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, 2013

The board (the "Board") of directors (the "Directors") of Harmonic Strait Financial Holdings Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended December 31, 2013, together with the audited comparative figures of the corresponding period in 2012.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2013

	Note	2013 HK$'000	2012 HK$'000
Turnover	3 & 5	**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)
	6	**(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		**2,933**	–
Impairment loss on goodwill		**(26,375)**	(3,004,007)
Impairment loss on an other receivable		**(2,706)**	–
Loss before taxation	7	**(98,450)**	(2,966,579)
Income tax	8	**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)

	Note	2013 HK$'000	2012 HK$'000
Loss for the year attributable to:			
Equity shareholders of the Company		**(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			
— Basic	*10*	**(HK$0.06)**	(HK$2.73)
— Diluted		**N/A**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2013

	Note	2013 HK$'000	2012 HK$'000
Non-current assets			
Property, plant and equipment	*11*	**8,320**	13,963
Goodwill	*12*	**1,993**	28,368
Deferred taxation		**2,948**	237
		13,261	42,568
Current assets			
Inventories		**19,140**	18,478
Trade receivables	*13*	**28,742**	19,895
Prepayments, deposits and other receivables		**46,138**	43,463
Restricted cash		**12,713**	41,931
Cash and cash equivalents		**135,311**	159,323
		242,044	283,090
Total Assets		**255,305**	325,658

	Note	2013 HK$'000	2012 HK$'000
Capital and reserves			
Share capital	*14*	**178,785**	149,185
Reserves	*15*	**(212,381)**	(89,420)
Equity attributable to shareholders of the Company		**(33,596)**	59,765
Non-controlling interests		**17,823**	20,442
Total Equity		**(15,773)**	80,207
Non-current liabilities			
Convertible bond	*16*	**81,853**	71,661
Current liabilities			
Amount due to a director		**225**	11,498
Trade and bills payable	*17*	**9,716**	10,215
Accruals and other payables		**173,307**	133,887
Bank borrowings — secured		**4,953**	8,240
Tax payable		**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

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 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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities ("Listing Rules") 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, 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.

(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.

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 ***HK$'000***	2012 *HK$'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 *HK$'000*	2012 *HK$'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. SEGMENT REPORTING

Segment Revenues and Results

The disclosure and allocation basis among operating segments were varied from previous years because the segments of hotel business and the financial planning services business have contributed 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
Interest revenue					1,519
Other income					3,624
Unallocated corporate expenses					(2,147)
Interest expenses					(20,728)
Impairment loss on goodwill					(3,004,007)
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 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

	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.

7. LOSS BEFORE TAXATION

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

	2013	2012
	HK$'000	*HK$'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**	–

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

The amount of taxation charged 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

Hong Kong Profits Tax has been provided for at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits for the year. Taxation of subsidiaries in PRC and overseas are charged at the appropriate current rates of taxation ruling in the relevant countries.

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. 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, 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

12. GOODWILL

	2013 ***HK$'000***	2012 *HK$'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%

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:

	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

14. SHARE CAPITAL

	Number of shares *'000*	Amount *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.

15. RESERVES

	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)**

(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.

(vi) Distributability of reserves

At December 31, 2013, no reserves was available for distribution to equity shareholders of the Company (2012: Nil).

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 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.

	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

17. 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

18. 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.

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 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 their 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-direction 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 (December 31, 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 "Liquidity and Financial Resources" section above.

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.

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.

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.

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.

SCOPE OF WORK OF CHENG AND CHENG LIMITED

The figures in respect of the Group's consolidated statement of financial positions, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the related notes thereto for the year ended December 31, 2013 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 statement 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), indicate 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 one 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, 2013, 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 consolidated financial position and consolidated results for the year ended December 31, 2013.

ANNUAL GENERAL MEETING

The annual general meeting of the Company for the year 2014 will be held on May 16, 2014. A notice convening this annual general meeting will be issued to the shareholders of the Company together with the 2013 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 2013 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 three executive directors, namely Mr. Lo Siu Leung, Mr. Tong Nai Kan and Mr. Zhao Tieliu; one non-executive director, Mr. Ko Ming Tung, Edward; and three independent non-executive directors, namely Mr. Cheung Wah Keung, Mr. Anthony Espina and Mr. Cheng Wai Lam, James.

By Order of the Board of
Harmonic Strait Financial Holdings Limited
Lo Siu Leung
Director

Hong Kong, March 28, 2014