Harmonic Strait Financial Holdings Limited
和協海峽金融集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 33)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2012

The board (the "Board") of directors (the "Directors") of Harmonic Strait Financial Holdings Limited (the "Company") submits the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended December 31, 2012, together with the audited comparative figures of the corresponding period in 2011.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2012

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2012

	Note	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	11	**13,963**	18,829
Goodwill	12	**28,368**	3,032,375
Deferred taxation		**237**	–
		42,568	3,051,204
Current assets			
Inventories		**18,478**	14,104
Trade receivables	13	**19,895**	44,432
Prepayments, deposits and other receivables		**43,463**	46,558
Restricted cash		**41,931**	14,794
Cash and cash equivalents		**159,323**	113,449
		283,090	233,337
Total Assets		**325,658**	3,284,541

	Note	2012 HK$'000	2011 HK$'000
Capital and reserves			
Share capital	*14*	**149,185**	79,585
Reserves	*15*	**(89,420)**	2,858,544
Equity attributable to shareholders of the Company		**59,765**	2,938,129
Non-controlling interests		**20,442**	15,207
Total Equity		**80,207**	2,953,336
Non-current liabilities			
Deferred taxation		**–**	12,038
Convertible bond	*16*	**71,661**	154,946
		71,661	166,984
Current liabilities			
Amount due to a director		**11,498**	–
Trade and bills payable	*17*	**10,215**	8,011
Accruals and other payables		**133,887**	144,774
Bank borrowings — secured		**8,240**	9,709
Tax payable		**9,950**	1,727
		173,790	164,221
Total Equity and Liabilities		**325,658**	3,284,541
Net current assets		**109,300**	69,116
Total assets less current liabilities		**151,868**	3,120,320

NOTES

1. CORPORATE INFORMATION

General information

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

Pursuant to a Special resolution passed at an Extraordinary General Meeting held on March 6, 2012, the name of the Company was changed from Rainbow Brothers Holdings Limited to Harmonic Strait Financial Holdings Limited.

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

The address of its principal place of business in Hong Kong is Unit B, 35/F, No. 169 Electric Road, North Point, Hong Kong and the Company has been registered as a non-Hong Kong company under Part XI of the Hong Kong Companies Ordinance on September 4, 2007.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange.

The consolidated financial statements have been prepared on the historical cost basis.

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

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

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

Amendments to HKFRS 7, Financial instruments: Disclosures

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

Amendments to HKAS 12, Income taxes

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

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

(b) Adoption of Going Concern basis

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

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

3. TURNOVER

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

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

4. OTHER REVENUE AND OTHER NET INCOME

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

5. SEGMENT REPORTING

(a) Segment Revenues and Results

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

Year ended December 31, 2012

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

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

Year ended December 31, 2011

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

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

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

6. FINANCE COSTS

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

The imputed interest expenses of HK$8,946,000 (2011: HK$19,293,000) for the year is in respect of the convertible bond issued by the Company on August 27, 2010. The Company does not have to pay any interest over the life of this convertible bond under the terms of its issuance. It has no real impact on the cash flow of the Group.

7. LOSS BEFORE TAXATION

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

	2012 *HK$'000*	2011 *HK$'000*
Auditor's remuneration	**900**	900
Cost of inventories	**147,067**	476,821
Depreciation	**7,741**	8,926
Loss on disposal of property, plant and equipment	**15**	368
Staff costs:		
— Salaries, wages and other benefits (including directors' emoluments)	**20,981**	46,456
— Contributions to defined contribution retirement plans	**1,923**	2,227
Operating lease charges on rented premises	**11,690**	12,518
Provision for guarantee contracts	**796**	2,652
Net exchange gain	**(229)**	(1,826)
Impairment loss on property, plant and equipment	**–**	2,648

8. INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

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

Hong Kong Profits Tax has been provided for at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits for the year. Taxation of subsidiaries in People's Republic of China and overseas are charged at the appropriate current rates of taxation ruling in the relevant countries.

9. DIVIDENDS

	Note	**2012**	2011
		HK$'000	*HK$'000*
No final dividend was paid (2011: 4 cents per ordinary share) in respect of the previous financial year	*15*	**–**	25,434

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

10. LOSS PER SHARE

(a) Basic loss per share

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

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

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

Total ordinary shares outstanding at December 31, 2012 was 1,491,850,000 shares (2011: 795,850,000 shares).

(b) Diluted earnings per share

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

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Moulds *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Cost						
At January 1, 2011	19,269	17,999	7,342	1,273	1,492	47,375
Additions	10,143	625	250	112	1,198	12,328
Impairment	(3,598)	–	–	–	–	(3,598)
Disposal	(2,934)	(150)	(1,927)	(94)	(1,393)	(6,498)
At December 31, 2011 and January 1, 2012	22,880	18,474	5,665	1,291	1,297	49,607
Additions	2,189	779	203	99	–	3,270
Disposal	–	–	–	–	(593)	(593)
At December 31, 2012	25,069	19,253	5,868	1,390	704	52,284
Accumulated depreciation						
At January 1, 2011	5,867	16,307	4,009	1,000	1,314	28,497
Charge for the year	6,298	797	1,318	102	411	8,926
Written back on impairment	(950)	–	–	–	–	(950)
Written back on disposal	(2,802)	(150)	(1,737)	(58)	(948)	(5,695)
At December 31, 2011 and January 1, 2012	8,413	16,954	3,590	1,044	777	30,778
Charge for the year	5,812	721	1,050	95	63	7,741
Written back on disposal	–	–	–	–	(198)	(198)
At December 31, 2012	14,225	17,675	4,640	1,139	642	38,321
Net book value						
At December 31, 2012	10,844	1,578	1,228	251	62	13,963
At December 31, 2011	14,467	1,520	2,075	247	520	18,829

12. GOODWILL

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

All goodwill arose as a result of acquisition of businesses.

Impairment tests for cash-generating units containing goodwill

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

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

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

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

The key assumptions for credit guarantee and investment business used, include: there will be no major change in the existing political, legal and economic conditions in the locations in which Market Season's Group is operating; there will be no major change in the current taxation law in the locations in which the business are operating, that the rates of tax payable by Market Season's Group regarding its business operations remain unchanged and that all applicable laws and regulations will be complied by Market Season's Group; the interest rates and exchange rates will not differ materially from those presently prevailing; Market Season's Group is free from any unsettled litigations; Market Season's Group shall have no legal impediment to obtain or renew all necessary permits and approvals to carry out its business; Market Season's Group shall secure and retain competent management, key personnel, marketing and technical staff to carry out and support its existing and planned businesses; the operating assets, management system and trading platform of Market Season's Group are in a good working condition and can perform efficiently accordingly to the purposes for which they were designed and built; the business forecast of Market Season's Group revealed is based on reasonable grounds, reflecting estimates which have been arrived at after due and careful consideration and the availability of finance will be in accordance with business plan and projection and other assumptions, etc. Based on the impairment tests performed, impairment loss of HK$3,004,007,000 is recognised for the year (2011: 247,522,000).

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

13. 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:

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

Trade receivables included HK$2,742,000 (2011: HK$7,267,000) which were past due at December 31, 2012. Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

(b) Impairment loss on trade receivables

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

Movements in the allowance for doubtful debts:

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

For the year ended December 31, 2012, no trade receivables of the Group were uncollectible and written off (2011: 250,000). None of trade receivables were individually determined to be impaired.

(c) Trade receivables denominated in other currency

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

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

14. SHARE CAPITAL

	The Group and the Company	
	Number of shares	**Amount**
	'000	*HK$'000*
Ordinary shares of HK$0.1 each		
Authorised:		
As at January 1, 2011, December 31, 2011 and December 31, 2012	5,000,000	500,000
Issued and fully paid:		
As at January 1, 2011	635,850	63,585
Issue of new shares upon conversion of convertible bond	160,000	16,000
As at December 31, 2011 and January 1, 2012	795,850	79,585
Issue of new shares upon conversion of convertible bond	696,000	69,600
As at December 31, 2012	1,491,850	149,185

(a) The Company has a share option scheme, under which the Company may grant options to any employee or director to subscribe for shares in the Company, up to a maximum of 10% of the issued share capital of the Company (absolute maximum number of share option: 795.85 million shares).

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

15. RESERVES

The Group

	Note	Share premium HK$'000	Translation reserve HK$'000	Capital reserve HK$'000	Convertible bond reserve HK$'000	Statutory reserve HK$'000	Retained profits/ (Accumulated losses) HK$'000	Total HK$'000
At January 1, 2011		528,305	4,841	(15,000)	1,105,658	–	17,510	1,641,314
Dividend paid	9	(25,434)	–	–	–	–	–	(25,434)
Issue of new share upon conversion of convertible bond		106,902	–	–	(122,902)	–	–	(16,000)
Transfer from convertible bond liability portion to equity portion		–	–	–	1,503,666	–	–	1,503,666
Deferred tax arising from convertible bond		–	–	–	3,152	–	–	3,152
Total comprehensive income/ (loss) for the year		–	7,591	–	–	–	(255,745)	(248,154)
At December 31, 2011 and at January 1, 2012		609,773	12,432	(15,000)	2,489,574	–	(238,235)	2,858,544
Issue of new share upon conversion of convertible bond		465,023	–	–	(534,623)	–	–	(69,600)
Transfer from convertible bond liability portion to equity portion		–	–	–	101,762	–	–	101,762
Deferred tax arising from convertible bond		–	–	–	1,476	–	–	1,476
Total comprehensive income/ (loss) for the year		–	10	–	–	–	(2,981,612)	(2,981,602)
Transfer to statutory reserve from retain profits		–	–	–	–	3,420	(3,420)	–
At December 31, 2012		**1,074,796**	**12,442**	**(15,000)**	**2,058,189**	**3,420**	**(3,223,267)**	**(89,420)**

(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) 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.

(v) 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.

16. CONVERTIBLE BOND

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

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

During the years ended 2011 and 2012, a majority convertible bond holder, Market Speed Limited covenanted by deeds with the Company that it will (1) convert all the Market Speed Limited convertible bond into fully-paid shares of the Company on or before the Maturity Date, subject to existing terms and conditions under which the Issued convertible bond was issued by the Company and approved by the Stock Exchange, and waive its right to demand repayment from the Company in respect of any Market Speed Limited convertible bond not so converted on the Maturity Date; and (2) procure all its future transferees, if any, of the Market Speed Limited convertible bond to observe and comply with this covenant. In accordingly, the (fair value) liability portion of the Market Speed Limited Remaining Convertible Bond was transferred to the equity portion.

	The Group and Company		
	Equity portion	**Liability portion**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At January 1, 2011	1,105,658	1,452,878	2,558,536
Imputed interest amortised charged to consolidated statement of comprehensive income	–	19,293	19,293
Transfer from convertible bond liability portion to equity portion	1,503,666	(1,317,225)	186,441
Conversion into new shares	(122,902)	–	(122,902)
Deferred tax arising from conversion of convertible bond	3,152	–	3,152
At December 31, 2011	2,489,574	154,946	2,644,520
Imputed interest amortised charged to consolidated statement of comprehensive income	–	8,946	8,946
Transfer from convertible bond liability portion to equity portion	101,762	(92,231)	9,531
Conversion into new shares	(534,623)	–	(534,623)
Deferred tax arising from convertible bond	1,476	–	1,476
At December 31, 2012	2,058,189	71,661	2,129,850

17. TRADE AND BILLS PAYABLE

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

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

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

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

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

18. FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

The Group, through, Harmonic Strait, has entered into contracts with banks in the PRC to guarantee non-group companies, under which, the maximum contingent liabilities that Harmonic Strait would take up is about HK$39 million (RMB31 million) (2011: HK$69 million (RMB59 million)).

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

As at December 31, 2012, except for those disclosed above, the Board of Directors was not aware of any possible material contingent liabilities.

19. EVENTS AFTER THE REPORTING PERIOD

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

BUSINESS REVIEW

— Credit guarantee and investment business

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

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

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

— **Other business units**

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

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

FINANCIAL REVIEW

For the year ended December 31, 2012 ("Current Year"), the Group's turnover was HK$270.3 million, representing a drop of 54.0% from HK$588.1 million for the year ended December 31, 2011 ("Prior Year"), due to reduced customer orders of the exporting business, consequential to our high staff turnover, difficult industry environment and dwindling bank support aroused at the end of 2011.

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

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

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

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

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

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

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

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

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

MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES

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

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

CONTINGENT LIABILITIES

The Group's contingent liabilities, if any, are set out in the note 18 to the consolidated financial statements.

HUMAN RESOURCES

As at December 31, 2012, the Group had 121 employees. It is the Group's policy to recruit the right person for each position based on the person's qualification and experience. The remuneration of each employee is reviewed every year based on the performance of the employee with reference to the prevailing market conditions.

FINAL DIVIDEND

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

OUTLOOK

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

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

For the year ended December 31, 2012, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the listed securities of the Company.

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 announcement, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

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

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

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

Under A.6.7 of New CG Code, independent non-executive directors and other non-executive directors should attend annual general meetings and develop a balanced understanding of the views of shareholders. Mr. Ko Ming Tung, Edward, non-executive director; and Mr. Cheung Wah Keung and Mr. Anthony Espina, independent non-executive directors, were unable to attend the annual general meeting of the Company held on May 6, 2012 as provided for in New CG Code A.6.7 as they had other business engagements.

SCOPE OF WORK OF CHENG AND CHENG LIMITED

The figures in respect of the Group's consolidated statement of financial positions, consolidated statement of comprehensive income, consolidated statement of changes in equity and the related notes thereto for the year ended December 31, 2012 as set out in the preliminary announcement have been agreed by the Group's auditor, Cheng and Cheng Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Cheng and Cheng Limited in this respect did not constitute an assurance engagement in accordance with the Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Cheng and Cheng Limited on the preliminary announcement.

EXTRACT OF INDEPENDENT AUDITORS' REPORT

The auditors of the Company included a section of "Emphasis of Matters" in their independent auditors' report, the details of which are as follows:

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

AUDIT COMMITTEE

The Audit Committee, comprising three Independent Non-executive Directors and two Non-executive Director of the Company, has been established by the Company to review and supervise the financial reporting process and internal control procedures of the Group. The Audit Committee has reviewed the Group's audited consolidated financial statements and results for the year ended December 31, 2012, including the accounting principles and practices adopted by the Group. The Audit Committee is satisfied that the audited consolidated financial statements have been prepared in accordance with the applicable accounting standards and fairly present the Group's financial position and results for the year ended December 31, 2012.

ANNUAL GENERAL MEETING

The annual general meeting of the Company for the year 2013 will be held on May 31, 2013. A notice convening this annual general meeting will be issued to the shareholders of the Company together with the 2012 Annual Report in due course, which will also be available on the Stock Exchange's website at www.hkexnews.hk and the website of the Company at www.harmonics33.com.

PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the Stock Exchange's website at www.hkexnews.hk and the website of the Company at www.harmonics33.com. The Company's 2012 Annual Report will be available at the same websites and will be dispatched to the Company's shareholders in due course.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises two executive directors, namely Mr. An Yu Xin and Mr. Tong Nai Kan; two non-executive director, Mr. Ko Ming Tung, Edward and Mr. Cheng Wai Lam, James; and three independent non-executive directors, namely Mr. Chan Cheuk Ming, Mr. Cheung Wah Keung and Mr. Anthony Espina.

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

Hong Kong, March 26, 2013