Interest expenses | | | | | <u>(18,187)</u> |
| Loss before taxation | | | | | (31,776) |
| Income tax expenses | | | | | <u>-</u> |
| Loss for the period | | | | | <u>(31,776)</u> |

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

4. OPERATING SEGMENTS (Continued)

For six months ended June 30, 2012 (Restated)

| | Credit Guarantee and Investment Business <i>HK\$'000</i> | Export Business <i>HK\$'000</i> | Hotel Business <i>HK\$'000</i> | Financial Planning Services Business <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--------------------------------|--|---------------------------------------|--------------------------------------|--|--------------------------|
| Revenue | | | | | |
| External sales | <u>80,121</u> | <u>66,922</u> | <u>6,931</u> | <u>8,599</u> | <u>162,573</u> |
| Result | | | | | |
| Segment results | <u>64,812</u> | <u>3,990</u> | <u>(1,885)</u> | <u>(424)</u> | 66,493 |
| Interest revenue | | | | | 701 |
| Other income | | | | | 259 |
| Unallocated corporate expenses | | | | | (3,599) |
| Interest expenses | | | | | (10,170) |
| Impairment loss on goodwill | | | | | <u>(1,688,000)</u> |
| Loss before taxation | | | | | (1,634,316) |
| Income tax expenses | | | | | <u>(11,484)</u> |
| Loss for the period | | | | | <u>(1,645,800)</u> |

The accounting policies of the operating segments are the same as the accounting policies of the Group. Segment results represent the profit earned or loss incurred by each segment without allocation of administrative expenses, other income, other gains and losses and finance cost. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

5. TURNOVER

Turnover represents credit guarantee business and investment business 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 recognized in turnover during the period is as follows:

| | Six months ended June 30, | |
|---|---------------------------|-----------------|
| | 2013 | 2012 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) |
| Credit guarantee and investment business income | 1,159 | 80,121 |
| Sales of goods in export business | 58,254 | 66,922 |
| Provision of hotel accommodation service | 7,418 | 6,931 |
| Insurance brokerage commission income | 6,942 | 8,599 |
| | <u>73,773</u> | <u>162,573</u> |

6. FINANCE COSTS

| | Six months ended June 30, | |
|--|---------------------------|-----------------|
| | 2013 | 2012 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) |
| Interest expense on bank loans repayable within five years | 143 | 110 |
| Interest expense on loan advance from a related party [#] | – | 5,769 |
| Imputed interest expense on convertible bond | 4,885 | 4,291 |
| Other loan interest | 13,159 | – |
| | <u>18,187</u> | <u>10,170</u> |

[#] See Note (i) of Note 16(a) below.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

7. LOSS BEFORE TAXATION

| | Six months ended June 30, | |
|---|---------------------------|-----------------|
| | 2013 | 2012 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) |
| Loss before taxation has been arrived at after charging/(crediting): | | |
| Depreciation | 3,660 | 3,446 |
| Staff costs, including directors' emoluments | 9,793 | 16,090 |
| Interest income | (775) | (701) |
| | <u>3,660</u> | <u>3,446</u> |

8. TAXATION

| | Six months ended June 30, | |
|------------------------------------|---------------------------|-----------------|
| | 2013 | 2012 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) |
| Hong Kong Profits Tax | – | – |
| PRC enterprise income tax (at 25%) | – | 11,484 |
| | <u>–</u> | <u>11,484</u> |

No Hong Kong Profits Tax was provided as there was no estimated assessable profit for the period (June 30, 2012: Nil). Taxation of operation in the People's Republic of China and overseas are charged at the appropriate current rates of taxation ruling in the relevant countries.

9. DIVIDEND

The Board did not recommend any interim dividend for the six months ended June 30, 2013 (June 30, 2012: Nil).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

10. LOSS PER SHARE

The calculation of basic loss per share for the interim period was based on the consolidated loss attributable to equity shareholders of the Company of approximately HK\$31.3 million (June 30, 2012: HK\$1,651.2 million) and the weighted average number of shares in issue during the period, which was 1,559,032,321 shares (June 30, 2012: 874,531,318 shares).

Since the impact of the potential ordinary shares on the conversion of outstanding convertible bond on the loss per share are anti-dilutive, the diluted loss per share were not presented.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended June 30, 2013, the Group incurred approximately HK\$1.4 million (June 30, 2012: HK\$0.9 million) on acquisition of property, plant and equipment.

12. TRADE RECEIVABLES

The Group normally grants credit terms of up to 90 days to its customers, and may from time to time extend such credit periods for extra 30 to 60 days to certain customers.

| | As at June 30, 2013 | As at December 31, 2012 |
|---------------|---------------------------------------|--|
| | <i>HK\$'000</i> (Unaudited) | <i>HK\$'000</i> (Audited) |
| 0 to 30 days | 15,337 | 14,907 |
| 31 to 60 days | 4,235 | 1,766 |
| 61 to 90 days | 473 | 480 |
| Over 90 days | 29 | 2,742 |
| | 20,074 | 19,895 |
| | 20,074 | 19,895 |

During the six months ended June 30, 2013, no trade receivables of the Group were individually determined to be impaired (December 31, 2012: Nil).

The carrying amounts of trade receivables approximate their fair values.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

13. SHARE CAPITAL

| | Number of shares '000 | Amount HK\$'000 |
|---|--------------------------|--------------------|
| Ordinary shares of HK\$0.1 each: | | |
| Authorised: | | |
| As at December 31, 2012 and June 30, 2013 | <u>5,000,000</u> | <u>500,000</u> |
| Issued and fully paid: | | |
| As at December 31, 2012 | 1,491,850 | 149,185 |
| Issue of new shares upon conversion of convertible bond | <u>160,000</u> | <u>16,000</u> |
| As at June 30, 2013 | <u>1,651,850</u> | <u>165,185</u> |

14. CONVERTIBLE BOND

As at June 30, 2013, the face value of the outstanding convertible bond of the Company was HK\$1,428,937,500. The face value of HK\$1,326,937,500 was covenanted by its holder, Market Speed Limited, which is wholly-owned by the executive director of the Company, Mr. Tong Nai Kan, by deed with the Company that it will (1) convert all convertible bond 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's future transferees, if any, of the convertible bond transferred to observe and comply with the covenant. Therefore, according to the prevailing Hong Kong Financial Reporting Standards, the Company will no longer be required to provide for notional interest in respect of such amount of convertible bond in the future.

| | Equity portion HK\$'000 | Liability portion HK\$'000 | Total HK\$'000 |
|--|-------------------------------|----------------------------------|-------------------|
| At December 31, 2012 | 2,058,189 | 71,661 | 2,129,850 |
| Imputed interest charged | – | 4,885 | 4,885 |
| Conversion into new shares | (126,118) | – | (126,118) |
| Deferred tax arising from convertible bond | <u>811</u> | <u>–</u> | <u>811</u> |
| At June 30, 2013 | <u>1,932,882</u> | <u>76,546</u> | <u>2,009,428</u> |

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

15. TRADE PAYABLES

| | As at June 30, 2013 | As at December 31, 2012 |
|---------------|--------------------------------|-------------------------------|
| | <i>HK\$'000</i> (Unaudited) | <i>HK\$'000</i> (Audited) |
| 0 to 30 days | 8,068 | 7,669 |
| 31 to 60 days | 478 | 2,349 |
| 61 to 90 days | – | 133 |
| Over 90 days | 5 | 64 |
| | 8,551 | 10,215 |

The carrying amounts of trade payables approximate their fair values.

16. RELATED PARTY TRANSACTIONS

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

| | Six months ended June 30, | |
|--|--------------------------------|--------------------------------|
| | 2013 | 2012 |
| | <i>HK\$'000</i> (Unaudited) | <i>HK\$'000</i> (Unaudited) |
| Interest on loan advance from a substantial shareholder <i>(Note (i))</i> | – | 5,769 |
| License fee paid or payable to an associate of a director | – | 364 |
| | – | 6,133 |

Note:

- (i) Mr. Hui Kwan Wah, Hugo (“Mr. Hui”), a substantial shareholder and an ex-director of the Company, gave a loan advance to a subsidiary of the Company as part of the contributed registered capital of Harmonic Strait which the Company acquired on August 27, 2010. On May 6, 2011, the Group extended the above said loan advance to August 30, 2011. The loan bears interest at 3% per annum before October 31, 2010 and 5% per annum thereafter till August 31, 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 at 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 was resigned from the position of executive director on July 6, 2011 and was ceased to be the substantial shareholder of the Company in September 2012. This loan of HK\$115 million was still outstanding as at June 30, 2013. The Company is still under negotiation with the Mr. Hui regarding the loan including but not limited to further extend the loan repayment date.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

16. RELATED PARTY TRANSACTIONS (Continued)

(b) Compensation of senior management of the Group

| | Six months ended June 30, | |
|---|---------------------------|--------------|
| | 2013 | 2012 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Salaries, allowances and other benefits | 2,300 | 2,611 |
| Contributions to retirement scheme | 66 | 60 |
| | <u>2,366</u> | <u>2,671</u> |

(c) Financial arrangement

| | As at | As at |
|--|---------------|-------------------|
| | June 30, 2013 | December 31, 2012 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Audited) |
| Loan from a substantial shareholder [#] | – | 115,000 |
| Loan from a director ^{##} | 2,049 | 6,455 |
| Loan from an associate of a director ^{##} | – | 3,006 |
| | <u>–</u> | <u>124,461</u> |

[#] See Note (i) of Note 16(a) above.

^{##} The loan from Mr. Tong Nai Kan, who is a substantial shareholder and the director of the Company, and the loan from his associate are unsecured, interest-free and repayable on demand.

17. COMPARATIVE FIGURE

Certain comparative figures have been reclassified to conform with the current period presentation.

18. APPROVAL OF INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements were approved by the Board on August 30, 2013.