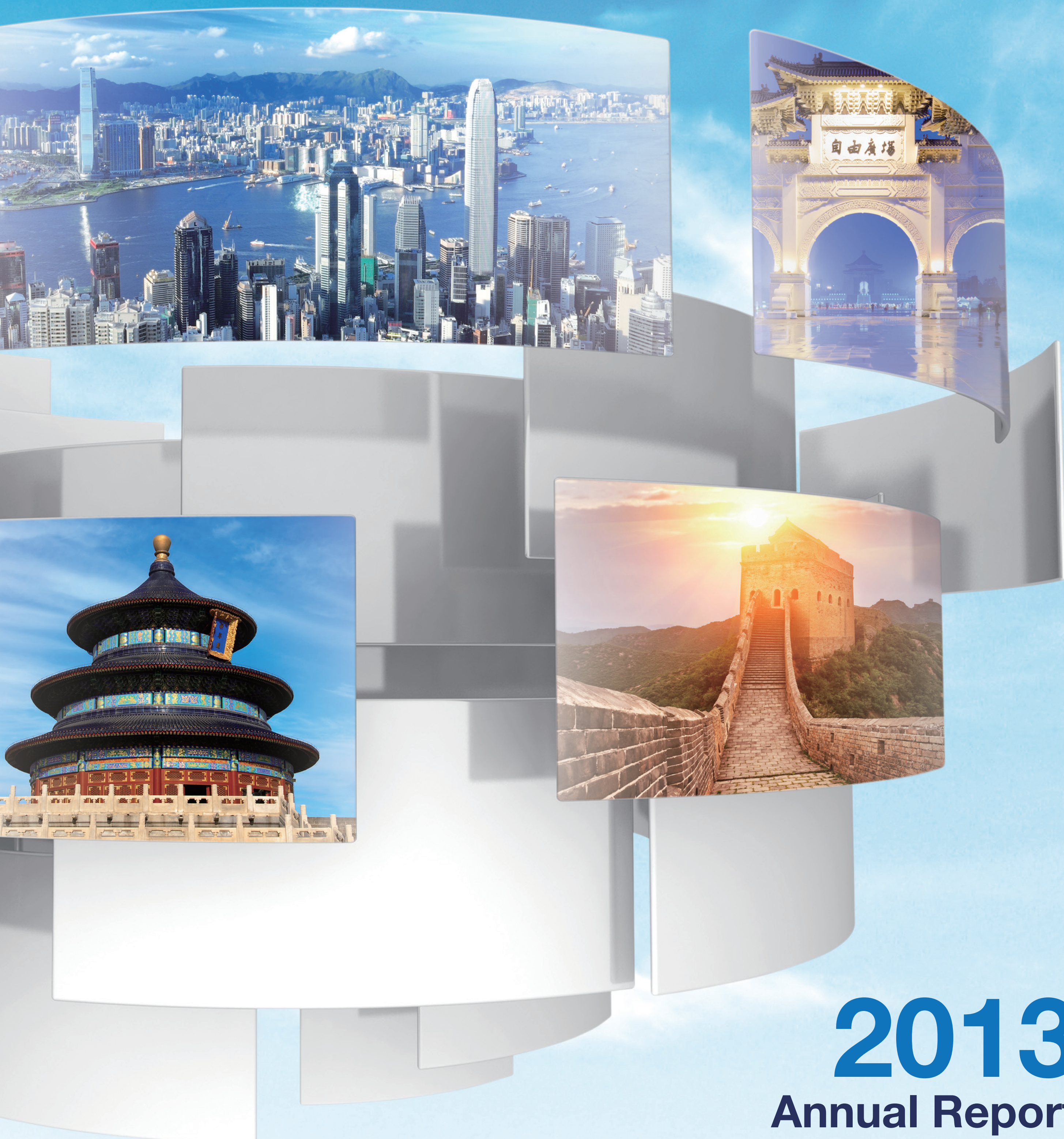
Harmonic Strait Financial Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 33



2013 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

Lo Siu Leung *(appointed on December 27, 2013)*
Tong Nai Kan
Zhao Tieliu *(appointed on December 27, 2013)*
An Yu Xin *(resigned with effect from December 27, 2013)*

Non-executive Directors

Ko Ming Tung, Edward
Lee Kam Wah *(appointed on November 29, 2013 and resigned with effect from February 14, 2014)*

Independent Non-executive Directors

Cheung Wah Keung *(Chairman)*
Anthony Espina
Cheng Wai Lam, James *(appointed on March 26, 2013 and re-designated from non-executive director to independent non-executive director on November 27, 2013)*
Chan Cheuk Ming *(resigned with effect from September 5, 2013)*
Chan Pak Wing, Johnny *(appointed on September 5, 2013 and resigned with effect from November 22, 2013)*

Executive Committee

Lo Siu Leung *(appointed on December 27, 2013)*
Tong Nai Kan
Zhao Tieliu *(appointed on December 27, 2013)*
An Yu Xin *(resigned with effect from December 27, 2013)*

Audit Committee

Anthony Espina *(Chairman)*
Cheung Wah Keung
Ko Ming Tung, Edward
Cheng Wai Lam, James *(appointed on March 26, 2013)*
Chan Cheuk Ming *(resigned with effect from September 5, 2013)*
Chan Pak Wing, Johnny *(appointed on September 5, 2013 and resigned with effect from November 22, 2013)*
Lee Kam Wah *(appointed on November 29, 2013 and resigned with effect from February 14, 2014)*

Remuneration Committee

Cheung Wah Keung *(Chairman)*
Anthony Espina
Ko Ming Tung, Edward
Cheng Wai Lam, James *(appointed on March 26, 2013)*
Chan Cheuk Ming *(resigned with effect from September 5, 2013)*
Chan Pak Wing, Johnny *(appointed on September 5, 2013 and resigned with effect from November 22, 2013)*
Lee Kam Wah (*appointed on November 29, 2013 and resigned with effect from February 14, 2014)*

Nomination Committee

Cheung Wah Keung *(Chairman)*
Anthony Espina
Ko Ming Tung, Edward
Tong Nai Kan
Cheng Wai Lam, James *(appointed on November 27, 2013)*
Chan Cheuk Ming *(resigned with effect from September 5, 2013)*
Chan Pak Wing, Johnny *(appointed on September 5, 2013 and resigned with effect from November 22, 2013)*

Authorised Representatives

Tong Nai Kan
Kwan Yiu Ming, Patrick

Company Secretary

Kwan Yiu Ming, Patrick

Website

www.harmonics33.com

CORPORATE INFORMATION

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
16th 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, 2013, the Group had 90 employees, 30 of them are located in Hong Kong.

BUSINESS REVIEW

— **Credit guarantee and investment business**

For the year ended December 31, 2013 ("Current Year"), the credit guarantee and investment business recorded revenue of HK$3.2 million and segmental loss of HK$14.8 million due to principally there was no investment return on the disposal of its equity interest in a project company in respect of a piece of land located in Beijing, the PRC for the Current Year.

In view of the increased inherent default risk of the overall market as mentioned in last year, this segment was operated in a very conservative manner which limited the expansion of the business.

The Group has disposed Beijing Harmonic Strait Trading Limited (北京和協海峽科貿有限公司), a wholly-owned subsidiary of Harmonic Strait Financing Guarantee Co., Limited ("Harmonic Strait"), to a third party at a consideration of RMB15 million (HK$19 million) as the disposal company's results did not meet the expectation of the Group and making a profit of HK$2.9 million during the Current Year.

— **Other business units**

During the Current Year, the Group's export business was continuously affected by the unfavorable operating conditions aroused from previous years. The Group has tried to improve its operation efficiency. However, the performance was constrainted by the limited banking facilities.

Both the operations of our concept hotel business in Shenzhen and financial planning services business in Hong Kong during the Current Year were stable but facing a rapid change unfavourable business environment including intense market competition and recruitment difficulties.

FINANCIAL REVIEW

For the Current Year, the Group's turnover was HK$174.0 million, representing a drop of 35.6% from HK$270.3 million for the year ended December 31, 2012 ("Prior Year"), as there was no 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 Current Year whereas there was an investment return for Prior Year and reduction of customer orders of exporting business because of various unfavourable operating conditions aroused from previous years.

Gross profit during Current Year was HK$33.3 million, representing a decrease of 69.8% from HK$110.4 million for the Prior Year. In terms of gross profit margin, the relevant figure for the Current Year was 19.1%, representing a decrease of 21.7% from 40.8% for Prior Year. The decrease in both gross profit and gross profit margin were mainly due to the investment return during the Prior Year as mentioned before.

Other revenue was HK$2.1 million in the Current Year, which decreased from the HK$5.1 million of the Prior Year. For operating expenses, the relevant figure for the Current Year was HK$59.1 million, representing an increase of 3.0% from HK$57.4 million for the Prior Year.

Finance cost during the Current Year was HK$48.6 million which increased from HK$20.7 million of the Prior Year. Such increase was mainly attributable to the increase in interest rate on the loan of HK$150.2 million as at December 31, 2013.

As the Group's export business was continuously affected by the unfavorable operating conditions aroused from previous years and the future is unpredictable, its goodwill has been impaired by HK$26 million.

In addition, the Group has impaired other receivable amounting to HK$2.7 million as its collectivity is uncertain.

LIQUIDITY AND FINANCIAL RESOURCES

As at December 31, 2013, net current assets were HK$52.8 million (2012: HK$109.3 million). Current ratio as at December 31, 2013 was 1.28 (2012: 1.63). The reductions of current assets and current ratio were mainly due to the loan interest to the ex-director accrued and repayments to a director during the Current Year. The gearing ratio, total bank borrowings divided by total assets at the end of each period, was 1.9% as at December 31, 2013, representing a decrease of 0.6% from 2.5% as at December 31, 2012; the decrease is due to the repayment of bank loan.

As at December 31, 2013, the Group had cash and bank balances of HK$148.0 million (2012: HK$201.3 million) including restricted cash of HK$12.7 million (2012: HK$41.9 million), and bank borrowings of HK$5.0 million (2012: HK$8.2 million) which was mainly denominated in Renminbi ("RMB"), HK dollars and US dollars. The bank borrowings bore floating interest rates.

As at December 31, 2013, the face value of the outstanding convertible bond of the Company was HK$1,258,937,500 (2012: HK$1,628,937,500) including amount of HK$1,156,937,500 (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 had provided guarantees to its customers amounted to approximately HK$12.7 million (2012: HK$39 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 the balance of HK$150.2 million in which the loan was 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, 2013, the Group had no material capital commitments (2012: Nil) or investment commitments. The operating lease commitment for the Group as at December 31, 2013 was around HK$8.0 million (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.

MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES

During the year ended December 31, 2013, the Group has disposed the entire capital of Beijing Harmonic Strait Trading Limited at a consideration of RMB15 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, 2013.

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, 2013, the Group had 90 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

In view of the increased inherent default risk of the overall market and the deteriorated business environments in respect of the credit guarantee and investment business were expected to be lasted for next few years, the Group will be more conservative in determining 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.

DIRECTORS

Executive Directors

Mr. Lo Siu Leung *(盧紹良)*, aged 35, was appointed as an Executive Director of the Company on December 27, 2013. Mr. Lo has over 10 years of experience in accounting, auditing, tax and finance. He holds a Master degree in Business Administration from The Hong Kong Polytechnic University. He is a fellow member of the Association of Chartered Certified Accountants, an 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. He is the director of Harmonic Strait Financing Guarantee Co., Ltd ("Harmonic Strait") and also takes the position of overseeing the financial function of the Group and joined the Group in June 2009.

Mr. Tong Nai Kan *(唐乃勤)*, aged 55, was appointed as an Executive Director of the Company in February 24, 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 was an executive director of New Smart Energy Group Limited (stock code: 91) for the period from March 1999 to June 2013, 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 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.

Mr. Zhao Tieliu *(趙鐵流)*, aged 56, was appointed as an Executive Director of the Company on December 27, 2013. Mr. Zhao graduated from Tianjin University of Finance and Economics with a Bachelor degree of Economics in 1984 and obtained a Master degree in Business Administration from Oklahoma City University, USA in 1990. He is currently the director and general manager of Harmonic Strait. Mr. Zhao held positions in Tianjin University of Finance and Economics as lecturer, the Department of Accounting as deputy dean, and as division director of the Futures Supervision Division and Intermediary Supervision Division of China Securities Regulatory Commission at the Tianjin Regulatory Bureau. Mr. Zhao was previously an executive director and managing director of Sanyuan Group Limited (Stock Code: 0140), a company previously listed on the Main Board of The Hong Kong Stock Exchange Limited, and a non-executive director of CIAM Group Limited (Stock Code: 0378), a company listed on the Main Board of The Hong Kong Stock Exchange Limited. He was also the President of Weida Applied Technology Company Limited (Stock Code: 000603) which listed on the Shenzhen Stock Exchange and the executive director of Masterwork Machinery Co., Limited (Stock Code: 300195) which listed on the Growth Enterprise Market of the Shenzhen Stock Exchange.

Non-Executive Director

Mr. Ko Ming Tung, Edward *(高明東)*, aged 53, 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.

Independent Non-Executive Directors

Mr. Cheung Wah Keung *(張華強)*, aged 52, was appointed as an Independent Non-Executive Director of the Company on June 4, 2007 and the Chairman of the Company on September 5, 2013. Mr. Cheung has over 22 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, a degree of Master of Corporate Governance in 2010 and a degree of Doctor of Business Administration in 2013 from The Hong Kong Polytechnic University. Mr. Cheung is currently the chairman and an executive director as well as a substantial 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 65, 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 is also Chairman of the Management Board of AFT Bank in Kazakhstan. 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 an 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.

Mr. Cheng Wai Lam, James *(鄭暐霖)*, aged 53, was appointed as a Non-Executive Director on March 26, 2013 and re-designated from non-executive director to independent non-executive director on November 27, 2013. Mr. Cheng holds a Master of Business Administration. Mr. Cheng is currently an executive director of Ceneric (Holdings) Limited (Stock Code: 542) whose shares are listed on the Main Board of the Stock Exchange. Mr. Cheng was an executive director of Pizu Group Holdings Limited (Stock Code: 8053) for the period from July 2011 to April 2013 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.

SENIOR MANAGEMENT

Mr. Kwan Yiu Ming, Patrick *(關耀明)*, aged 48, has joined the Group and 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.

The directors present their annual report and the audited consolidated financial statements for the year ended December 31, 2013.

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 profit or loss and other 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, 2013 are set out in the note 21 to the consolidated financial statements.

DONATION

No donation has been made by the Group during the year (2012: Nil).

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

Lo Siu Leung *(appointed on December 27, 2013)*
Tong Nai Kan
Zhao Tieliu *(appointed on December 27, 2013)*
An Yu Xin *(resigned with effect from December 27, 2013)*

Non-executive Directors

Ko Ming Tung, Edward
Lee Kam Wah *(appointed on November 29, 2013 and resigned with effect from February 14, 2014)*

Independent Non-executive Directors

Cheung Wah Keung *(Chairman)*
Anthony Espina
Cheng Wai Lam, James *(appointed on March 26, 2013 and re-designated from non-executive director to independent non-executive director on November 27, 2013)*
Chan Cheuk Ming *(resigned with effect from September 5, 2013)*
Chan Pak Wing, Johnny *(appointed on September 5, 2013 and resigned with effect from November 22, 2013)*

According to Article 130, Mr. Tong Nai Kan and Mr. Ko Ming Tung, Edward as Executive Director and 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. Lo Siu Leung and Mr. Zhao Tieliu who were both appointed by the Board on December 27, 2013 as Executive Directors, shall retire from office at the Annual General Meeting and shall offer themselves for re-election.

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

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

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

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, 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	Nature of Interests	Number of shares	Percentage of the issued share capital of the Company
Mr. Lee Kam Wah *(resigned with effect from February 14, 2014)*	Beneficial owner	40,000 (long position)	0.00%
Mr. Lo Siu Leung	Beneficial owner	32,000 (long position)	0.00%
Mr. Tong Nai Kan	Interest of a controlled corporation *(Note)*	1,139,448,000 (long position)	63.73%

Note: Market Speed Limited, a company wholly-owned by Mr. Tong Nai Kan, holds 213,898,000 shares and HK$1,156,937,500 convertible bond of the Company which can be converted into 925,550,000 shares upon conversion at an exercise price of HK$1.25.

Save as disclosed above, as at December 31, 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 December 31, 2013, the Company had no Chief Executive Officer.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

So far as is known to any Director, as at December 31, 2013, 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, 2013 was 1,787,850,000.

Name	Nature of Interests	Number of shares	Percentage to the issued share capital of the Company
Market Speed Limited	Beneficial Owner	1,139,448,000 (long position)	63.73%
New Stature Limited	Beneficial Owner	144,728,000 (long position)	8.10%
Skill Effort Limited	Interest of a controlled corporate	144,728,000 (long position)	8.10%
Fong Stanley Kai Yuen	Interest of a controlled corporate	144,728,000 (long position)	8.10%
Direct Value Limited	Beneficial Owner	135,300,000 (long position)	7.57%
Hui Kwan Wah, Hugo	Interest of a controlled corporate	135,300,000 (long position)	7.57%
Huang Huiquan	Beneficial Owner	120,000,000 (long position)	6.71%

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

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, 2013, the Group had 90 employees (2012: 121 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, 2013.

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, 2013, 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 10.5% and 31.2%, respectively (2012: 9.2% and 24.2%). For the Current Year, the percentages of sales attributable to the Group's largest customer and 5 largest customers combined were 53.7% and 78.9%, respectively (2012: 28.6% and 73.6%). At no time during the year did a director, an associate of a director or a substantial shareholder (owned more than 5% of the Company's issued share capital to the knowledge of the directors) has a beneficial interest in any of the Group's five largest suppliers or customers.

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.

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the changes in information of directors of the Company subsequent to the date of the 2012 Annual Report is set out below:

Mr. Lo Siu Leung was appointed as a director of Harmonic Strait Financing Guarantee Co., Ltd, a subsidiary of the Group, on March 5, 2014.

Mr. Zhao Tieliu was appointed as general manager with annual remuneration of RMB294,000 and a director of Harmonic Strait Financing Guarantee Co., Ltd, a subsidiary of the Group, on January 1, 2014 and March 5, 2014 respectively.

Mr. Cheng Wai Lam, James, an Independent Non-executive Director of the Company has resigned as an executive director of Pizu Group Holdings Limited (Stock Code: 8053) on April 15, 2013 and has been appointed as an executive director and chief executive officer of Ceneric (Holdings) Limited (Stock Code: 542) on November 8, 2013.

Mr. Tong Nai Kan, an Executive Director of the Company has retired as an executive director of New Smart Energy Group Limited (Stock Code: 91) on June 27, 2013. Mr. Tong resigned as the general manager and director of Harmonic Strait Financing Guarantee Co., Ltd on December 31, 2013 and March 5, 2014 respectively.

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 31, 2013 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

Cheung Wah Keung
Chairman

Hong Kong
March 28, 2014

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") as contained in Appendix 14 of the Listing Rules.

The Board is pleased to report compliance with code provisions of the CG Code for the period from January 1, 2013 up to December 31, 2013, except CG Code A.2.1 and A.5.1.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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 except the following:

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

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, 2013 to December 31, 2013, 10 Board meetings and one Annual General Meeting held on May 31, 2013 ("2013 AGM") were held and the attendance of each director is set out as follows:

	Number of Attendance	
Directors	**Board Meetings**	**2013 AGM**
Executive Directors		
Lo Siu Leung *(appointed on December 27, 2013) (note 1)*	0/0	N/A
Tong Nai Kan	10/10	1/1
Zhao Tieliu *(appointed on December 27, 2013) (note 2)*	0/0	N/A
An Yu Xin *(resigned with effect from December 27, 2013) (note 3)*	7/10	0/1
Non-executive Directors		
Ko Ming Tung, Edward	9/10	1/1
Lee Kam Wah *(appointed on November 29, 2013 and resigned with effect from February 14, 2014) (note 4)*	1/1	N/A
Independent Non-executive Directors		
Cheung Wah Keung *(Chairman)*	9/10	1/1
Anthony Espina	10/10	1/1
Cheng Wai Lam, James *(appointed on March 26, 2013 and re-designated from non-executive director to independent non-executive director on November 27, 2013) (note 5)*	8/8	1/1
Chan Cheuk Ming *(resigned with effect from September 5, 2013) (note 6)*	3/6	1/1
Chan Pak Wing, Johnny *(appointed on September 5, 2013 and resigned with effect from November 22, 2013) (note 7)*	0/1	N/A

The then Chairman, Mr. Chan Cheuk Ming attended 2013 AGM to answer questions and collect views of shareholders. Though one executive director was unable to attend 2013 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. Lo Siu Leung was appointed on December 27, 2013 and he was eligible to attend 0 board meeting.
2. Mr. Zhao Tieliu was appointed on December 27, 2013 and he was eligible to attend 0 board meeting and he did not attend 2013 AGM.
3. Mr. An Yu Xin was resigned on December 27, 2013 and he was eligible to attend 10 board meetings and he did not attend 2013 AGM.
4. Mr. Lee Kam Wah was appointed on November 29, 2013 and resigned on February 14, 2014 and he was eligible to attend 1 board meeting and he did not attend 2013 AGM.
5. Mr. Cheng Wai Lam, James was appointed on March 26, 2013 and he was eligible to attend 8 board meetings and he attended 2013 AGM.
6. Mr. Chan Cheuk Ming was resigned on September 5, 2013 and he was eligible to attend 6 board meetings and he attended 2013 AGM.
7. Mr. Chan Pak Wing, Johnny was appointed on September 5, 2013 and resigned on November 22, 2013 and he was eligible to attend 1 board meeting and he did not attend 2013 AGM.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

For the year ended December 31, 2013, the Company has complied with the code provisions set out in the CG Code as set out in Appendix 14 of the Listing Rules except the followings.

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

Under A.5.1 of the CG Code, the majority of the nomination committee members must be independent non-executive directors. Mr. Chan Pak Wing, Johnny was resigned as an Independent Non-executive Director of the Company on November 22, 2013 and consequently the Company has not complied with the CG Code A.5.1 since then. Following the re-designation of Mr. Cheng Wai Lam, James from a Non-executive Director to Independent Non-executive Director of the Company on November 27, 2013, the said CG Code has been duly complied with.

Following the resignation of Mr. Chan Pak Wing, Johnny as an Independent Non-executive Director of the Company on November 22, 2013, the Company has not complied with the requirements of the Listing Rules as follows:

1. Rule 3.10(1) (i.e. having at least three independent non-executive directors);
2. Rule 3.21 (i.e. the majority of the audit committee members must be independent non-executive directors); and
3. Rule 3.25 (i.e. the majority of the remuneration committee members must be independent non-executive directors)

(collectively refer to the "Rules").

Subsequent to the re-designation of Mr. Cheng Wai Lam, James from a Non-executive Director to Independent Non-executive Director of the Company on November 27, 2013, the above Rules have been duly complied with.

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. Cheung Wah Keung and Mr. Anthony Espina was renewed for two years commencing from November 19, 2012, and Mr. Cheng Wai Lam, James was appointed for two years commencing from March 26, 2013 and the Non-executive Director, Mr. Ko Ming Tung, Edward was appointed for three years commencing from May 9, 2011, 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	
Lo Siu Leung *(appointed on December 27, 2013) (note 1)*	0/0
Tong Nai Kan	6/6
Zhao Tieliu *(appointed on December 27, 2013) (note 2)*	0/0
An Yu Xin *(resigned with effect from December 27, 2013) (note 3)*	6/6

Notes:

1. Mr. Lo Siu Leung was appointed on December 27, 2013 and he was eligible to attend 0 Executive Committee meeting.

2. Mr. Zhao Tieliu was appointed on December 27, 2013 and he was eligible to attend 0 Executive Committee meeting.

3. Mr. An Yu Xin was resigned on December 27, 2013 and he was eligible to attend 6 Executive Committee meetings.

B. Remuneration Committee

The Remuneration Committee was established on October 30, 2007. The Remuneration Committee assists the Board to determine 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. Cheung Wah Keung, Mr. Anthony Espina and Mr. Cheng Wai Lam, James, and one Non-executive Director, Mr. Ko Ming Tung, Edward. Mr. Cheung Wah Keung is the Chairman of the Remuneration Committee. The Remuneration Committee meets at least two times a year. The terms of reference of Remuneration Committee are available on the Company's website at www.harmonics33.com and the website of the Stock Exchange.

From January 1, 2013 to December 31, 2013, four 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)*	4/4
Anthony Espina	4/4
Cheng Wai Lam, James *(appointed on March 26, 2013 and re-designated from non-executive director to independent non-executive director on November 27, 2013) (note 1)*	3/3
Chan Cheuk Ming *(resigned with effect from September 5, 2013) (note 2)*	1/2
Chan Pak Wing, Johnny *(appointed on September 5, 2013 and resigned with effect from November 22, 2013) (note 3)*	0/0
Non-executive Directors	
Ko Ming Tung, Edward	3/4
Lee Kam Wah *(appointed on November 29, 2013 and resigned with effect from February 14, 2014) (note 4)*	1/1

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

Notes:

1. Mr. Cheng Wai Lam, James was appointed on March 26, 2013 and he was eligible to attend 3 Remuneration Committee meetings for the year.

2. Mr. Chan Cheuk Ming was resigned on September 5, 2013 and he was eligible to attend 2 Remuneration Committee meetings for the year.

3. Mr. Chan Pak Wing, Johnny was appointed on September 5, 2013 and resigned on November 22, 2013 and he was eligible to attend 0 Remuneration Committee meeting for the year.

4. Mr. Lee Kam Wah was appointed on November 29, 2013 and resigned on February 14, 2014 and he was eligible to attend 1 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	1

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. Cheng Wai Lam, James and one Non-executive Director, Mr. Ko Ming Tung, Edward. Mr. Anthony Espina is the Chairman of the Audit Committee.

The Audit Committee meets at least four times a year. The terms of reference of Audit Committee are available on the Company's website at www.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
Cheung Wah Keung	4/4
Cheng Wai Lam, James *(appointed on March 26, 2013 and re-designated from non-executive director to independent non-executive director on November 27, 2013) (note 1)*	3/3
Chan Cheuk Ming *(resigned with effect from September 5, 2013) (note 2)*	2/3
Chan Pak Wing, Johnny *(appointed on September 5, 2013 and resigned with effect from November 22, 2013) (note 3)*	0/0
Non-executive Directors	
Ko Ming Tung, Edward	4/4
Lee Kam Wah *(appointed on November 29, 2013 and resigned with effect from February 14, 2014) (note 4)*	0/0

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.

Notes:

1. Mr. Cheng Wai Lam, James was appointed on March 26, 2013 and he was eligible to attend 3 Audit Committee meetings for the year.

2. Mr. Chan Cheuk Ming was resigned on September 5, 2013 and he was eligible to attend 3 Audit Committee meetings for the year.

3. Mr. Chan Pak Wing, Johnny was appointed on September 5, 2013 and resigned on November 22, 2013 and he was eligible to attend 0 Audit Committee meeting for the year.

4. Mr. Lee Kam Wah was appointed on November 29, 2013 and resigned on February 14, 2014 and he was eligible to attend 0 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. Cheung Wah Keung, Mr. Anthony Espina, Mr. Cheng Wai Lam, James; one Non-executive Director, Mr. Ko Ming Tung, Edward and one Executive Director, Mr. Tong Nai Kan. Mr. Cheung Wah Keung 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	
Cheung Wah Keung *(Chairman)*	4/4
Anthony Espina	4/4
Cheng Wai Lam ,James *(appointed on November 27, 2013) (note 1)*	2/2
Chan Cheuk Ming *(resigned with effect from September 5, 2013) (note 2)*	1/2
Chan Pak Wing, Johnny *(appointed on September 5, 2013 and resigned with effect from November 22, 2013) (note 3)*	0/0
Non-executive Director	
Ko Ming Tung, Edward	3/4
Executive Director	
Tong Nai Kan	4/4

During these meetings, the Nomination Committee reviewed the board structure of the Company and recommended candidates for directorship.

Notes:

1. Mr. Cheng Wai Lam, James was appointed on November 27, 2013 and he was eligible to attend 2 Nomination Committee meetings for the year.

2. Mr. Chan Cheuk Ming was resigned on September 5, 2013 and he was eligible to attend 2 Nomination Committee meetings for the year.

3. Mr. Chan Pak Wing, Johnny was appointed on September 5, 2013 and resigned on November 22, 2013 and he was eligible to attend 0 Nomination Committee meeting for the year.

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 Financing 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 most of 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.

The Group is still under negotiation with the lender, including but not limited to further extend the loan repayment date. The loan amount as at December 31, 2013 was HK$150,222,000.

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.

In addition, in preparing the consolidated financial statements, the Directors of the Company have given careful consideration to the future liquidity of the Group in light of the Group's negative net asset value as at December 31, 2013 amounted to HK$15,773,000. The Directors of the Company have been taking measures to improve the liquidity of the Group. These measures include (i) implementing cost controls over operating expenses; and (ii) exploring options to conduct fund raising activities.

Provided that the aforesaid measures are successful that can effectively improve the liquidity position of the Group, the Directors of the Company are satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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 2013 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 provided by the Company's auditor to the Group were as follows:

	HK$'000
Audit services	785
Non-audit services	–
	785

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. Tong Nai Kan and Mr. Ko Ming Tung, Edward as Executive Director and 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. Lo Siu Leung and Mr. Zhao Tieliu who were both appointed by the Board on December 27, 2013 as Executive Directors, shall retire from office at the Annual General Meeting and shall offer themselves for re-election.

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

Board Diversity Policy

The Board has adopted a Board Diversity Policy in August 2013 which sets out the approach to achieve diversity on the Board.

The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance.

The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Company will also take into consideration its own business model and specific needs from time to time in determining the optimum composition of the Board.

The Nomination Committee has set measurable objectives based on four focus areas: gender, age, working experience and ethnicity to implement the Board Diversity Policy. Such objectives will be reviewed from time to time to ensure their appropriateness and the progress made towards achieving those objectives will be ascertained. The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its continued effectiveness from time to time.

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

Each newly appointed Director receives induction on the first occasion of his/her appointment, so as to ensure that he/she has an appropriate understanding of the business and operations of the Company.

To assist directors' continuing professional development, the Company recommends directors to attend relevant seminars to develop and refresh their knowledge and skills. All directors also participate in continuous professional development programmes 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 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, 2013 is summarized below:

	Attending seminar(s)/ programme(s)/conference(s)/ reading material relevant to the business or directors' duties
Executive Directors	
Lo Siu Leung *(appointed on December 27, 2013)*	✓
Tong Nai Kan	✓
Zhao Tieliu *(appointed on December 27, 2013)*	✓
An Yu Xin *(resigned with effect from December 27, 2013)*	N/A
Non-executive Directors	
Ko Ming Tung, Edward	✓
Lee Kam Wah *(appointed on November 29, 2013 and resigned with effect from February 14, 2014)*	✓
Independent Non-executive Directors	
Cheung Wah Keung *(Chairman)*	✓
Anthony Espina	✓
Cheng Wai Lam, James *(appointed on March 26, 2013 and re-designated from non-executive director to independent non-executive director on November 27, 2013)*	✓
Chan Cheuk Ming *(resigned with effect from September 5, 2013)*	N/A
Chan Pak Wing, Johnny *(appointed on September 5, 2013 and resigned with effect from November 22, 2013)*	N/A

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 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, 2013.

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 Company 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.

Constitutional Documents

There was no change to the Company's Memorandum and Articles of Association during the year ended December 31, 2013. A copy of the latest amended and restated version of the Memorandum and Articles of Association is posted on the websites of the Company and the Stock Exchange.

On behalf of the Board

Cheung Wah Keung
Chairman

Hong Kong
March 28, 2014

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

(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 34 to 95, which comprise the consolidated and Company's statements of financial position as at December 31, 2013, and the consolidated statement of profit or loss and other 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. This report is made 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, 2013 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 negative net asset value of HK$15,773,000 as at December 31, 2013 and the loan and interest payable of HK$150,222,000 included under "Other short-term loan". These, 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

Y.Y. Li, Alice
Practising Certificate Number P03373
Hong Kong
March 28, 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2013

	Note	**2013**	2012
		HK$'000	HK$'000
Turnover	3 & 31	**173,994**	270,296
Cost of sales		**(140,683)**	(159,891)
Gross profit		**33,311**	110,405
Other revenue and other net income	4	**2,070**	5,143
Operating expenses		**(59,066)**	(57,392)
(Loss)/profit from operations		**(23,685)**	58,156
Finance costs			
On bank borrowings		**(274)**	(232)
Other loan advances		**(38,151)**	(11,550)
Notional interest		**(10,192)**	(8,946)
	5	**(48,617)**	(20,728)
(Loss)/profit before gain on disposal of a subsidiary, impairment and taxation		**(72,302)**	37,428
Gain on disposal of a subsidiary	30	**2,933**	–
Impairment loss on goodwill		**(26,375)**	(3,004,007)
Impairment loss on an other receivable		**(2,706)**	–
Loss before taxation	6	**(98,450)**	(2,966,579)
Income tax	7	**1,025**	(9,799)
Loss for the year		**(97,425)**	(2,976,378)
Other comprehensive income for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**1,793**	11
Total comprehensive loss for the year		**(95,632)**	(2,976,367)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2013

	Note	**2013** **HK$'000**	2012 HK$'000
Loss for the year attributable to:			
Equity shareholders of the Company	8	**(96,663)**	(2,981,612)
Non-controlling interests		**(762)**	5,234
		(97,425)	(2,976,378)
Total comprehensive loss for the year attributable to:			
Equity shareholders of the Company		**(95,048)**	(2,981,602)
Non-controlling interests		**(584)**	5,235
		(95,632)	(2,976,367)
Dividends	9	**N/A**	N/A
Loss per share	10		
— Basic		**(HK$0.06)**	(HK$2.73)
— Diluted		**N/A**	N/A

The notes on pages 40 to 95 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2013

	Note	**2013 HK$'000**	2012 HK$'000
Non-current assets			
Property, plant and equipment	13	**8,320**	13,963
Goodwill	14	**1,993**	28,368
Deferred taxation	25(b)	**2,948**	237
		13,261	42,568
Current assets			
Inventories	15	**19,140**	18,478
Trade receivables	16	**28,742**	19,895
Prepayments, deposits and other receivables	17	**46,138**	43,463
Restricted cash	18	**12,713**	41,931
Cash and cash equivalents	19	**135,311**	159,323
		242,044	283,090
Total Assets		**255,305**	325,658
Capital and reserves			
Share capital	20	**178,785**	149,185
Reserves	21	**(212,381)**	(89,420)
Equity attributable to shareholders of the Company		**(33,596)**	59,765
Non-controlling interests	27	**17,823**	20,442
Total Equity		**(15,773)**	80,207
Non-current liabilities			
Convertible bond	26	**81,853**	71,661
Current liabilities			
Amount due to a director	32(c)	**225**	11,498
Trade and bills payable	22	**9,716**	10,215
Accruals and other payables	23	**173,307**	133,887
Bank borrowings — secured	24	**4,953**	8,240
Tax payable	25(a)	**1,024**	9,950
		189,225	173,790
Total Equity and Liabilities		**255,305**	325,658
Net current assets		**52,819**	109,300
Total assets less current liabilities		**66,080**	151,868

Approved and authorised for issue by the Board of Directors on March 28, 2014.

On behalf of the board

Lo Siu Leung — *Director*

Zhao Tieliu — *Director*

The notes on pages 40 to 95 form an integral part of these consolidated financial statements.

STATEMENT OF FINANCIAL POSITION

As at December 31, 2013

	Note	**2013** **HK$'000**	2012 HK$'000
Non-current assets			
Investment in subsidiaries	28	**48,574**	48,574
Current assets			
Prepayments, deposits and other receivables	17	**60**	330
Amounts due from subsidiaries	29	**50,782**	53,404
Cash and cash equivalents	19	**288**	288
		51,130	54,022
Total Assets		**99,704**	102,596
Capital and reserves			
Share capital	20	**178,785**	149,185
Reserves	21	**(167,347)**	(123,259)
		11,438	25,926
Non-current liabilities			
Deferred taxation	25(b)	**3,320**	5,006
Convertible bond	26	**81,853**	71,661
		85,173	76,667
Current liabilities			
Accruals and other payables	23	**3,093**	3
Total Equity and Liabilities		**99,704**	102,596
Net current assets		**48,037**	54,019
Total assets less current liabilities		**96,611**	102,593

Approved and authorised for issue by the Board of Directors on March 28, 2014.

On behalf of the board

Lo Siu Leung — *Director*

Zhao Tieliu — *Director*

The notes on pages 40 to 95 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2013

		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	Accumulated losses HK$'000	Non-controlling interests HK$'000	Total HK$'000
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	20	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
At December 31, 2012 and January 1, 2013		149,185	1,074,796	12,442	(15,000)	2,058,189	3,420	(3,223,267)	20,442	80,207
Issue of new share upon conversion of convertible bond	20	29,600	201,800	–	–	(231,400)	–	–	–	–
Deferred tax arising from convertible bond		–	–	–	–	1,686	–	–	–	1,686
Dividend paid to non-controlling interests		–	–	–	–	–	–	–	(2,034)	(2,034)
Disposal of a subsidiary		–	–	–	–	–	–	1	(1)	–
Total comprehensive income/(loss) for the year		–	–	1,615	–	–	–	(96,663)	(584)	(95,632)
At December 31, 2013		178,785	1,276,596	14,057	(15,000)	1,828,475	3,420	(3,319,929)	17,823	(15,773)

The notes on pages 40 to 95 form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2013

	Note	2013 HK$'000	2012 HK$'000
Operating activities			
Loss before taxation		**(98,450)**	(2,966,579)
Adjustments for:			
Interest income		**(1,682)**	(1,519)
Interest expenses on bank loan		**274**	232
Interest expenses on convertible bond		**10,192**	8,946
Interest expenses on other loan		**38,151**	11,550
Depreciation		**8,486**	7,741
Gain on disposal of a subsidiary		**(2,933)**	–
(Decrease)/increase in translation reserve		**(243)**	431
Loss on disposal of property, plant and equipment		**–**	15
Impairment loss on goodwill		**26,375**	3,004,007
Impairment loss on an other receivable		**2,706**	–
Operating profit before changes in working capital		**(17,124)**	64,824
Increase in inventories		**(662)**	(4,374)
(Increase)/decrease in trade receivables		**(8,847)**	24,537
Decrease in prepayments, deposits and other receivables		**(932)**	3,095
(Decrease)/increase in amount due to a director		**(11,274)**	11,498
(Decrease)/increase in trade and bills payable		**(499)**	2,204
Increase/(decrease) in accruals and other payables		**1,166**	(8,942)
Cash (used in)/generated from operations		**(38,172)**	92,842
Profits Tax paid		**(9,244)**	(2,863)
Profits Tax refund		**318**	–
Net cash (used in)/generated from operating activities		**(47,098)**	89,979
Investing activities			
Purchase of property, plant and equipment		**(2,976)**	(3,270)
Interest received		**1,682**	1,519
Decrease/(increase) in restricted cash		**29,218**	(27,137)
Proceeds from disposal of property, plant and equipment		**63**	380
Disposal of a subsidiary	30	**(1,501)**	–
Acquisition of a subsidiary		**–**	(401)
Net cash generated/(used in) from investing activities		**26,486**	(28,909)
Financing activities			
Interest paid		**(3,113)**	(13,727)
Repayment of bank borrowings		**(6,073)**	(6,340)
Increase in bank borrowings		**2,786**	4,871
Increase in other loan		**3,000**	–
Net cash used in financing activities		**(3,400)**	(15,196)
Net (decrease)/increase in cash and cash equivalents		**(24,012)**	45,874
Cash and cash equivalents at beginning of year		**159,323**	113,449
Cash and cash equivalents at end of year	19	**135,311**	159,323

The notes on pages 40 to 95 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 of Hong Kong Limited ("Stock Exchange") on November 19, 2007.

The Company is an investment holding company. The Group is principally engaged in the credit guarantee and investment business in the People's Republic of China ("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) 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$150,222,000 and negative net asset value of HK$15,773,000 as at December 31, 2013. The Group is still under negotiation with the lender, including but not limited to further extend the loan repayment date.

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 lender regarding the loan of the abovesaid HK$150,222,000 and the directors have been taking measures to improve the liquidity of the Group. 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, 2013 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, 2013

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 2013:

Amendments to HKFRSs	Annual improvements to HKFRSs 2009–2011 cycle
Amendments to HKFRS 1	First-time Adoption of Hong Kong Financial Reporting Standards — Government Loans
Amendments to HKFRS 7	Financial instruments: Disclosures — Offsetting financial assets and financial liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance
HKFRS 10	Consolidated financial statements
HKFRS 11	Joint arrangements
HKFRS 12	Disclosure of interests in other entities
HKFRS 13	Fair value measurement
Amendments to HKAS 1	Presentation of items of other comprehensive income
HKAS 19 (as revised in 2011)	Employee benefits
HKAS 27 (as revised in 2011)	Separate financial statements
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures
HK(IFRIC)-INT 20	Stripping costs in the production phase of a surface mine

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impact of the adoption of other new or amended HKFRSs are discussed below:

Amendments to HKFRSs, Annual improvements to HKFRSs 2009–2011 cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. The adoption of the amendments does not have an impact on these consolidated financial statements.

HKFRS 10, Consolidated financial statements

HKFRS 10 replaces the requirements in HKAS 27 (Revised), Consolidated and separate financial statements relating to the preparation of consolidated financial statements and HK-SIC 12 Consolidation — Special purpose entities. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

HKFRS 12, Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards.

HKFRS 13, Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

Amendments to HKAS 1, Presentation of financial statements — Presentation of items of other comprehensive income

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the statement of profit or loss and other comprehensive income in these consolidated financial statements has been modified accordingly. In addition, the Group has chosen to use the new titles "consolidated statement of profit or loss and other comprehensive income" as introduced by the amendments in these consolidated financial statements.

HKAS 19 (as revised in 2011), Employee benefits

HKAS 19 (as revised in 2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. As the Group does not have any defined benefit plan or employee termination plan and the Group does not have any significant employee benefits that are expected to be settled for more than twelve months after the reporting period, the adoption of the revised standard has had no effect on the financial position or performance of the Group.

(e) Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2013

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.

Amendments to HKFRS	Annual improvements to HKFRSs 2010–2012 cycle[4]
Amendments to HKFRS	Annual improvements to HKFRSs 2011–2013 cycle[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures[3]
Amendments to HKFRS 10, HKFRS 12 and HKFRS 27	Investment entities[1]
HKFRS 9	Financial instruments[3]
Amendments to HKAS 19	Defined benefit plans: employee contributions[2]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[1]
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets[1]
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting[1]
HK(IFRIC)-INT 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.
3 Available for application — the mandatory effective date will be determined when the outstanding phase HKFRS 9 are finalized
4 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.

The directors of the Company (the "Directors") anticipate that the application of these new and revised HKFRSs will have no material impact on the Group's financial performance and positions and/or on the disclosures set out in these consolidated financial statements.

(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 statement of profit or loss and other 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 Hong Kong dollars, 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 Hong Kong dollars 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

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person 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:

	2013	2012
	HK$'000	HK$'000
Credit guarantee service and investment income	**3,181**	78,910
Sales of goods	**141,648**	162,529
Insurance brokerage commission income	**12,522**	14,201
Provision of hotel accommodation service	**16,643**	14,656
	173,994	270,296

4. OTHER REVENUE AND OTHER NET INCOME

	2013	2012
	HK$'000	HK$'000
Other revenue		
Total interest income on financial assets not at fair value through profit or loss	**1,682**	1,519
Sundry income	**1,036**	3,395
	2,718	4,914
Other net (expense)/income		
Net exchange (loss)/gain	**(648)**	229
	2,070	5,143

5. FINANCE COSTS

	2013 HK$'000	2012 HK$'000
Interest expenses on bank borrowings wholly repayable within five years	**274**	232
Interest expenses on loan advances	**38,151**	11,550
Imputed interest expenses on convertible bond	**10,192**	8,946
Total interest expenses on financial liabilities not at fair value through profit or loss	**48,617**	20,728

The imputed interest expenses of HK$10,192,000 (2012: HK$8,946,000) 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:

	2013 HK$'000	2012 HK$'000
Auditor's remuneration	**785**	900
Cost of inventories included in cost of sales	**131,942**	147,067
Depreciation	**8,486**	7,741
Loss on disposal of property, plant and equipment	**–**	15
Staff costs:		
— Salaries, wages and other benefits (including directors' emoluments)	**23,311**	20,981
— Contributions to defined contribution retirement plans	**2,414**	1,923
Operating lease charges on rented premises	**12,296**	11,690
(Decrease)/increase in provision for guarantee contracts	**(941)**	796
Net exchange loss/(gain)	**648**	(229)
Impairment loss on an other receivable	**2,706**	–

7. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) The amount of taxation charged/(credited) to the consolidated statement of profit or loss and other comprehensive income represents:

	2013	2012
	HK$'000	HK$'000
Hong Kong Profits Tax		
Provision for the year	**–**	345
Over provision in respect of prior years	**–**	(10)
	–	335
PRC Tax		
Provision for the year	**–**	10,731
Deferred tax		
Reversal of temporary differences	**(1,025)**	(1,267)
	(1,025)	9,799

No provision of Hong Kong Profits Tax has been made as the Group has no estimated assessable profits for the year (2012: 16.5%). Taxation of subsidiaries in PRC 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:

	2013	2012
	HK$'000	HK$'000
Loss before taxation	**(98,450)**	(2,966,579)
Notional tax on loss before taxation, calculated at the applicable tax rate 16.5% (2012: 16.5%)	**(16,244)**	(489,486)
Effect of different tax rate in other country	**(2,109)**	5,028
Tax effect of income not subject to taxation	**–**	(764)
Tax effect of expenses not deductible for taxation purposes	**6,128**	1,739
Tax effect of prior year's tax losses utilized in this year	**(2)**	(4,914)
Unused tax losses not recognised	**13,284**	498,301
Over-provision in prior years	**–**	(10)
Tax effect of origination and reversal of temporary difference	**(32)**	(95)
Actual tax (credit)/expense	**(1,025)**	9,799

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$16,174,000 (2012: loss of HK$3,015,081,000).

9. DIVIDENDS

The Board of the Company did not recommend any final dividend for the year ended December 31, 2013. No dividend was paid during the year (2012: Nil).

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.

	2013	2012
	HK$'000	HK$'000
Loss attributable to equity shareholders of the Company	**(96,663)**	(2,981,612)

	2013	2012
	'000 shares	'000 shares
Weighted average number of ordinary shares		
At the beginning of the year	**1,491,850**	795,850
Effect of conversion of convertible bond	**168,044**	295,868
At the end of the year	**1,659,894**	1,091,718

Total ordinary shares outstanding at December 31, 2013 was 1,787,850,000 shares (2012: 1,491,850,000 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 PRC 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, 2013			
	Fees HK$'000	**Basic salaries, allowance and other benefits HK$'000**	**Contributions to retirement scheme HK$'000**	**Total HK$'000**
Executive Directors				
Lo Siu Leung *(appointed on December 27, 2013) (note)*	2	8	–	10
Tong Nai Kan	120	560	6	686
Zhao Tieliu *(appointed on December 27, 2013)*	2	–	–	2
An Yu Xin *(resigned with effect from December 27, 2013)*	148	661	–	809
Non-executive Directors				
Ko Ming Tung, Edward	150	–	–	150
Lee Kam Wah *(appointed on November 29, 2013 and resigned with effect from February 14, 2014)*	21	–	–	21
Independent Non-executive Directors				
Cheung Wah Keung *(Chairman)*	174	–	–	174
Anthony Espina	174	–	–	174
Cheng Wai Lam, James *(appointed on March 26, 2013 and re-designed from non-executive director to independent non-executive director on November 27, 2013)*	184	–	–	184
Chan Cheuk Ming *(resigned with effect from September 5, 2013)*	221	–	–	221
Chan Pak Wing, Johnny *(appointed on September 5, 2013 and resigned with effect from November 22, 2013)*	38	–	–	38
	1,234	1,229	6	2,469

Note: Mr. Lo Siu Leung received a salaries of HK$616,000 and contributions to retirement scheme of HK$15,000 as financial controller of the Group for the period from January 1, 2013 to December 27, 2013.

	For the year ended December 31, 2012			
	Fees	Basic salaries, allowance and other benefits	Contributions to retirement scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'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

There was no arrangement under which a director agreed to waive any remuneration during the year (2012: Nil).

As at December 31, 2013, no share option has been granted and held by the directors under the Company's share option scheme (2012: 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, one (2012: two) was director of the Company whose emoluments are disclosed in note 12(a) above. The emoluments of the remaining four (2012: three) individual were as follows:

	2013	2012
	HK$'000	HK$'000
Salaries and other benefits	**5,649**	2,520
Contributions to defined contribution retirement plans	**129**	39
	5,778	2,559

Their emoluments were within the following bands:

	2013	2012
	Number of employees	Number of employees
Below HK$1,000,001	**1**	3
HK$1,000,001 to HK$1,500,000	**1**	–
HK$1,500,001 to HK$2,500,000	**2**	–

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, 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 and January 1, 2013	25,069	19,253	5,868	1,390	704	52,284
Additions	1,036	264	483	85	1,108	2,976
Disposal	(18)	(124)	(15)	–	–	(157)
At December 31, 2013	26,087	19,393	6,336	1,475	1,812	55,103
Accumulated depreciation						
At 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 and January 1, 2013	14,225	17,675	4,640	1,139	642	38,321
Charge for the year	6,891	537	822	95	141	8,486
Written back on disposal	–	(12)	(12)	–	–	(24)
At December 31, 2013	21,116	18,200	5,450	1,234	783	46,783
Net book values						
At December 31, 2013	4,971	1,193	886	241	1,029	8,320
At December 31, 2012	10,844	1,578	1,228	251	62	13,963

14. GOODWILL

	2013	2012
	HK$'000	HK$'000
At the beginning of the year	**28,368**	3,032,375
Impairment during the year	**(26,375)**	(3,004,007)
At the end of the year	**1,993**	28,368

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:

	2013	2012
	HK$'000	HK$'000
Party products manufacturing and trading business	**–**	26,375
Credit guarantee business and investment business	**1,993**	1,993
	1,993	28,368

The carrying amount of goodwill as at January 1, 2013 was allocated as to HK$26,375,000 and HK$1,993,000 to certain CGU within the export business segment as well as credit guarantee and investment business segment respectively. Goodwill is tested for impairment by the management by estimating the recoverable amount of these CGU based on value-in-use calculations.

In respect of the CGU within the export business segment, as at December 31, 2013, its recoverable amount was determined based on cash flow projections covering a period of five years and growth rate is zero. Based on these calculations, the recoverable amount of this CGU within export business segment fell below its carrying amount, resulting in impairment provision for the entire amount of goodwill of HK$26,375,000.

The assumptions used in deriving recoverable amounts for CGU had been determined based on past performance and the management's expectations in respect of the market development.

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, no impairment loss is recognised for the year (2012: HK$3,004,007,000).

	2013	2012
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:

	2013	2012
	HK$'000	HK$'000
Raw materials	**6,563**	7,059
Work-in-progress	**5,730**	6,406
Finished goods	**6,847**	5,013
	19,140	18,478

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

	2013	2012
	HK$'000	HK$'000
Carrying amount of inventories sold	**131,942**	147,067

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.

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

	2013	2012
	HK$'000	HK$'000
Within 30 days	**7,342**	14,907
31 to 60 days	**6,731**	1,766
61 to 90 days	**7,360**	480
Over 90 days	**7,309**	2,742
	28,742	19,895

Trade receivables included HK$7,309,000 (2012: HK$2,742,000) which were past due at December 31, 2013. 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.

For the year ended December 31, 2013, no trade receivables of the Group were uncollectible and written off (2012: Nil). 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:

	2013	2012
	US$'000	US$'000
	43	81

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade deposits and other receivables	**38,628**	36,005	**–**	–
Prepayments	**504**	905	**60**	330
Rental, utility and sundry deposits	**2,979**	2,503	**–**	–
Staff advances	**4,027**	4,050	**–**	–
	46,138	43,463	**60**	330

The carrying amounts of prepayments, deposit and other receivables at the end of the reporting period approximated their fair value. As of December 31, 2013, outstanding other receivables of HK$2,706,000 (RMB2,128,000) (2012: Nil) were impaired. Apart from those impaired other receivables, all of the prepayments, trade deposits and other receivables are expected to be recovered, or recognized as expenses within one year.

18. RESTRICTED CASH

Approximately HK$12,713,000 (RMB10 million) (2012: HK$41,931,000 (RMB34 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	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**135,311**	159,323	**288**	288
Cash and cash equivalents	**135,311**	159,323	**288**	288

Cash and cash equivalents in the consolidated cash flow statements as at December 31, 2013 and 2012 were HK$135,311,000 and HK$159,323,000 respectively.

Cash and cash equivalents include short-term bank deposit, carrying interest at prevailing market rates.

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	
	2013	2012
	'000	'000
	US$519	US$111
	RMB108,366	RMB110,133

20. SHARE CAPITAL

	Number of shares	Amount
	'000	HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
As at January 1, 2012, December 31, 2012 and December 31, 2013	5,000,000	500,000
Issued and fully paid:		
As at 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 and January 1, 2013	1,491,850	149,185
Issue of new shares upon conversion of convertible bond	296,000	29,600
As at December 31, 2013	1,787,850	178,785

(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: 165,185,000 shares). No share option was granted during the year.

(b) During the year, convertible bond with principal amount of HK$370,000,000 were converted into 296,000,000 ordinary shares of the Company of HK$0.1 each at a conversion price of HK$1.25 each.

21. RESERVES

The Group

	Share premium HK$'000	Translation reserve HK$'000	Capital reserve HK$'000	Convertible bond reserve HK$'000	Statutory reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
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 and at January 1, 2013	1,074,796	12,442	(15,000)	2,058,189	3,420	(3,223,267)	(89,420)
Issue of new share upon conversion of convertible bond	201,800	–	–	(231,400)	–	–	(29,600)
Deferred tax arising from convertible bond	–	–	–	1,686	–	–	1,686
Total comprehensive income/(loss) for the year	–	1,615	–	–	–	(96,663)	(95,048)
Disposal of a subsidiary	–	–	–	–	–	1	1
At December 31, 2013	**1,276,596**	**14,057**	**(15,000)**	**1,828,475**	**3,420**	**(3,319,929)**	**(212,381)**

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, 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 and January 1, 2013	1,074,796	31,971	2,058,189	(3,288,215)	(123,259)
Issue of new share upon conversion of convertible bond	201,800	–	(231,400)	–	(29,600)
Deferred tax arising from conversion of convertible bond	–	–	1,686	–	1,686
Total comprehensive loss for the year	–	–	–	(16,174)	(16,174)
At December 31, 2013	1,276,596	31,971	1,828,475	(3,304,389)	(167,347)

(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 due of the Reorganisation over the normal 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.

(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, 2013, no reserves was available for distribution to equity shareholders of the Company (2012: Nil).

22. TRADE AND BILLS PAYABLE

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

	2013	2012
	HK$'000	HK$'000
0 to 30 days	**7,661**	7,669
31 to 60 days	**1,635**	2,349
61 to 90 days	**420**	133
Over 90 days	**–**	64
	9,716	10,215

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:

	2013	2012
	'000	'000
	–	US$19
	RMB2,644	RMB6,153

23. ACCRUALS AND OTHER PAYABLES

	The Group		**The Company**	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Interest payables	**90**	–	**90**	–
Accrued salaries and bonuses	**6,688**	6,374	**–**	–
Trade deposits received	**16**	10	**–**	–
Accrued expenses	**13,291**	12,503	**3**	3
Other short-term loans	**153,222**	115,000	**3,000**	–
	173,307	133,887	**3,093**	3

The carrying amounts of accruals and other payables at the end of the reporting period approximated their fair values. The other short-term loans amounted HK$150,222,000 bear interest at the HSBC default rate minus 3%, or 10%, whichever is lower before April 28, 2013 and 3% per month thereafter, the balance HK$3,000,000 bear interest 12% per annum. 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:

	2013	2012
	HK$'000	HK$'000
Current liabilities		
Portion of bank borrowing due for repayment within one year	**4,192**	6,091
Portion of bank borrowing due for repayment after one year which contain a repayment on demand clause	**761**	2,149
	4,953	8,240

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 (2012: 3.0%) over Hong Kong Interbank Offered Rate or 0.5% below the prime rate.

At December 31, 2013, interest-bearing bank loans were due for repayment as follows:

	2013	2012
	HK$'000	HK$'000
Portion of bank borrowing due for repayment within one year	**4,192**	6,091
Bank borrowing due for repayment after one year (Note 1):		
After 1 year but within 2 years	**761**	1,279
After 2 years but within 5 years	**–**	870
	4,953	8,240

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:

	2013 HK$'000	2012 HK$'000
At the beginning of the year	**(9,950)**	(1,727)
Provision for Hong Kong Profits tax	**–**	(11,076)
Over-provision in prior years	**–**	(10)
Hong Kong Profits Tax refund	**(318)**	–
Hong Kong Profits Tax paid	**3**	2,863
PRC Tax paid	**9,241**	–
At the end of the year	**(1,024)**	(9,950)

(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 HK$'000	**Unused tax losses** HK$'000	**Convertible bond** HK$'000	**Total** HK$'000
At January 1, 2012	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 (note 7)	(96)	(1,171)	–	(1,267)
At December 31, 2012	66	(5,309)	5,006	(237)
Credited to reserve	–	–	(1,686)	(1,686)
Credited to profit or loss (note 7)	(29)	(996)	–	(1,025)
At December 31, 2013	37	(6,305)	3,320	(2,948)

	2013	2012
	HK$'000	HK$'000
Deferred tax assets recognised	**6,305**	5,309
Deferred tax liabilities recognised	**3,357**	5,072

The Company

	Convertible bond	**Total**
	HK$'000	HK$'000
At January 1, 2012	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
Credited to reserve	(1,686)	(1,686)
At December 31, 2013	3,320	3,320

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 Harmonic Strait Financing Guarantee Co., Limited (和協海峽融資擔保有限公司). 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 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. Accordingly, the (fair value) liability portion of the Market Speed Limited 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, 2012	2,489,574	154,946	2,644,520
Imputed interest amortised and reversal of deferred tax liabilities	1,476	8,946	10,422
Transfer from convertible bond liability portion to equity portion	101,762	(92,231)	9,531
Conversion into new shares	(534,623)	–	(534,623)
At December 31, 2012	2,058,189	71,661	2,129,850
Imputed interest amortised and reversal of deferred tax liabilities	1,686	10,192	11,878
Conversion into new shares	(231,400)	–	(231,400)
At December 31, 2013	1,828,475	81,853	1,910,328

27. NON-CONTROLLING INTERESTS

	2013	2012
	HK$'000	HK$'000
At the beginning of the year	**20,442**	15,207
Dividend paid to non-controlling interests	**(2,034)**	–
Total comprehensive (loss)/income for the year	**(584)**	5,235
Disposal of a subsidiary	**(1)**	–
At the end of the year	**17,823**	20,442

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	Hong Kong	HK$200,000	100%	General trading
Harmonic Strait Export 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 #, ###	PRC	US$2,000,000	100%	Hotel management and general trading
呼嚕棧酒店(深圳)有限公司 #, ###	PRC	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

Name of company	Place of establishment/ incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activities
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 ##, ###	PRC	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
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

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.

During the year, the Group disposed 北京和協海峽科貿有限公司 to a third party. Further details of this disposal are included in note 30 to the consolidated financial statements.

29. AMOUNTS DUE FROM SUBSIDIARIES

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

30. DISPOSAL OF A SUBSIDIARY

Pursuant to a sale and purchase agreement dated December 11, 2013, the Group disposed its interest in 北京和協海峽科貿有限公司 with an effective equity interest of 90% for an aggregate consideration of RMB15,000,000. Gain on disposal of its investment in 北京和協海峽科貿有限公司 approximately RMB2,300,000 was recognized.

The major classes of assets and liabilities of 北京和協海峽科貿有限公司 at the date of disposal is set out below:

	HK$'000
Net assets disposed of:	
Property, Plant and equipment	70
Prepayments and other receivables	8,265
Cash and bank balances	7,858
Accruals and other payables	(51)
Tax payable	(5)
	16,137
Gain on disposal of a subsidiary	2,933
	19,070
Satisfied by:	
Cash	19,070

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	HK$'000
Cash consideration	19,070
Less: Cash receivable	12,713
Less: Cash and bank balances disposed of	7,858
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	(1,501)

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.

31. SEGMENT REPORTING

(a) Segment Revenues and Results

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

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

Year ended December 31, 2013

	Credit guarantee and investment business HK$'000	Exporting business HK$'000	Hotel business HK$'000	Financial planning services business HK$'000	Total HK$'000
Revenue					
External sales	3,181	141,648	16,643	12,522	173,994
Result					
Segment results	(14,805)	(331)	(4,092)	(1,300)	(20,528)
Gain on disposal of a subsidiary					2,933
Interest revenue					1,682
Other income					389
Unallocated corporate expenses					(5,228)
Interest expenses					(48,617)
Impairment loss on goodwill					(26,375)
Impairment loss on an other receivable					(2,706)
Loss before taxation					(98,450)
Income tax					1,025
Loss for the year					(97,425)

Only one customer from exporting business contributing over 10% of the total sales of the Group, its amount was HK$93,347,000.

Year ended December 31, 2012 (Restated)

	Credit guarantee and investment business HK$'000	Exporting business HK$'000	Hotel business HK$'000	Financial planning services business HK$'000	Total HK$'000
Revenue					
External sales	78,910	162,529	14,656	14,201	270,296
Result					
Segment results	57,046	4,526	(4,635)	(1,777)	55,160
Gain on disposal of a subsidiary					–
Interest revenue					1,519
Other income					3,624
Unallocated corporate expenses					(2,147)
Interest expenses					(20,728)
Impairment loss on goodwill					(3,004,007)
Impairment loss on an other receivable					–
Loss before taxation					(2,966,579)
Income tax					(9,799)
Loss for the year					(2,976,378)

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

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 gain on disposal of a subsidiary, impairment loss on goodwill and impairment loss on an other receivable), 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, 2013

	Credit guarantee and investment business HK$'000	Exporting business HK$'000	Hotel business HK$'000	Financial planning services business HK$'000	Total HK$'000
ASSETS					
Segment assets	41,524	50,137	5,252	781	97,694
Bank balances and cash (included restricted cash)					148,024
Unallocated corporate assets					9,587
Consolidated total assets					255,305
LIABILITIES					
Segment liabilities	7,555	16,165	3,459	2,529	29,708
Bank borrowings					4,953
Unallocated corporate liabilities					236,417
Consolidated total liabilities					271,078

Year ended December 31, 2012 (Restated)

	Credit guarantee and investment business HK$'000	Exporting business HK$'000	Hotel business HK$'000	Financial planning services business HK$'000	Total HK$'000
ASSETS					
Segment assets	39,534	40,221	1,260	818	81,833
Bank balances and cash (included restricted cash)					201,254
Unallocated corporate assets					42,571
Consolidated total assets					325,658
LIABILITIES					
Segment liabilities	5,102	17,333	3,032	1,231	26,698
Bank borrowings					8,240
Unallocated corporate liabilities					210,513
Consolidated total liabilities					245,451

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 profit or loss and other comprehensive income:

	2013	2012
	HK$'000	HK$'000
Interest on loan advance from an ex-director and a substantial shareholder (note (i))	**–**	8,657
License fee paid to an associate of a director	**–**	704
Rent for motor vehicles paid to non-controlling interest shareholder	**333**	407

Notes:

(i) 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:

	2013	2012
	HK$'000	HK$'000
Salaries, allowance and other benefits	**3,788**	5,223
Contributions to defined contribution retirement plans	**36**	129
	3,824	5,352

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

	2013	2012
	HK$'000	HK$'000
Loan from an ex-director and a substantial shareholder#	**–**	115,000
Amount due to a director##	**225**	11,498

The loan was part of the contributed registered capital of a subsidiary acquired on August 27, 2010 as mentioned in the note 32(a) (i).

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

33. COMMITMENTS

(a) Capital Commitments

As at December 31, 2013, the Group had no material capital commitments (2012: Nil) or investment commitments.

(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:

	2013	2012
	HK$'000	HK$'000
Within one year	**6,558**	8,361
In the second to fifth year, inclusive	**1,394**	5,795
	7,952	14,156

34. FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

The Group, through, Harmonic Strait Financing Guarantee Co., Limited ("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$12.7 million (RMB10 million) (2012: HK$39.0 million (RMB31 million)).

At December 31, 2013, the bank loan drawn down by the Group amounted to approximately HK$5.0 million (2012: HK$8.2 million).

On December 20, 2012, the Group has extended the loan 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), 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, 2013, except for those disclosed above, the Board 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, 2013, 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, 2013, the Group has a certain concentration of credit risk as approximately equals to 68.3% (2012: 62.1%) and 91.9% (2012: 89.4%) 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, 2013					
	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	**225**	**–**	**–**	**–**	**225**	**225**
Trade and bill payable	**9,716**	**–**	**–**	**–**	**9,716**	**9,716**
Accruals and other payables	**173,307**	**–**	**–**	**–**	**173,307**	**173,307**
Bank borrowings subject to a repayment on demand clause	**4,953**	**–**	**–**	**–**	**4,953**	**4,953**
Convertible bond	**–**	**102,000**	**–**	**–**	**102,000**	**81,853**
Tax payable	**1,024**	**–**	**–**	**–**	**1,024**	**1,024**
	189,225	**102,000**	**–**	**–**	**291,225**	**271,078**

	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

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, 2013	4,157	885	–	–	5,042	4,953
December 31, 2012	6,091	1,279	870	–	8,240	8,240

(iii) *Interest rate risk*

The Group's interest rate risk arises primarily from cash and cash equivalents and bank 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 short term loans is disclosed in notes 23.

(2) Sensitivity analysis

At December 31, 2013, 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$1,055,000 (2012: HK$1,437,000). Other components of consolidated equity would not be affected (2012: 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 2012.

(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, 2013	
	US$'000	**RMB'000**
Cash and cash equivalents, and restricted cash	**518**	**108,366**
Trade and other receivables	**43**	**35,122**
Trade and other payables	**–**	**(8,153)**
Overall exposure arising from recognised assets and liabilities	**561**	**135,335**

	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

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, 2013		December 31, 2012	
	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%**	**8,594**	5%	6,949
	(5%)	**(8,594)**	(5%)	(6,949)

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 2012.

(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.

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, 2013 HK$'000**	12 Months ended December 31, 2012 HK$'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
Turnover	**173,994**	270,296	588,103	550,310	389,186
(Loss)/profit before taxation	**(98,450)**	(2,966,579)	(255,366)	(40,006)	33,648
Income tax	**1,025**	(9,799)	(1,383)	(3,114)	(1,113)
(Loss)/profit for the year/ period	**(97,425)**	(2,976,378)	(256,749)	(43,120)	32,535
Attributable to:					
Equity shareholders of the Company	**(96,663)**	(2,981,612)	(255,745)	(42,522)	32,535

	As at December 31, 2013 HK$'000	As at December 31, 2012 HK$'000	As at December 31, 2011 HK$'000	As at December 31, 2010 HK$'000	As at December 31, 2009 HK$'000
Assets and liabilities					
Total assets	**255,305**	325,658	3,284,541	3,610,937	182,925
Total liabilities	**(271,078)**	(245,451)	(331,205)	(1,890,586)	(46,018)
Total equity	**(15,773)**	80,207	2,953,336	1,720,351	136,907