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RAINBOW BROTHERS HOLDINGS LIMITED
十友控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 33)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED JUNE 30, 2011

The Board of Rainbow Brothers Holdings Limited (the “Company”) announces the unaudited interim results of the Company and its subsidiaries for the six months ended June 30, 2011. This announcement, containing the full text of the Interim Report 2011 of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of the interim results. Printed version of the Company’s Interim Report 2011 has been authorized to be sent to the shareholders of the Company on August 30, 2011.

By order of the Board of
Rainbow Brothers Holdings Limited
Wong Sai Ming
Executive Director

Hong Kong, August 30, 2011

As at the date of this announcement, the Board comprises three executive directors, namely Mr. An Yu Xin, Mr. Wong Sai Ming and Ms. Sun Pei Ying; one non-executive director, Mr. Ko Ming Tung, Edward; and three independent non-executive directors, namely Mr. Chan Cheuk Ming, Mr. Cheung Wah Keung and Mr. Anthony Espina.

* *For identification purpose only*

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



CORPORATE INFORMATION

Board of Directors

Executive Directors

An Yu Xin (*appointed on January 10, 2011*)

Wong Sai Ming

Sun Pei Ying (*appointed on January 14, 2011*)

Non-executive Director

Ko Ming Tung, Edward (*appointed on May 9, 2011*)

Independent Non-executive Directors

Chan Cheuk Ming (*Non-executive Chairman*)

Cheung Wah Keung

Anthony Espina

Executive Committee

An Yu Xin (*appointed on January 10, 2011*)

Wong Sai Ming

Sun Pei Ying (*appointed on January 14, 2011*)

Audit Committee

Anthony Espina (*Chairman*)

Cheung Wah Keung

Chan Cheuk Ming

Ko Ming Tung, Edward (*appointed on May 9, 2011*)

Remuneration Committee

Cheung Wah Keung (*Chairman*)

Anthony Espina

Chan Cheuk Ming

Ko Ming Tung, Edward (*appointed on May 9, 2011*)

Authorised Representatives

Wong Sai Ming (*appointed on July 6, 2011*)

Wu Kwok Choi, Chris (*appointed on January 10, 2011*)

Company Secretary

Wu Kwok Choi, Chris

Principal Place of Business in Hong Kong

29/F Paul Y Centre

51 Hung To Road

Kwun Tong

Hong Kong

Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Cayman) Limited

Butterfield House

68 Fort Street

P.O. Box 609

Grand Cayman, KY1-1107

Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited

26th Floor, Tesbury Centre

28 Queen's Road East

Wanchai, Hong Kong

Principal Bankers

Hang Seng Bank Limited

The Hongkong and Shanghai Banking Corporation Limited

The Bank of East Asia, Limited

Auditor

Cheng & Cheng Limited

Certified Public Accountants

10/F., Allied Kajima Building

138 Gloucester Road, Wanchai

Hong Kong

Stock Code

33 (Listed on the Main Board of The Stock Exchange of Hong Kong Limited)

Website

www.rainbowbrothers.com

MANAGEMENT DISCUSSION AND ANALYSIS

(All figures are approximates)

BUSINESS REVIEW

The Group had a fair development in the different businesses over the six months ended June 30, 2011 (the “Current Half Year”). Export business recorded an increase in revenue by 26.2% due mainly to the hardship of our staff team and our sales agent. Credit guarantee business was a new business compared with the six months ended June 30, 2010 (the “Previous Half Year”) and recorded revenue of HK\$2.1 million and segmental loss of HK\$4.4 million. Other businesses of the Group remain relatively small in terms of both capital investment and contribution to the top line and bottom line.

The Group has recovered all our HK\$23 million investment in a joint venture company made in February, 2010 with a handsome return of HK\$8.4 million as dividend income.

During the Current Half Year, the Group did not have any material acquisition and disposal of subsidiaries and associated companies.

During the Current Half Year, the Group has had various important events and most of them had been disclosed by way of announcements. For details, please see the websites of the Hong Kong Exchange and Clearing Limited and the Company. Out of all important events, on April 1, 2011, Market Speed Limited covenanted by deed with the Company that it will (1) convert all the Market Speed Limited remaining convertible bond of HK\$2,447 million into fully-paid shares of the Company on or before the maturity date on August 26, 2015, subject to existing terms and conditions, and waive its right to demand repayment from the Company in respect of any convertible bond not so converted on the maturity date; and (2) procure all its future transferees, if any, to observe and comply with this covenant. Therefore, our company was not required to make notional interest expenses on such amount of outstanding convertible bond for this interim reporting period as well as in the future. Besides, announcements were made regarding Harmonic Strait, a 90%-owned subsidiary of the Group, on a successful public tender for land in Beijing on July 17 and 27, 2011. Further information will be released as soon as practicable in accordance with the Listing Rules for greater transparency.

Last but not least, the net loss for the Current Half Year was HK\$23.9 million, reflecting deterioration from profit of HK\$10.7 million in the Previous Half Year. Such situation was published in our profit warning announcement made on July 6, 2011.

FINANCIAL REVIEW

During the Current Half Year, the Group’s turnover was HK\$264.6 million, representing an increase of 30.2% from HK\$203.3 million for the Previous Half Year. The increase in turnover was mainly attributable to the growth in the export business generated through our sales agent.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit during the Current Half Year was HK\$41.5 million, representing an increase of 6.2% from the HK\$39.1 million for the Previous Half Year. In terms of gross profit margin, the current figure was 15.7%, representing a decrease of 3.5 percentage point from the 19.2% for the Previous Half Year. The decrease in gross profit margin was mainly due to the continued rise in production costs in the PRC and Renminbi appreciation. Operating expenses during the Current Half Year was HK\$54.6 million, representing an increase of 97.6% from HK\$27.6 million for the Previous Half Year. This increase was mainly attributable to the sales agent's commission and the additional operating expenses in the credit guarantee and concept hotels business operations.

Finance Cost during Current Half Year was HK\$12.8 million which increased significantly from HK\$0.3 million from the Previous Half Year. The substantial increase was mainly attributable to the notional interest expenses of convertible bonds issued by the Company in late August 2010 for the acquisition of 90% equity interest in Harmonic Strait and interest expenses on a related party loan for our part of the registered capital of Harmonic Strait.

Net loss during the Current Half Year was HK\$23.9 million compared to a net profit of HK\$10.7 million from the Previous Half Year. The net loss in the Current Half Year was mainly due to several factors not incurring in the Previous Half Year such as 1) a notional interest expense in respect of the convertible bonds issued by the Company in late August 2010 for the acquisition of 90% equity interest in Harmonic Strait; 2) operating loss in Harmonic Strait; 3) additional interest expense on a related party loan and 4) the continued rise in production costs in the PRC for the Group's export operation which exerted tremendous pressure on net profit margin.

LIQUIDITY AND FINANCIAL RESOURCES

As at June 30, 2011, net current assets were HK\$25.3 million (December 31, 2010: HK\$68.2 million). The Group's current ratio was 1.1 (December 31, 2010: 1.3), based on current assets of HK\$278.3 million and current liabilities of HK\$252.9 million. The gearing ratio, which is total bank borrowings divided by total assets, was 1.7% as at June 30, 2011 (December 31, 2010: 1.1%).

As at June 30, 2011, the Group had cash and bank balances of HK\$116.8 million (December 31, 2010: HK\$165.4 million) including restricted cash of HK\$27.4 million (December 31, 2010: HK\$49.3 million) and total bank borrowings of HK\$61.7 million (December 31, 2010: HK\$40.6 million). The cash and bank balances were denominated in Renminbi, HK dollar and US dollar and the bank borrowings were denominated in HK dollar and US dollar. The bank borrowings bore both fixed interest rates and floating interest rates. The Group continued to have no structured investment products, foreign exchange contracts and investment in listed shares, bonds and debentures. The Group is not exposed to material fluctuations in exchange rate.

The Company and its wholly owned subsidiaries Rainbow Brothers Limited and Silver Lining Limited have provided corporate guarantees and, in association therewith, floating charges on monies standing to the credits of, or owing to, the Group's accounts with bank, to secure banking facilities granted to the Group. Harmonic Strait had provided guarantees to its customers amounted to approximately HK\$51 million in return of service income as its ordinary business. The Company has also provided a corporate guarantee in association of a related party loan for our part of the registered capital of Harmonic Strait.

MANAGEMENT DISCUSSION AND ANALYSIS

As at June 30, 2011, the Group had prepayments, deposits and other receivables of HK\$80.5 million, which represented a HK\$45.3 million (129%) increase from HK\$35.2 million at December 31, 2010. The increase was mainly attributable to the addition of HK\$53.1 million other receivables made by conducting credit guarantee businesses from Harmonic Strait.

As at June 30, 2011, the Group had HK\$554.4 million capital commitments (December 31, 2010: HK\$554.4 million). The operating lease commitment for the Group as at June 30, 2011 was around HK\$14.3 million (December 31, 2010: HK\$14.2 million). It is the Group's policy to adopt a prudent financial management strategy and maintain a suitable level of liquidity and banking facilities to meet operation requirements and acquisition opportunities.

CONTINGENT LIABILITIES

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

HUMAN RESOURCES

As at June 30, 2011, the Group had 180 employees (December 31, 2010: 201 employees). It is the Group's policy to recruit the right person for each position based on the person's qualification and experience. The remuneration of each employee is reviewed every year based on the performance of the employee with reference to the prevailing market conditions.

INTERIM DIVIDEND

The Board did not recommend any interim dividend for the six months ended June 30, 2011 (June 30, 2010: HK\$6.0 million).

OUTLOOK

The Group's order for export business was steady as compared to the same time last year. Prospects for other businesses remained normal. As several bankers have tightened their facilities to the Group's export business along with continuing rise in production cost and Renminbi appreciation, the outlook for export business in 2012 and beyond may be adversely affected. The Group will focus more on credit guarantee and investment business in the PRC in the near future.

DISCLOSURE OF INTEREST

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

As at June 30, 2011, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Appendix 10 of Listing Rules, were as follows:

Name	Nature of Interests	Number of shares	Percentage of the issued share capital of the Company
Mr. Hui Kwan Wah, Hugo <i>(resigned with effect from July 6, 2011)</i>	Interest of a controlled corporation <i>(Note)</i>	135,300,000 (long position)	21.3%
Mr. Wong Sai Ming	Beneficial owner	9,472,000 (long position)	1.5%

Note: 135,300,000 shares were held by Direct Value Limited, a company owned as to 70% by Mr. Hui Kwan Wah, Hugo.

Save as disclosed above, as at June 30, 2011, as far as the Directors are aware, none of the Directors had any other interests, long positions or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code. As at June 30, 2011, the Company had no Chief Executive Officer.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at June 30, 2011, the register of substantial shareholders' interests maintained by the Company pursuant to Section 336 of the SFO shows that other than the interest disclosed above in respect of certain Directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company and the Company had calculated the percentage to the issued share capital of the Company based on the number of issued share capital of 635,850,000 shares of the Company as at June 30, 2011.

DISCLOSURE OF INTEREST

Name	Nature of Interests	Number of shares	Percentage to the issued share capital of the Company
Market Speed Limited	Beneficial owner	2,266,750,000 (long position)	356.5%
		120,000,000 (short position)	18.9%
Mr. Tong Nai Kan	Interest of a controlled corporate	2,266,750,000 (long position)	356.5%
		120,000,000 (short position)	18.9%
New Stature Limited	Beneficial owner	144,728,000 (long position)	22.8%
Skill Effort Limited	Interest of a controlled corporate	144,728,000 (long position)	22.8%
Mr. Fong Stanley Kai Yuen	Interest of a controlled corporate	144,728,000 (long position)	22.8%
Direct Value Limited	Beneficial owner	135,300,000 (long position)	21.3%
Mr. Ng Chi Man	Interest of a controlled corporate	135,300,000 (long position)	21.3%
Ms. Cheng Yin Lee, Francie	Interest of spouse	135,300,000 (long position)	21.3%
Ms. Lee Lai Lai	Interest of spouse	135,300,000 (long position)	21.3%
Value Logic Limited	Beneficial owner	56,000,000 (long position)	8.8%
Ms. Yip Sze Pui	Interest of a controlled corporate	56,000,000 (long position)	8.8%

CORPORATE GOVERNANCE AND OTHER INFORMATION

SHARE OPTION SCHEME

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

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended June 30, 2011.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

For the six months ended June 30, 2011, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Listing Rules except the 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.3 of the CG Code and Listing Rules 3.10(1), the Company is required to have at least three independent non-executive directors. From May 9, 2011 to July 28, 2011, the Board had two independent non-executive directors due to the resignation of Mr. Wong Che Keung. As a subsequent event to this interim reporting period, the Company re-designated Mr. Chan Cheuk Ming from a Non-executive Director to an Independent Non-executive Director with effect on July 28, 2011. The Company had appointed sufficient number of independent non-executive directors within three months after the number of independent non-executive directors fell below the minimum number required under Listing Rules 3.10(1).

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the directors. Having made specific enquiries to all directors, all directors have confirmed that they have complied with the required standard set out in the Model Code during the six months ended June 30, 2011.

CORPORATE GOVERNANCE AND OTHER INFORMATION

EXECUTIVE COMMITTEE

The Executive Committee was established on July 15, 2008 and it assists the Board in formulating policies and supervises the management to carry out and implement the policies laid down by the Board. As at June 30, 2011, the Executive Committee comprises all the executive directors of the Company, namely Mr. Hui Kwan Wah, Hugo (resigned with effect on July 6, 2011), Mr. An Yu Xin, Mr. Wong Sai Ming and Ms. Sun Pei Ying. The Executive Committee has discussed the Group's business strategy, financing arrangements and various daily operations during the six months ended June 30, 2011.

AUDIT COMMITTEE

The Audit Committee was established on October 30, 2007 and it assists the Board in discharging its responsibilities for corporate governance, financial reporting and internal control. As at June 30, 2011, the Audit Committee comprises of Mr. Anthony Espina (Chairman of Audit Committee and Independent Non-executive Director), Mr. Cheung Wah Keung (Independent Non-executive Director), Mr. Chan Cheuk Ming (a Non-executive Director re-designated as an Independent Non-executive Director on July 28, 2011) and Mr. Ko Ming Tung, Edward (Non-executive Director appointed on May 9, 2011). The Audit Committee has reviewed the condensed consolidated financial statements of the Group for the six months ended June 30, 2011. The Audit Committee has also discussed auditing, internal control, the accounting principles and practices adopted by the Group.

REMUNERATION COMMITTEE

The Remuneration Committee was established on October 30, 2007 and its responsibilities include approving the remuneration policy for all directors and senior management from time to time. As at June 30, 2011, the Remuneration Committee comprises of Mr. Cheung Wah Keung (Chairman of Remuneration Committee and Independent Non-executive Director), Mr. Anthony Espina (Independent Non-executive Director), Mr. Chan Cheuk Ming (a Non-executive Director re-designated as an Independent Non-executive Director on July 28, 2011) and Mr. Ko Ming Tung, Edward (Non-executive Director appointed on May 9, 2011). The Remuneration Committee has reviewed the remuneration matters in this interim report. The Remuneration Committee has also discussed the remuneration of directors and senior management and the annual salary review of the staff during the six months ended June 30, 2011.

By Order of the Board
Rainbow Brothers Holdings Limited
Wong Sai Ming
Executive Director

Hong Kong, August 30, 2011

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The board of directors (the “Board”) of Rainbow Brothers Holdings Limited (the “Company”) present herewith the condensed consolidated interim financial statements of the Company and its subsidiaries (collectively the “Group”) for the six months ended June 30, 2011, together with the comparative figures. These condensed consolidated interim financial statements have been reviewed by the Company’s audit committee, but have not been reviewed by the Company’s auditor.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended June 30,	
		2011	2010
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Turnover	5	264,647	203,281
Cost of sales		(223,156)	(164,206)
Gross profit		41,491	39,075
Other revenue		2,114	935
Operating expenses		(54,629)	(27,641)
(Loss)/Profit from operations		(11,024)	12,369
Finance costs	6	(12,830)	(313)
(Loss)/Profit before taxation	7	(23,854)	12,056
Taxation	8	(70)	(1,353)
(Loss)/Profit for the period		(23,924)	10,703
(Loss)/Profit for the period, before notional interest	7	(14,263)	10,703

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended June 30,	
		2011	2010
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
(Loss)/Profit for the period		(23,924)	10,703
Other comprehensive income:			
Exchange differences on translating foreign operations		4,213	74
Other comprehensive income for the period, net of tax		4,213	74
Total comprehensive (loss)/income for the period		(19,711)	10,777
(Loss)/Profit for the period attributable to:			
Equity shareholders of the Company		(23,510)	10,703
Non-controlling interest		(414)	—
		(23,924)	10,703
Total comprehensive (loss)/income attributable to:			
Equity shareholders of the Company		(19,666)	10,777
Non-controlling interest		(45)	—
		(19,711)	10,777
Dividend	9	—	6,000
(Loss)/Earnings per share			
— Basic	10	(HK3.7 cents)	HK5.4 cents
— Diluted	10	N/A	N/A

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at June 30, 2011	As at December 31, 2010
	Notes	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	11	25,795	18,878
Goodwill		3,288,897	3,288,897
		3,314,692	3,307,775
Current assets			
Investment — loan and receivable		5,750	23,000
Inventories		24,659	22,318
Trade receivables	12	50,577	57,294
Prepayments, deposits and other receivables		80,497	35,196
Restricted cash		27,435	49,358
Cash and bank balances		89,359	115,996
		278,277	303,162
Total assets		3,592,969	3,610,937
Equity			
Share capital	13	63,585	63,585
Reserves		3,101,374	1,641,314
Equity attributable to shareholders of the Company		3,164,959	1,704,899
Non-controlling interest		15,407	15,452
Total equity		3,180,366	1,720,351
Non-current liabilities			
Deferred taxation		14,818	202,753
Convertible bond	14	144,900	1,452,878
		159,718	1,655,631
Current liabilities			
Trade and bills payable	15	19,514	27,245
Accruals and other payables		170,279	164,930
Bank borrowings — secured		61,699	40,621
Tax payable		1,393	2,159
		252,885	234,955
Total equity and liabilities		3,592,969	3,610,937
Net current assets		25,392	68,207
Total assets less current liabilities		3,340,084	3,375,982

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Translation reserve	Capital reserve	Convertible bond reserve	Retained profits/ (Accumulated loss)	Non- controlling interest	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At January 1, 2010 (Audited)	20,000	53,768	107	(15,000)	—	78,032	—	136,907
Total comprehensive income for the period	—	—	74	—	—	10,703	—	10,777
Dividend paid	—	—	—	—	—	(18,000)	—	(18,000)
At June 30, 2010 (Unaudited)	<u>20,000</u>	<u>53,768</u>	<u>181</u>	<u>(15,000)</u>	<u>—</u>	<u>70,735</u>	<u>—</u>	<u>129,684</u>
At January 1, 2011 (Audited)	<u>63,585</u>	<u>528,305</u>	<u>4,841</u>	<u>(15,000)</u>	<u>1,105,658</u>	<u>17,510</u>	<u>15,452</u>	<u>1,720,351</u>
Transfer from convertible bonds liability portion to equity portion	—	—	—	—	1,505,160	—	—	1,505,160
Total comprehensive (loss)/income for the period	—	—	3,844	—	—	(23,510)	(45)	(19,711)
Dividend paid	—	(25,434)	—	—	—	—	—	(25,434)
At June 30, 2011 (Unaudited)	<u>63,585</u>	<u>502,871</u>	<u>8,685</u>	<u>(15,000)</u>	<u>2,610,818</u>	<u>(6,000)</u>	<u>15,407</u>	<u>3,180,366</u>

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended June 30,	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Net cash outflow from operating activities	(28,398)	(38,198)
Net cash inflow/(outflow) from investing activities	6,117	(36,760)
Net cash (outflow)/inflow from financing activities	(4,356)	39,729
Net decrease in cash and cash equivalents	(26,637)	(35,229)
Cash and cash equivalents at beginning of period	115,996	53,928
Cash and cash equivalents at end of period	89,359	18,699

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated and domiciled in the Cayman Islands. Its shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The condensed consolidated interim financial statements of the Company as at and for the six months ended June 30, 2011 comprises the Company and its subsidiaries (together referred to as the “Group”). The Company is an investment holding company. The Group is principally engaged in the credit guarantee, investment business in the PRC, exporting party products, operating two concept hotels in Shenzhen, provision of financial services in Hong Kong and ad hoc project investments in shopping mall development in Northern China.

The address of its principal place of business in Hong Kong is 29/F, Paul Y Centre, 51 Hung To Road, Kwun Tong, Hong Kong.

2. BASIS OF PREPARATION

The condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”) and the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended December 31, 2010, which have been prepared in accordance with HKFRSs.

3. SIGNIFICANT ACCOUNTING POLICIES

Except as describe below, the accounting policies applied in this condensed consolidated interim financial statements are consistent with those of the annual financial statements for the year ended December 31, 2010.

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

The HKICPA has issued a number of amendments, new and revised HKFRSs, which term collectively included HKASs and Interpretations that are first effective or available for early adoption for accounting periods beginning on or after January 1, 2011. Of these, the following developments are relevant to the Group’s financial statements:

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HKAS 24 (Revised)	Related Party Disclosures
HKAS 34 (Amendments)	Interim Financial Reporting
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instrument

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Up to the date of issue of this interim financial report, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ending December 31, 2011 and which have not been adopted in this interim financial statements.

Of these developments, the following relate to matters that may be relevant to the Group's operations and financial statements:

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income ²
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets ¹
HKAS 19 (Revised in 2011)	Employee Benefits ³
HKAS 27 (Revised in 2011)	Separate Financial Statements ³
HKFRS 9	Financial Instruments ³
HKFRS 10	Consolidated Financial Statements ³
HKFRS 13	Fair Value Measurement ³

1 Effective for annual periods beginning on or after January 1, 2012

2 Effective for annual periods beginning on or after July 1, 2012

3 Effective for annual periods beginning on or after January 1, 2013

Management is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that while the adoption of them may result in new or amended disclosures, it is unlikely to have a significant impact on the Group's results of operations and financial position.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

4. OPERATING SEGMENTS

For six months ended June 30, 2011

	Credit Guarantee Business <i>HK\$'000</i>	Export Business <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue				
External Sales	2,109	243,137	19,401	264,647
Result				
Segment results	(4,359)	19,676	(1,599)	13,718
Interest revenue				278
Other income				2,033
Unallocated corporate expenses				(22,837)
Interest expenses				(12,830)
Depreciation and amortization				(4,216)
Loss before taxation				(23,854)
Income tax expenses				(70)
Loss for the period				(23,924)

For six months ended June 30, 2010

	Credit Guarantee Business <i>HK\$'000</i>	Export Business <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue				
External Sales	—	192,665	10,616	203,281
Result				
Segment results	—	37,971	(4,602)	33,369
Interest revenue				7
Other income				1,064
Unallocated corporate expenses				(20,046)
Interest expense				(313)
Depreciation and amortization				(2,025)
Profit before taxation				12,056
Income tax expenses				(1,353)
Profit for the period				10,703

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

4. OPERATING SEGMENTS *(Continued)*

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

5. TURNOVER

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

	Six months ended June 30,	
	2011	2010
	<u>HK\$'000</u>	<u>HK\$'000</u>
	(Unaudited)	(Unaudited)
Credit guarantee business income	2,109	—
Sales of goods in export business	243,137	192,665
Insurance brokerage commission income	13,296	7,932
Provision of hotel accommodation service	6,105	2,684
	<u>264,647</u>	<u>203,281</u>

6. FINANCE COSTS

	Six months ended June 30,	
	2011	2010
	<u>HK\$'000</u>	<u>HK\$'000</u>
	(Unaudited)	(Unaudited)
Interest expense on bank loans repayable		
within five years	754	313
Interest expense on loan advance from a related party [#]	2,829	—
Imputed interest expense on convertible bond	9,247	—
	<u>12,830</u>	<u>313</u>

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

7. (LOSS)/PROFIT BEFORE TAXATION

	Six months ended June 30,	
	2011	2010
	<u>HK\$'000</u>	<u>HK\$'000</u>
	(Unaudited)	(Unaudited)
(Loss)/Profit before taxation has been arrived at after charging/(crediting):		
Depreciation	4,186	2,025
Staff costs, including directors' emoluments	20,456	16,573
Interest income	(278)	(7)
	<u> </u>	<u> </u>

(Loss)/Profit for the period, before notional interest is arrived as the following:

(Loss)/Profit for the period attributable to:		
Equity shareholders of the Company	(23,510)	10,703
Imputed interest expense on convertible bond	9,247	—
	<u> </u>	<u> </u>
(Loss)/Profit for the period, before notional interest	(14,263)	10,703
	<u> </u>	<u> </u>

8. TAXATION

	Six months ended June 30,	
	2011	2010
	<u>HK\$'000</u>	<u>HK\$'000</u>
	(Unaudited)	(Unaudited)
Hong Kong Profits Tax		
— Provision for the period	—	1,353
— Under provision in previous periods	70	—
	<u> </u>	<u> </u>
	70	1,353
	<u> </u>	<u> </u>

Hong Kong Profits Tax has been provided at 16.5% (June 30, 2010: 16.5%) on the estimated assessable profits for the interim period. As one of the subsidiaries is engaged in contract processing arrangement with a PRC processing factory during the period, only 50% of its assessable profits is subjected to Hong Kong Profits Tax under the apportionment of profits on 50:50 basis. Taxation of operation in the People's Republic of China and overseas are charged at the appropriate current rates of taxation ruling in the relevant countries.

9. DIVIDEND

The Board did not recommend any interim dividend for the six months ended June 30, 2011 (June 30, 2010: HK3 cents per share, HK\$6.0 million in aggregate).

During the six months ended June 30, 2011, a dividend of HK4 cents per share, HK\$25.4 million in aggregate, was declared and paid as the final dividend for the financial year ended December 31, 2010.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

10. (LOSS)/EARNINGS PER SHARE

The calculation of basic loss per share for the interim period was based on the consolidated loss attributable to equity shareholders of the Company of approximately HK\$23.5 million (June 30, 2010: profit of HK\$10.7 million) and the weighted average number of shares in issue during the period, which was 635,850,000 shares (June 30, 2010: 200,000,000 shares).

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

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended June 30, 2011, the Group incurred approximately HK\$11.1 million (June 30, 2010: HK\$13.8 million) on acquisition of property, plant and equipment.

12. TRADE RECEIVABLES

The Group normally grants credit terms of up to 90 days to its customers, and may from time to time extend such credit periods for extra 30 to 60 days to certain customers. Approximately HK\$39.8 million or 78.6% of the trade receivable as at June 30, 2011 have been settled by August 15, 2011.

	As at June 30, 2011	As at December 31, 2010
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
0 to 30 days	36,513	40,955
31 to 60 days	6,738	9,278
61 to 90 days	2,923	1,546
Over 90 days	4,653	5,765
Less: Provision for impairment	(250)	(250)
	50,577	57,294

For the period ended June 30, 2011, no trade receivables of the Group were individually determined to be impaired (December 31, 2010: Nil).

The carrying amounts of trade receivables approximate their fair values.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

13. SHARE CAPITAL

	Number of shares	Amount
Ordinary shares of HK\$0.1 each:		
Authorised:		
As at December 31, 2010 and June 30, 2011	5,000,000,000	HK\$500,000,000
Issued and fully paid:		
As at December 31, 2010 and June 30, 2011	635,850,000	HK\$63,585,000

14. CONVERTIBLE BOND

During the period, Market Speed Limited, a holder of convertible bond amounted to HK\$2,446,937,500 in face value, covenanted by deed with the Company that it will (1) convert all its convertible bonds into fully-paid shares of the Company on or before the maturity date on August 26, 2015, subject to existing terms and conditions under which the convertible bonds was issued by the Company and approved by the Stock Exchange, and waive its right to demand repayment from the Company in respect of any its convertible bonds not so converted on the maturity date; and (2) procure all Market Speed Limited future transferees, if any, of the convertible bonds transferred to observe and comply with the covenant. Therefore, according to the prevailing Hong Kong Financial Reporting Standards and confirmed with our auditor (Cheng & Cheng Limited), the Company will no longer be required to provide for notional interest in respect of such amount of convertible bonds in the future.

	Equity portion <i>HK\$'000</i>	Liability portion <i>HK\$'000</i>	Total <i>HK\$'000</i>
At December 31, 2010	1,105,658	1,452,878	2,558,536
Imputed interest amortised charged	—	9,247	9,247
Deferred tax arising from the right waived on the repayment	187,935	—	187,935
Transfer from convertible bonds liability portion to equity portion as Market Speed Limited covenanted by deed with the company	1,317,225	(1,317,225)	—
At June 30, 2011	2,610,818	144,900	2,755,718

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

15. TRADE AND BILLS PAYABLE

	As at June 30, 2011 <u>HK\$'000</u> (Unaudited)	As at December 31, 2010 <u>HK\$'000</u> (Audited)
0 to 30 days	18,899	23,584
31 to 60 days	482	1,240
61 to 90 days	22	182
Over 90 days	111	2,239
	<u>19,514</u>	<u>27,245</u>

The carrying amounts of trade and bills payable approximate their fair values.

16. RELATED PARTY TRANSACTIONS

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

	Six months ended June 30, 2011 <u>HK\$'000</u> (Unaudited)	2010 <u>HK\$'000</u> (Unaudited)
Commission paid or payable to an ex-director (Note (i))	9,075	—
Interest on loan advance from a related company (Note (ii))	2,829	—

Note:

- (i) In January 2011, the Group entered into a sales agency agreement with Mr. Ng Chi Man (an Executive Director resigned with effect from January 10, 2011) whereby the Group will pay Mr. Ng 4% as commissions on sales to certain major customers of the Group in the United States. The annual cap for such sales commission was HK\$9.6 million and subsequently was revised to HK\$20.0 million in July 2011. Such sales agency agreement was further terminated in August 2011. This transaction was regarded as a continuing connected transaction in accordance with the Listing Rules.
- (ii) Wider Sun Limited, the related company, gave a loan advance to a subsidiary of the Company as part of the contributed registered capital of Harmonic Strait which the Company acquired on August 27, 2010. On May 6, 2011, the Group extended the above said loan advance to August 30, 2011 and provided a corporate guarantee in association of the loan advance in favour of Wider Sun Limited. The loan from Wider Sun Limited bears interest at 3% per annum before October 30, 2010 and 5% per annum thereafter till August 30, 2011. Wider Sun Limited was a company beneficially owned by Mr. Hui Kwan Wah, Hugo (an Executive Director resigned with effect from July 6, 2011) and Mr. Ng Chi Man (an Executive Director resigned with effect from January 10, 2011).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

16. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Compensation of senior management of the Group

	Six months ended June 30, 2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Salaries, allowances and other benefits	7,514	5,903
Contributions to retirement scheme	192	53
	<u>7,706</u>	<u>5,956</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

16. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Financial arrangement

	As at June 30, 2011 <i>HK\$'000</i> (Unaudited)	As at December 31, 2010 <i>HK\$'000</i> (Audited)
Loan from a related party [#]	117,828	118,505
Loan from a substantial shareholder ^{##}	18,199	18,199

The above loans are part of the contributed registered capital of a subsidiary acquired on August 27, 2010.

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

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

17. EVENTS AFTER THE REPORTING PERIOD

Successful public tender for land in Beijing

Harmonic Strait and three other independent third parties, namely Taikang Life Insurance Ltd (泰康人壽保險股份有限公司) as lead investor, CITIC Real Estate Ltd (中信房地產股份有限公司) and CITIC Group (中國中信集團公司), received confirmation issued by the Beijing Land and Resources Bureau, the People's Republic of China dated 8 July 2011 on the successful public tender (the "Public Tender Confirmation") for a piece of land of approximately 8,400m² located in Chaoyang District, Beijing, the People's Republic of China (the "Land") in the open tender auction of the State-owned land use right in respect of the Land for a total consideration of RMB3,080.0 million.

Formation of joint venture company

Regarding the successful tender for land in Beijing, Harmonic Strait entered into formal negotiations with independent third parties, namely Taikang Life Insurance Ltd (泰康人壽保險股份有限公司), CITIC Real Estate Ltd (中信房地產股份有限公司) and CITIC Group (中國中信集團公司), in connection with the possible formation of a joint venture for the sole purpose of acquiring and developing a piece of land located in Chaoyang District, Beijing, the People's Republic of China. The negotiation in relation to the terms and conditions of the JV Agreement, including but not limited to the shareholding structure of the joint venture, is in preliminary stage and no major terms and conditions have been agreed amongst the parties involved.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

17. EVENTS AFTER REPORTING PERIOD *(Continued)*

Reduction of registered capital

Harmonic Strait was in the process of reducing its registered capital from US\$100 million to US\$20 million. Further information on the matter would be disclosed later once the application is successful.

Dividend received from an investment in a joint venture company

On July 26, 2011, the Group received HK\$5.75 million for the remaining 25% of the shareholder's loan made in February 2010 (total amount of HK\$23.0 million) in a joint venture company that was formed to conduct development and sale of a shopping mall property in Liaoning Province, PRC and HK\$8.4 million as dividend income from the joint venture company and shall transfer and assign all the preference shares in the joint venture company owned by the Company to the promoter of the joint venture company in accordance with the relevant agreement. All investment amount was recovered and the Company made an overall return of approximately HK\$8.4 million from this project.

Liquidity crisis

Since mid July 2011, two major bankers of the Group discontinued their support to us and requested prompt repayment of outstanding loans. The Group has overcome with very difficult moments to settle with them two revised facility letters. Afterall, the Group's overall financial position remains healthy after making some bold and shift strategic adjustments. At this point, the Group did not have the same level of financial support from our bankers in conducting our export business.

Termination of sales agency agreement

On August 3, 2011, the Group and Mr. Ng Chi Man (an Executive Director resigned with effect on January 10, 2011), the sales agent, have terminated the sales agency agreement on January 8, 2011. For further information, please see note (i) of Note 16(a). As at the termination day on August 3, 2011, the total commission to this sales agent did not exceed the revised annual cap.

Resignation and appointment of Chairman

Mr. Hui Kwan Wah, Hugo resigned as Chairman and Executive Director with effect from July 6, 2011 and the position of the Chairman was replaced by Mr. Chan Cheuk Ming. On July 28, 2011, Mr. Chan Cheuk Ming was re-designated from a Non-executive Director to an Independent Non-executive Director.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

18. APPROVAL OF INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements were approved by the Board on August 30, 2011.