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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, 2014

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, 2014, together with the comparative figures of the corresponding period in 2013.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2014

	<i>Note</i>	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i> (Restated)
Continuing operations			
Turnover	3 & 5	130,365	144,829
Cost of sales		(115,009)	(132,700)
Gross profit		15,356	12,129
Other revenue and other net income	4	4,197	1,418
Operating expenses		(23,329)	(31,939)
Loss from operations		(3,776)	(18,392)
Finance costs			
On bank borrowings		(48)	(140)
Other loan advances		(50,311)	(38,151)
Notional interest		(11,641)	(10,192)
	6	(62,000)	(48,483)
Loss before impairment and taxation		(65,776)	(66,875)
Impairment loss on goodwill		–	(26,375)
Impairment loss on other receivables	22	(13,618)	(2,706)
Loss before taxation	7	(79,394)	(95,956)
Income tax (expense)/credit	8	(223)	8
Loss from continuing operations for the year		(79,617)	(95,948)
Discontinued operations			
Profit/(Loss) from discontinued operations	11	2,070	(1,477)
Loss for the year		(77,547)	(97,425)

	<i>Note</i>	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i> (Restated)
Other comprehensive income for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		<u>(2,284)</u>	<u>1,793</u>
Total comprehensive loss for the year		<u>(79,831)</u>	<u>(95,632)</u>
Loss for the year attributable to:			
Equity shareholders of the Company		<u>(75,131)</u>	<u>(96,663)</u>
Non-controlling interests		<u>(2,416)</u>	<u>(762)</u>
		<u>(77,547)</u>	<u>(97,425)</u>
Total comprehensive loss for the year attributable to:			
Equity shareholders of the Company	<i>16</i>	<u>(78,199)</u>	<u>(95,048)</u>
Non-controlling interests		<u>(1,632)</u>	<u>(584)</u>
		<u>(79,831)</u>	<u>(95,632)</u>
Dividends	<i>9</i>	N/A	N/A
Loss per share			
— Basic	<i>10</i>	<u>HK3.27 cents</u>	<u>HK5.82 cents</u>
— Diluted		<u>N/A</u>	<u>N/A</u>
Loss per share — continuing operations			
— Basic		<u>HK3.46 cents</u>	<u>HK5.78 cents</u>
— Diluted		<u>N/A</u>	<u>N/A</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2014

	<i>Note</i>	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	<i>12</i>	2,871	8,320
Goodwill	<i>13</i>	1,993	1,993
Deferred taxation		–	2,948
		4,864	13,261
Current assets			
Inventories		10,124	19,140
Trade receivables	<i>14</i>	18,537	28,742
Prepayments, deposits and other receivables	<i>20</i>	136,880	46,138
Tax recoverable		189	–
Restricted cash		–	12,713
Cash and cash equivalents		55,143	135,311
		220,873	242,044
Total Assets		225,737	255,305

	<i>Note</i>	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Capital and reserves			
Share capital	<i>15</i>	299,240	178,785
Reserves	<i>16</i>	(340,414)	(212,381)
		<hr/>	<hr/>
Equity attributable to shareholders of the Company		(41,174)	(33,596)
Non-controlling interests		16,191	17,823
		<hr/>	<hr/>
Total Equity		(24,983)	(15,773)
		<hr/>	<hr/>
Non-current liabilities			
Convertible bond	<i>17</i>	–	81,853
Deferred Taxation		1,433	–
		<hr/>	<hr/>
		1,433	81,853
		<hr/>	<hr/>
Current liabilities			
Amount due to directors		2,594	225
Trade and bills payable	<i>18</i>	6,845	9,716
Accruals and other payables	<i>21</i>	145,229	173,307
Bank borrowings — secured		1,125	4,953
Tax payable		–	1,024
Convertible bond	<i>17</i>	93,494	–
		<hr/>	<hr/>
		249,287	189,225
		<hr/>	<hr/>
Total Equity and Liabilities		225,737	255,305
		<hr/> <hr/>	<hr/> <hr/>
Net current (liabilities)/assets		(28,414)	52,819
Total assets less current liabilities		(23,550)	66,080

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”), and the trading business.

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

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and accounting principles generally accepted in Hong Kong. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange and the disclosure requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Group is set out below.

The 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, 2014

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, 2014:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC)-Int 21	Levies

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 HKFRS 10, HKFRS 12 and HKAS 27 “Investment Entities”

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss.

Amendments to HKAS 32 “Offsetting financial assets and financial liabilities”

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32.

Amendments to HKAS 36 “Recoverable amount disclosures for non-financial assets”

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or CGU whose recoverable amount is based on fair value less costs of disposal.

Amendments to HKAS 39 “Novation of derivatives and continuation of hedge accounting”

The amendments to HKAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.

HK(IFRIC)-Int 21 “Levies”

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised.

New Hong Kong Companies Ordinance provisions relating to the preparation of financial statements

The Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of the impact of these changes.

Amendments and interpretations mentioned above are not expected to have a material effect on the group’s operating results, financial position or comprehensive income.

(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 convertible bond-liability portion of HK\$93,494,506 which will be matured in August 2015 and negative net asset value of HK\$24,982,681 as at December 31, 2014. In addition, Group has a loan of HK\$127,532,893, which 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 (1) a placing agreement was entered between the Company and the placing agent although it was subject to the conditions precedent and the market conditions; (2) a director provided guarantee to the lender regarding the loan of the abovesaid HK\$127,532,893 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. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i> (Restated)
Continuing operations		
Credit guarantee service and investment income	3,540	3,181
Sales of goods — party product	98,889	141,648
Sales of goods — metal and minerals	27,936	—
	<u>130,365</u>	<u>144,829</u>
Discontinued operations		
Insurance brokerage commission income	7,657	12,522
Provision of hotel accommodation service	10,896	16,643
	<u>18,553</u>	<u>29,165</u>
Total	<u>148,918</u>	<u>173,994</u>

4. OTHER REVENUE AND OTHER NET INCOME

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i> (Restated)
Continuing operations		
Other revenue		
Total interest income on financial assets not at fair value through profit or loss	2,819	1,681
Sundry income	1,297	385
	<u>4,116</u>	<u>2,066</u>
Other net income/(expense)		
Net exchange gain/(loss)	81	(648)
	<u>4,197</u>	<u>1,418</u>

5. SEGMENT REPORTING

Segment Revenues and Results

The disclosure and allocation basis among operating segments were varied from previous year because the segments of hotel business and the financial planning services business were disposed of during the year and the development of trading of metal and minerals becomes significant, 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, 2014

	Continuing operations					Total HK\$'000
	Credit guarantee and investment business HK\$'000	Trading of party products HK\$'000	Trading of metal and minerals HK\$'000	Sub-total HK\$'000	Discontinued operations HK\$'000	
Revenue						
External sales	<u>3,540</u>	<u>98,889</u>	<u>27,936</u>	<u>130,365</u>	<u>18,553</u>	<u>148,918</u>
Capital expenditure of PPE	<u>-</u>	<u>83</u>	<u>-</u>	<u>83</u>	<u>234</u>	<u>317</u>
Depreciation	<u>143</u>	<u>936</u>	<u>230</u>	<u>1,309</u>	<u>2,057</u>	<u>3,366</u>
Result						
Segment results	<u>(4,399)</u>	<u>3,297</u>	<u>(1,035)</u>	(2,137)	(861)	(2,998)
Interest revenue				2,819	1	2,820
Other income				1,378	180	1,558
Unallocated corporate expenses				(5,836)	(685)	(6,521)
Interest expenses				(62,000)	(45)	(62,045)
Impairment loss on goodwill				-	-	-
Impairment loss on other receivables				<u>(13,618)</u>	<u>-</u>	<u>(13,618)</u>
Loss before taxation				<u>(79,394)</u>	<u>(1,410)</u>	<u>(80,804)</u>
Income tax				<u>(223)</u>	<u>-</u>	<u>(223)</u>
Loss for the year				<u>(79,617)</u>	<u>(1,410)</u>	<u>(81,027)</u>

Two customers of the amounts to HK\$38,067,000 and HK\$23,917,000 respectively from trading of the party products business, and one customer was HK\$27,936,000 from trading of metal and mineral's trading business contributed over 10% of the total sales of the Group.

Year ended December 31, 2013 (Restated)

	Continuing operations					Total HK\$'000
	Credit guarantee and investment business HK\$'000	Trading of party products HK\$'000	Trading of metal and minerals HK\$'000	Sub-total HK\$'000	Discontinued operations HK\$'000	
Revenue						
External sales	3,181	141,648	–	144,829	29,165	173,994
Capital expenditure of PPE	474	1,004	–	1,478	1,498	2,976
Depreciation	126	1,181	–	1,307	7,179	8,486
Result						
Segment results	(14,805)	(331)	–	(15,136)	(5,392)	(20,528)
Interest revenue				1,681	1	1,682
Other income/(loss)				(262)	651	389
Unallocated corporate expenses				(4,675)	(77)	(4,752)
Interest expenses				(48,483)	(134)	(48,617)
Impairment loss on goodwill				(26,375)	–	(26,375)
Impairment loss on an other receivable				(2,706)	–	(2,706)
Loss before taxation				(95,956)	(4,951)	(100,907)
Income tax				8	1,017	1,025
Loss for the year				(95,948)	(3,934)	(99,882)

Only one customer from the trading of party products business contributing over 10% of the total sales of the Group. The amount was HK\$93,347,000.

Geographic information

	2014 HK\$'000	2013 HK\$'000
Continuing operations		
Hong Kong	98,889	141,648
Mainland China	31,476	3,181
	130,365	144,829
Discontinued operations		
Hong Kong	7,657	12,522
Mainland China	10,896	16,643
	18,553	29,165
Total	148,918	173,994

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

6. FINANCE COSTS

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i> (Restated)
Continuing operations		
Interest expenses on bank borrowings wholly repayable within five years	48	140
Interest expenses on loan advances	50,311	38,151
Imputed interest expenses on convertible bond	11,641	10,192
	<u> </u>	<u> </u>
Total interest expenses on financial liabilities not at fair value through profit or loss	62,000	48,483
	<u> </u>	<u> </u>

The imputed interest expenses of HK\$11,641,000 (2013: HK\$10,192,000) for the year is related to 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:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i> (Restated)
Continuing operations		
Auditor's remuneration	900	674
Cost of inventories included in cost of sales	87,514	131,942
Depreciation	1,310	1,307
Loss on disposal of property, plant and equipment	73	–
Staff costs:		
— Salaries, wages and other benefits (including directors' emoluments)	11,458	17,096
— Contributions to defined contribution retirement plans	1,020	2,114
Operating lease charges on rented premises	5,191	4,758
Decrease in provision for guarantee contracts	(198)	(941)
Net exchange gain	(81)	(648)
Impairment loss on other receivables	13,618	2,706
Gain on disposal of subsidiaries	3,480	2,933

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

The amount of taxation for the continuing operations charged to the consolidated statement of profit or loss and other comprehensive income represents:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i> (Restated)
Hong Kong Profits Tax		
Provision for the year	(280)	–
Deferred tax		
Reversal/(recognition) of temporary differences	<u>57</u>	<u>(8)</u>
	<u>(223)</u>	<u>(8)</u>

Hong Kong Profits Tax has been provided for at the rate of 16.5% (2013: 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, 2014. No dividend was paid during the year (2013: 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.

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i> (Restated)
Loss attributable to equity shareholders		
— continuing operations	(77,201)	(95,186)
Profit/(loss) attributable to equity shareholders		
— discontinuing operations	<u>2,070</u>	<u>(1,477)</u>
Loss attributable to equity shareholders	<u>(75,131)</u>	<u>(96,663)</u>
	2014 <i>'000 shares</i>	2013 <i>'000 shares</i>
Weighted average number of ordinary shares		
At the beginning of the year	1,787,850	1,491,850
Effect of conversion of convertible bond	172,614	168,044
Effect of issuance of share through subscriptions	<u>338,630</u>	<u>–</u>
At the end of the year	<u>2,299,094</u>	<u>1,659,894</u>

Total ordinary shares outstanding at December 31, 2014 was 2,992,400,000 shares (2013: 1,787,850,000 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. DISCONTINUED OPERATIONS

During the year ended December 31, 2014 the Group disposed of its hotel business segment and financial planner services business segment

The results of discontinued segments

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i> (Restated)
Revenue	18,734	29,817
Expenses	(20,144)	(34,768)
Result from discontinued operations, net of tax	(1,410)	(4,951)
Income tax credit	–	1,017
Result from discontinued operations, net of tax	(1,410)	(3,934)
Gain on disposal of subsidiaries	3,480	2,457
Profit/(Loss) for the period from discontinued operations	<u>2,070</u>	<u>(1,477)</u>

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Moulds <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost						
At 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 and January 1, 2014	<u>26,087</u>	<u>19,393</u>	<u>6,336</u>	<u>1,475</u>	<u>1,812</u>	<u>55,103</u>
Additions	192	46	76	3	–	317
Disposal	(23,293)	(2,845)	(3,459)	–	(1,149)	(30,746)
At December 31, 2014	<u>2,986</u>	<u>16,594</u>	<u>2,953</u>	<u>1,478</u>	<u>663</u>	<u>24,674</u>
Accumulated depreciation						
At 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 and January 1, 2014	<u>21,116</u>	<u>18,200</u>	<u>5,450</u>	<u>1,234</u>	<u>783</u>	<u>46,783</u>
Charge for the year	2,355	453	271	94	193	3,366
Written back on disposal	(21,390)	(2,796)	(3,350)	–	(810)	(28,346)
At December 31, 2014	<u>2,081</u>	<u>15,857</u>	<u>2,371</u>	<u>1,328</u>	<u>166</u>	<u>21,803</u>
Net book values						
At December 31, 2014	<u><u>905</u></u>	<u><u>737</u></u>	<u><u>582</u></u>	<u><u>150</u></u>	<u><u>497</u></u>	<u><u>2,871</u></u>
At December 31, 2013	<u><u>4,971</u></u>	<u><u>1,193</u></u>	<u><u>886</u></u>	<u><u>241</u></u>	<u><u>1,029</u></u>	<u><u>8,320</u></u>

13. GOODWILL

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
At the beginning of the year	1,993	28,368
Impairment during the year	–	(26,375)
At the end of the year	<u><u>1,993</u></u>	<u><u>1,993</u></u>

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:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Credit guarantee business and investment business	<u>1,993</u>	<u>1,993</u>
	<u>1,993</u>	<u>1,993</u>

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 (2013: Nil).

	2014	2013
Gross margin	N/A	N/A
Growth rate	N/A	N/A
Discount rate	12%	12%

14. 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:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Within 30 days	9,681	7,342
31 to 60 days	4,018	6,731
61 to 90 days	976	7,360
Over 90 days	<u>3,862</u>	<u>7,309</u>
	<u>18,537</u>	<u>28,742</u>

Trade receivables included HK\$3,862,594 (2013: HK\$7,309,000) which were past due at December 31, 2014. 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, 2014, no trade receivables of the Group were uncollectible and written off (2013: 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 of the respective operating entities.

	2014 '000	2013 '000
USD	63	43
RMB	1,854	–

15. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.1 each		
Authorised:		
As at January 1, 2013, December 31, 2013 and December 31, 2014	<u>5,000,000</u>	<u>500,000</u>
Issued and fully paid:		
As at January 1, 2013	1,491,850	149,185
Issue of new shares upon conversion of convertible bond	<u>296,000</u>	<u>29,600</u>
As at December 31, 2013 and January 1, 2014	1,787,850	178,785
Issue of new shares upon conversion of convertible bond	517,550	51,755
Issue of new shares through subscription	<u>687,000</u>	<u>68,700</u>
As at December 31, 2014	<u><u>2,992,400</u></u>	<u><u>299,240</u></u>

(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: 178,785,000 shares). No share option was granted during the year.

(b) During the year, convertible bond with principal amount of HK\$646,937,500 were converted into 517,550,000 ordinary shares of the Company of HK\$0.1 each at a conversion price of HK\$1.25 each.

- (c) 230,000,000 and 100,000,000 ordinary shares of the Company were subscribed at the subscription price of HK\$0.1 per shares on May 30, 2014 and June 9, 2014 respectively pursuant to an ordinary resolution passed at the Company's annual general meeting on May 31, 2013. Further 357,000,000 ordinary shares of the Company were subscribed at the subscription price of HK\$0.1 per share on August 4, 2014 pursuant to the ordinary resolution passed at the Company's annual general meeting on May 16, 2014.

16. 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
<i>Note</i>							
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 and at January 1, 2014	1,276,596	14,057	(15,000)	1,828,475	3,420	(3,319,929)	(212,381)
Reclassification of the equity portion of convertible bond reserve to share premium	<i>a</i> 591,087	-	-	(591,087)	-	-	-
Issue of new share upon conversion of convertible bond	614,706	-	-	(666,461)	-	-	(51,755)
Deferred tax arising from convertible bond	-	-	-	1,921	-	-	1,921
Total comprehensive income/(loss) for the year	-	(3,068)	-	-	-	(75,131)	(78,199)
At December 31, 2014	<u>2,482,389</u>	<u>10,989</u>	<u>(15,000)</u>	<u>572,848</u>	<u>3,420</u>	<u>(3,395,060)</u>	<u>(340,414)</u>

Note a The reclassification from equity portion to share premium was the result from convertible bonds converted in previous years, those conversions did not affected the liability portion, and the reclassification was made between the convertible bond reserves and share premium within equity.

(i) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the Companies Law of the Cayman Islands, the funds in share premium account are distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Translation reserve

Translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operation.

(iii) Capital reserve

Capital reserve of the Group represents the difference between the nominal values of the ordinary shares issued by the Company and the share capital of Silver Pattern Limited acquired through the share swap pursuant to the Reorganisation.

(iv) Contributed surplus

Contributed surplus represents the excess of the fair value of the shares of Silver Pattern Limited determined on the basis of the consolidated net assets of Silver Pattern Limited at the due of the Reorganisation over the normal value of the shares issued by the Company in exchange thereof.

(v) Convertible bond reserve

The convertible bond reserve represents the unexercised equity component of the convertible bond issued by the Company recognised in accordance with the accounting policy adopted for convertible bond.

(vi) Statutory reserve

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

(vii) Distributability of reserves

At December 31, 2014, no reserves was available for distribution to equity shareholders of the Company (2013: Nil).

17. 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 (Note 16).

	The Group and Company Liability portion
	<i>HK\$'000</i>
At January 1, 2013	71,661
Imputed interest amortised	<u>10,192</u>
At December 31, 2013	81,853
Imputed interest amortised	<u>11,641</u>
At December 31, 2014	<u><u>93,494</u></u>

The convertible bonds will be matured in August, 2015 and its whole liability portion was reclassified to current liability.

As at the end of the reporting period, the face value of the outstanding convertible bond of the Company was HK\$612,000,000 including the amount of HK\$510,000,000 being waived its right to demand for repayment.

18. TRADE AND BILLS PAYABLE

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

	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	3,420	7,661
31 to 60 days	2,926	1,635
61 to 90 days	344	420
Over 90 days	155	–
	<u>6,845</u>	<u>9,716</u>

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 of the respective operating entities:

	2014 '000	2013 '000
RMB	1,319	2,644

19. FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

At the end of the reporting period Harmonic Strait Financing Guarantee Co., Ltd (“Harmonic Strait”) had not provided guarantees to its customers during the year (2013: HK\$12.7 million) in return of service income as its ordinary business.

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, 2014, except for those disclosed above, the Board was not aware of any possible material contingent liabilities.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2014 HK\$'000	2013 HK\$'000
Trade deposits and other receivables (<i>Note</i>)	134,912	38,628
Prepayments	82	504
Rental, utility and sundry deposits	1,490	2,979
Staff advances	396	4,027
	<u>136,880</u>	<u>46,138</u>

Note The balance includes a trade deposit HK\$25,800,000 for purchase of metal and minerals product, entrusted loan HK\$75,960,000 and an advance to a related company of HK\$31,493,000.

21. ACCRUALS AND OTHER PAYABLES

The carrying amounts of accruals and other payables at the end of the reporting period approximated their fair values. It included (1) the other short-term loans amounted HK\$127.5 million bear interest at 3% per month, (2) another loan which principal amounted HK\$3,000,000 bear interest 12% per annum. All of the accruals and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

22. IMPAIRMENT LOSS ON OTHER RECEIVABLES

The amounts are the impairments on an other receivable related to a default of guarantee contract, HK\$10,078,000 and an advance for the development of an investment project HK\$3,540,000, as they were considered not be recovered.

23. MATERIAL RELATED PARTY TRANSACTIONS

Financing arrangements:

	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Advance to a related company	<u>31,493</u>	<u>–</u>

The advance to a related company is included in “Prepayments, deposits and other receivables” (note 20).

The related company has the common directors with the subsidiaries of the Group after the Group acquired the 55% of the ownership of the related company. As at the end of the reporting period, the related company was not treated as a subsidiary of the Group because the Group had not obtained control of the subsidiary, and the transfer of the ownership documents was not completed. The amount as shown in above was then presented as the current account with the related company.

BUSINESS REVIEW

For the year ended December 31, 2014 (“Current Year), the credit guarantee and investment business was threaten by the deteriorated business environments and the increased inherent default risk of the overall market, one of its guarantee contract was defaulted and led to an impairment loss of \$10 million (RMB8 million), and it was operated in a very conservative manner to cope with it. During the Current Year, the group has simplified its structure to control the cost and developing the trading of metal and minerals and providing entrusted loan to its customers to enlarge its income. For the trading business of party products, it struggled to cope with the rapid change unfavorable business environment including the intense market competition and very limited banking facilities.

During the Current Year, the Group disposed of its hotel business at a consideration of HK\$8.1 million and recorded an accounting gain on the disposal of approximately HK\$0.7 million from the disposal, being the difference between the consideration and the net asset value of the disposed assets recorded in the Group’s accounts at the completion. Given the weak performance of the hotel business the development plan of a chain of concept hotels has been abandoned.

During the Current Year, the Group also disposed of its financial planning services business at a consideration of HK\$5 million and recorded an accounting gain of approximately HK\$1.3 million from the disposal, being the difference between the consideration and the net asset value of the disposed assets recorded in the Group’s accounts at the completion. The financial planning services business recorded loss in the past few years. The Directors considered that the disposals of these two business segments provide good opportunities for the Group to realize the fixed and intangible assets into cash and improve the financial position of the Group.

FINANCIAL REVIEW

For the Current Year, the Group’s turnover was HK\$130.4 million, representing a drop of 9.9% from HK\$144.8 (restated) million for the year ended December 31, 2013 (“Prior Year”), due to the reduction of customer orders of trading of party products business because of various unfavourable operating conditions aroused from previous years.

Gross profit during Current Year was HK\$15.4 million, representing an increase of 27.3% from HK\$12.1 million (restated) for the Prior Year. In terms of gross profit margin, the relevant figure for the Current Year was 11.8%, representing a increase of 3.4% from 8.4% for Prior Year. The increase in both gross profit and gross profit margin were mainly due to improvement of operation efficient of trading of party products business.

Other revenue was HK\$4.2 million in the Current Year, which increased from the HK\$1.4 million (restated) of the Prior Year. For operating expenses, the relevant figure for the Current Year was HK\$23.3 million, representing a decrease of 27.0% from HK\$31.9 million (restated) for the Prior Year as the effective cost control in matching with the conservative operations.

Finance cost during the Current Year was HK\$62.0 million which increased from HK\$48.5 million of the Prior Year. Such increase was mainly attributable to the compound effect of interest accrued.

In this year, the Group has impaired other receivable amounting to HK\$13.7 million (2013: HK\$2.7 million), which mainly related to defaulted guarantee contract and an advance for development of an investment project of the credit guarantee and investment business.

LIQUIDITY AND FINANCIAL RESOURCES

As at December 31, 2014, net current liabilities were HK\$28.4 million (2013: net current assets HK\$52.8 million). Current ratio as at December 31, 2014 was 0.89 (2013: 1.28). The decrease in current asset was mainly due to the combined effect of impairment loss made to the other receivable and the decrease of trade receivable and the inventory of the trading of party products during the current Year. The decrease of current ratio was due to the liability portion of the Convertible bond reclassified to the current liability as it will be matured at the August, 2015. The gearing ratio, total bank borrowings divided by total assets at the end of each period, was 0.5% as at December 31, 2014, representing a decrease of 1.4% from 1.9% as at December 31, 2013; the decrease is due to the repayment of bank loan.

As at December 31, 2014, the Group had cash and bank balances of HK\$55.1 million without any restricted cash (2013: HK\$148.0 million including restricted cash of HK\$12.7 million) which was mainly denominated in Renminbi (“RMB”), HK dollars and US dollars, and bank borrowings of HK\$1.1 million (2013: HK\$5.0 million) was denominated in HK dollar only. The bank borrowings bore floating interest rates.

As at December 31, 2014, the face value of the outstanding convertible bond of the Company was HK\$612,000,000 (2013: HK\$1,258,937,500) including amount of HK\$510,000,000 (2013: HK\$1,156,937,500) being waived its right to demand for repayment.

As at December 31, 2014, the Group had prepayments, deposits and other receivables of HK\$136.9 million which represents an increase of HK\$90.8 million (226.5%) as at December 31, 2013. The increase was mainly attributable to HK\$107.1 million (RMB85 million) (2013: HK\$12.7 million (RMB10 million) entrusted loan made by the credit guarantee and investment business to its customers and HK\$57.4 (RMB45.6 million) prepayment was made for the trade and development of trading of metal and mineral business

The Company has provided corporate guarantees to secure banking facilities granted to its subsidiaries. At December 31, 2014, the bank loan drawn down by the Group amounted to approximately HK\$1.1 million (2013: HK\$5.0 million). At the end of the reporting period Harmonic Strait Financing Guarantee Co., Ltd (“Harmonic Strait”) had not provided guarantees to its customers (2013: HK\$12.7 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\$127.5 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, 2014, the Group had no material capital commitments (2013: Nil) or investment commitments. The operating lease commitment for the Group as at December 31, 2014 was around HK\$2.9 million (2013: HK\$8.0 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, 2014, the Group has disposed the entire hotel business segment and the provision of financial planning services segment at a consideration of HK\$8.1 million and HK\$5.0 million respectively.

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, 2014.

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, 2014, the Group had 31 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

Currently, the Group was operated in a very conservative manner to cope with the challenging economic condition of China in recent years. However, the management is still confident to the future of the China market and tries to finance the Company by different ways. As disclosed in the announcement dated February 24, 2015 and the circular to shareholders dated March 25, 2015, the Company has entered into the agreement with a placing agent to raise up to HK\$400.0 million by issuing new shares and its result is subjected to the conditions precedent being satisfied or waived and market conditions. The directors are of the view that with strength financial positions, it would allow the company to capture any opportunities, reduce the finance cost of the Company and redeem convertible bonds which will be matured soon. In order to expand the source of income and prospects of the Company, the management will develop its existing financing platform to widen the scope of the provision of financial services and be actively seeking for any possible investment opportunities.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

For the year ended December 31, 2014, 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, 2014, 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.

Code provision A.6.7 of the Code requires that independent non-executive directors and other non-executive directors shall attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Anthony Espina, being the independent non-executive director, did not attend the Company's annual general meeting held on May 16, 2014 due to his prior engagement.

Under code provision E.1.2 of the Corporate Governance Code, the chairman of the audit committee should be available to answer questions at the annual general meeting of the Company. Due to prior engagement, the chairman of the audit committee was unable to attend the annual general meeting of the Company held on May 16, 2014 in person, but he has already delegated to one of the independent non-executive directors of the Company on his behalf to answer questions at the annual general meeting of the Company.

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, 2014 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

Without qualifying our opinion, we draw attention to note 2(b) in the consolidated financial statements in relation to the negative net asset value of HK\$24,983,000 as at December 31, 2014 which includes a convertible bond-liability portion of HK\$93,494,506 which will be mature in August 2015 and the loan and interest payable of HK\$127,532,893 included under "Other short-term loan". These, along with other matters as set forth in note 2(b), indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

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, 2014, 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, 2014.

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 2014 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 four executive directors, namely Mr. Lo Siu Leung, Mr. Tong Nai Kan, Mr. Wong Kwong Sum 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
Tong Nai Kan
Director

Hong Kong, March 30, 2015