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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2014

The Board of Harmonic Strait Financial Holdings Limited (the “Company”) announces the unaudited interim results of the Company and its subsidiaries for the six months ended June 30, 2014. This announcement, containing the full text of the Interim Report 2014 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 2014 has been authorized to be sent to the shareholders of the Company on August 29, 2014.

By order of the Board
Harmonic Strait Financial Holdings Limited
Cheung Wah Keung
Chairman

Hong Kong, 29 August 2014

As at the date of this announcement, the Board comprises three executive directors, namely Mr. Lo Siu Leung, Mr. Tong Nai Kan and Mr. Zhao Tieliu; one non-executive director, Mr. Ko Ming Tung, Edward; and three independent non-executive directors, namely Mr. Cheung Wah Keung, Mr. Anthony Espina and Mr. Cheng Wai Lam, James.

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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

Lo Siu Leung
Tong Nai Kan
Zhao Tieliu

Non-executive Directors

Ko Ming Tung, Edward
Lee Kam Wah

(resigned with effect from February 14, 2014)

Independent Non-executive Directors

Cheung Wah Keung (Chairman)
Anthony Espina
Cheng Wai Lam, James

Executive Committee

Lo Siu Leung
Tong Nai Kan
Zhao Tieliu

Audit Committee

Anthony Espina (Chairman)
Cheung Wah Keung
Ko Ming Tung, Edward
Cheng Wai Lam, James
Lee Kam Wah

(resigned with effect from February 14, 2014)

Remuneration Committee

Cheung Wah Keung (Chairman)
Anthony Espina
Ko Ming Tung, Edward
Cheng Wai Lam, James
Lee Kam Wah

(resigned with effect from February 14, 2014)

Nomination Committee

Cheung Wah Keung (Chairman)
Anthony Espina
Ko Ming Tung, Edward
Tong Nai Kan
Cheng Wai Lam, James

Authorised Representatives

Tong Nai Kan
Kwan Yiu Ming, Patrick

Company Secretary

Kwan Yiu Ming, Patrick

Website

www.harmonics33.com

Registered Office

P.O. Box 309
Ugland House
South Church Street
George Town
Grand Cayman, KY1-1104
Cayman Islands

Principal Place of Business in Hong Kong

Unit B, 35/F.
No. 169 Electric Road
North Point
Hong Kong

Principal Share Registrar and Transfer Office

Royal Bank of Canada Trust Company (Cayman)
Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman, KY1-1110
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East, Hong Kong

Principal Bankers

The Hongkong and Shanghai Banking
Corporation Limited
The Bank of East Asia, Limited

Legal Adviser

Patrick Mak & Tse
16th Floor
Nan Fung Tower
173 Des Voeux Road Central
Hong Kong

Auditor

Cheng & Cheng Limited
Certified Public Accountants
10/F, Allied Kajima Building
138 Gloucester Road, Wanchai
Hong Kong

Stock Code

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

MANAGEMENT DISCUSSION AND ANALYSIS

(All figures are approximates)

BUSINESS REVIEW

During the six months ended June 30, 2014 (the “Current Half Year”), the credit guarantee and investment business continued to operate in a very conservative manner due to the high inherent default risk of the overall market and the slowdown of China’s economy while the trading business struggled to cope with the unfavorable business environment.

Owing to the weak performance of the hotel business segment in Shenzhen for the previous years, the Group has abandoned the plan of developing a chain of concept hotels and disposed of the segment of hotel business in the Current Half Year. This not only allowed the Group to realize the fixed and intangible assets into cash but also released the burden on the capital expenditure for renewal of facilities.

As at June 30, 2014, the Group has entered into an agreement, which subjected to certain conditions, to dispose of the financial planning services business segment in Hong Kong as it had recorded losses in the past few years.

FINANCIAL REVIEW

During the Current Half Year, the Group’s turnover was HK\$59.1 million which excluded the amount from the segment of hotel business, representing a decrease of 11.0% from HK\$66.4 million (restated) for the six months ended June 30, 2013 (the “Previous Half Year”). The decrease in turnover was mainly due to the tough business environment of the trading business.

Gross profit during the Current Half Year was HK\$4.3 million, representing a slightly increase of 16.3% from the HK\$3.7 million (restated) for the Previous Half Year. In terms of gross profit margin, the Current Half Year figure was 7.2%, representing a slightly increase of 1.7 percentage point from the 5.5% for the Previous Half Year.

Operating expenses during the Current Half Year was HK\$12.6 million, representing a decrease of 28.8% from HK\$17.7 million (restated) for the Previous Half Year as the effective cost control in matching with the conservative operations.

Finance costs during the Current Half Year were HK\$33.3 million which increased from HK\$18.1 million (restated) of the Previous Half Year. Such increase was mainly attributable to the interest rate being increased since April 2013 on the loan of HK\$160.8 million as at June 30, 2014.

During the Current Half Year, the Company has raised HK\$33.0 million through a subscription by allotment of 330,000,000 shares at the price of HK\$0.1 per share to enrich its general working capital.

Subsequent to the Current Half Year, the Company has raised further HK\$35.7 million through another subscription by allotment of 357,000,000 shares at the price of HK\$0.1 per share to further enrich its general working capital.

HK\$450,000,000 convertible bond of the Company were converted into 360,000,000 shares after the end of the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at June 30, 2014, net current assets were HK\$61.5 million (December 31, 2013: HK\$52.8 million). The Group's current ratio was 1.32 (December 31, 2013: 1.28), based on current assets of HK\$252.5 million and current liabilities of HK\$190.9 million. The Group has no bank borrowing as at June 30, 2014 (December 31, 2013: HK\$5.0 million) and the gearing ratio was zero (December 31, 2013: 1.9% which was the total bank borrowings divided by total assets). As at June 30, 2014, the Group had cash and bank balances of HK\$141.5 million without any restricted cash (December 31, 2013: HK\$148.0 million including restricted cash of HK\$12.7 million). The cash and bank balances were denominated in Renminbi, HK dollar and US dollar and the bank borrowings facilities available to the Group were denominated in HK dollar and bore 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 rates. As at June 30, 2014, the face value of the outstanding convertible bond of the Company was HK\$1,258,937,500 (December 31, 2013: HK\$1,258,937,500) including amount of HK\$1,156,937,500 (December 31, 2013: HK\$1,156,937,500) having waived its right to demand for repayment.

The Company has provided corporate guarantees to secure banking facilities granted to its subsidiaries. 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 Financing Guarantee Co., Limited), a floating charge of the Company, a deed of assignment regarding the assignment of current accounts due to group companies by Hong Kong New Smart Energy Group Limited and a personal guarantee from a director as securities in relation to the balance of HK\$160.8 million in which the original loan amount was for our part of the registered capital of Harmonic Strait Financing Guarantee Co., Limited. As at June 30, 2014, the Group had prepayments, deposits and other receivables of HK\$85.0 million, which represented an increase of HK\$38.9 million (84.1%) from HK\$46.1 million as at December 31, 2013. The increase was mainly attributable to HK\$37.8 million (RMB30.0 million) entrusted loan made by the credit guarantee and investment business to its customer. As at June 30, 2014, the Group had no material capital commitments (December 31, 2013: Nil). The operating lease commitment for the Group as at June 30, 2014 was around HK\$5.7 million (December 31, 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.

As discussed above, the Group has disposed of the segment of hotel business in consideration of HK\$8.1 million and recorded a profit of HK\$0.4 million during the Current Half Year. On June 30, 2014, the Group has also entered into an agreement to dispose of the segment of financial planning services business segment in consideration of HK\$5.0 million and its completion is subjected to the conditions precedent being satisfied or waived.

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINGENT LIABILITIES

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

HUMAN RESOURCES

As at June 30, 2014, the Group had 41 employees (December 31, 2013: 90 employees). It is the Group's policy to recruit the right person for each position based on the person's qualification and experience. The remuneration of each employee is reviewed every year based on the performance of the employee with reference to the prevailing market conditions.

INTERIM DIVIDEND

The Board did not recommend any interim dividend for the six months ended June 30, 2014 (June 30, 2013: Nil).

OUTLOOK

The Group has been facing a tough financial position which is unfavorable to the foreseeable future. The Group has conducted share subscriptions and disposed and would dispose of certain segments with unsatisfactory performance in the Current Half Year and after the end of the reporting period. In the future, the management will focus on the capital management and will continue to improve the financial position by both internal and external methods.

With the broadening of the shareholders base after the subscriptions, the Group will try to explore any business opportunities including but not limited to any investment opportunities or trading businesses.

DISCLOSURE OF INTERESTS

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, 2014, 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 of director	Nature of Interests	Number of shares	Percentage of the issued share capital of the Company
Mr. Lo Siu Leung	Beneficial owner	32,000 (long position)	0.00%
Mr. Tong Nai Kan	Interest of a controlled corporation (<i>Note</i>)	1,139,448,000 (long position)	53.80%

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

Save as disclosed above, as at June 30, 2014, 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, 2014, the Company had no Chief Executive Officer.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at June 30, 2014, 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 2,117,850,000 shares of the Company as at June 30, 2014.

DISCLOSURE OF INTERESTS

Name	Nature of Interests	Number of shares	Percentage to the issued share capital of the Company
Market Speed Limited	Beneficial owner	1,139,448,000 (long position)	53.80%
New Stature Limited	Beneficial owner	144,728,000 (long position)	6.83%
Skill Effort Limited	Interest of a controlled corporate	144,728,000 (long position)	6.83%
Mr. Fong Stanley Kai Yuen	Interest of a controlled corporate	144,728,000 (long position)	6.83%
Direct Value Limited	Beneficial owner	135,300,000 (long position)	6.39%
Mr. Hui Kwan Wah, Hugo	Interest of a controlled corporate	135,300,000 (long position)	6.39%
Mr. Zhang Zhong	Beneficial owner	130,000,000 (long position)	6.14%
Huang Huiquan	Beneficial owner	120,000,000 (long position)	5.67%

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, 2014.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

For the six months ended June 30, 2014, 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 following:

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.

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, 2014.

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, 2014, 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. Ko Ming Tung, Edward (Non-executive Director) and Mr. Cheng Wai Lam, James (Non-executive Director). The Audit Committee has reviewed the condensed consolidated interim financial statements of the Group for the six months ended June 30, 2014. The Audit Committee has also discussed auditing, internal control, the accounting principles and practices adopted by the Group.

CHANGES IN INFORMATION OF DIRECTORS

There were no changes in information of directors since the date of the 2013 annual report of the Company pursuant to Rule 13.51 (B) of the Listing Rules.

By Order of the Board
Harmonic Strait Financial Holdings Limited
Cheung Wah Keung
Chairman

Hong Kong, August 29, 2014

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The board of directors (the “Board”) of Harmonic Strait Financial 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, 2014, 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 PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Six months ended June 30,	
		2014	2013
	Notes	HK\$'000	HK\$'000
		(Unaudited)	(Restated) (Unaudited)
Continuing operations			
Turnover	5	59,095	66,355
Cost of sales		(54,838)	(62,695)
Gross profit		4,257	3,660
Other revenue		2,938	2,762
Operating expenses		(12,597)	(17,694)
Operating loss		(5,402)	(11,272)
Finance costs	6	(33,342)	(18,113)
Loss before taxation	7	(38,744)	(29,385)
Taxation	8	—	—
Loss from continuing operations		(38,744)	(29,385)
Discontinued operation			
Profit/(Loss) from discontinued operation	9	420	(2,391)
Loss for the period		(38,324)	(31,776)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	<i>Notes</i>	Six months ended June 30,	
		2014 <i>HK\$'000</i> (Unaudited)	2013 <i>HK\$'000</i> (Restated) (Unaudited)
Loss for the period		(38,324)	(31,776)
Other comprehensive (loss)/income:			
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translating foreign operations		(1,650)	3,595
Other comprehensive (loss)/income for the period, net of tax		(1,650)	3,595
Total comprehensive loss for the period		(39,974)	(28,181)
Loss for the period attributable to:			
Equity shareholders of the Company		(38,258)	(31,257)
Non-controlling interests		(66)	(519)
		(38,324)	(31,776)
Total comprehensive loss for the period attributable to:			
Equity shareholders of the Company		(39,746)	(28,013)
Non-controlling interests		(228)	(168)
		(39,974)	(28,181)
Dividend	10	—	—
Loss per share			
— Basic	11	(2.1 cents)	(2.0 cents)
— Diluted	11	N/A	N/A
Loss per share — Continuing operations			
— Basic	11	(2.1 cents)	(1.9 cents)
— Diluted	11	N/A	N/A

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at June 30, 2014	As at December 31, 2013
	Notes	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	12	3,728	8,320
Goodwill		1,993	1,993
Deferred taxation		—	2,948
		<u>5,721</u>	<u>13,261</u>
Current assets			
Inventories		11,012	19,140
Trade receivables	13	14,131	28,742
Tax recoverable		882	—
Prepayments, deposits and other receivables		84,961	46,138
Restricted cash		—	12,713
Cash and cash equivalents		141,472	135,311
		<u>252,458</u>	<u>242,044</u>
Total assets		<u>258,179</u>	<u>255,305</u>
Equity			
Share capital	14	211,785	178,785
Reserves		(251,206)	(212,381)
Equity attributable to shareholders of the Company		(39,421)	(33,596)
Non-controlling interests		17,595	17,823
Total equity		<u>(21,826)</u>	<u>(15,773)</u>
Non-current liabilities			
Deferred taxation		1,636	—
Convertible bond	15	87,432	81,853
		<u>89,068</u>	<u>81,853</u>
Current liabilities			
Trade payables	16	4,144	9,716
Accruals and other payables		185,177	173,307
Amounts due to directors	17b	1,616	225
Bank borrowings — secured		—	4,953
Tax payable		—	1,024
		<u>190,937</u>	<u>189,225</u>
Total equity and liabilities		<u>258,179</u>	<u>255,305</u>
Net current assets		<u>61,521</u>	<u>52,819</u>
Total assets less current liabilities		<u>67,242</u>	<u>66,080</u>

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Translation reserve	Capital reserve	Convertible bond reserve	Statutory reserve	Accumulated loss	Non- controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At January 1, 2013 (Audited)	149,185	1,074,796	12,442	(15,000)	2,058,189	3,420	(3,223,267)	20,442	80,207
Issuance of new shares upon conversion of convertible bonds	16,000	110,118	–	–	(126,118)	–	–	–	–
Deferred tax arising from convertible bond	–	–	–	–	811	–	–	–	811
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	(2,008)	(2,008)
Total comprehensive income/(loss) for the period	–	–	3,244	–	–	–	(31,257)	(168)	(28,181)
At June 30, 2013 (Unaudited)	165,185	1,184,914	15,686	(15,000)	1,932,882	3,420	(3,254,524)	18,266	50,829
	Share capital	Share premium	Translation reserve	Capital reserve	Convertible bond reserve	Statutory reserve	Accumulated loss	Non- controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At January 1, 2014 (Audited)	178,785	1,276,596	14,057	(15,000)	1,828,475	3,420	(3,319,929)	17,823	(15,773)
Shares allotments	33,000	–	–	–	–	–	–	–	33,000
Deferred tax arising from convertible bond	–	–	–	–	921	–	–	–	921
Disposal of subsidiaries	–	–	(1,736)	–	–	–	1,736	–	–
Total comprehensive (loss) for the period	–	–	(1,488)	–	–	–	(38,258)	(228)	(39,974)
At June 30, 2014 (Unaudited)	211,785	1,276,596	10,833	(15,000)	1,829,396	3,420	(3,356,451)	17,595	(21,826)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended June 30,	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Net cash (outflow) from operating activities	(16,136)	(14,372)
Net cash inflow/(outflow) from investing activities	6,297	(1,409)
Net cash inflow/(outflow) from financing activities	16,000	(5,824)
Net increase/(decrease) in cash and cash equivalents	6,161	(21,605)
Cash and cash equivalents at beginning of period	135,311	159,323
Cash and cash equivalents at end of period	141,472	137,718

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, 2014 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 and investment business in the People’s Republic of China (“PRC”), trading business, and provision of financial planning services in Hong Kong.

The address of its principal place of business in Hong Kong is Unit B, 35/F., No. 169 Electric Road, North Point, Hong Kong.

2. BASIS OF PREPARATION

(a) Statement of Compliance

These 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 statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the consolidated financial statements for the year ended December 31, 2013.

(b) Judgments and estimates

Preparing the interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, significant judgments made by management in applying the group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2013.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

3. PRINCIPAL ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2013, except for the adoption of the following new and revised HKFRSs as of 1 January 2014, noted below:

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) — Investment Entities
- Amendments to HKAS 32 — Offsetting Financial Assets and Financial Liabilities
- Amendments to HKAS 36 — Impairment of Assets, Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to HKAS 39 — Novation of Derivatives and Continuation of Hedge Accounting
- HK(IFRIC) 21 — Levies

Up to the date of issue of these condensed consolidated interim financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are relevant to the Group but are not yet effective for the six months ended 30 June 2014 and have not been adopted in these condensed consolidated interim financial statements:

	Effective for accounting periods beginning on or after
Amendments to HKAS 19 (2011) — Employee Benefits	1 July 2014
Annual Improvements to HKFRSs 2010–2012 Cycle	1 July 2014
Annual Improvements to HKFRSs 2011–2013 Cycle	1 July 2014
Amendments to HKFRS 11 — Joint Arrangements, Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to HKAS 16 and HKAS 38 — Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
HKFRS 15 — Revenue from Contracts with Customers	1 January 2017
HKFRS 9 — Financial Instruments	Unspecified
Amendments to HKFRS 9, Financial Instruments and HKFRS 7, Financial Instruments: Disclosures — Mandatory Effective Date and Transition Disclosures	Unspecified

The Group is in the process of making an assessment of the impact of these amendments, new standards and new interpretations in the period of initial application. So far it has concluded that the adoption of them 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

As a result of the disposal of hotel business during the period, the Group has changed its internal organization and composition of its reportable segment, the comparatives are therefore consistently presented in this regard.

For six months ended June 30, 2014

	Continuing operations					Total
	Credit	Trading	Financial	Sub-total	Discontinued	
	Guarantee		Planning		operation	
	and		Services		Hotel	
	Investment	Business	Business		Business	
	Business					
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue						
External sales	<u>882</u>	<u>53,037</u>	<u>5,176</u>	<u>59,095</u>	<u>10,895</u>	<u>69,990</u>
Result						
Segment results	<u>(2,722)</u>	<u>(1,536)</u>	<u>(658)</u>	<u>(4,916)</u>	<u>(255)</u>	<u>(5,171)</u>
Interest revenue				1,835	–	1,835
Other income				1,103	–	1,103
Unallocated corporate expenses				(3,424)	–	(3,424)
Interest expenses				(33,342)	(45)	(33,387)
Gain on disposal of subsidiaries				<u>–</u>	<u>720</u>	<u>720</u>
(Loss)/Profit before taxation				(38,744)	420	(38,324)
Income tax expenses				<u>–</u>	<u>–</u>	<u>–</u>
(Loss)/Profit for the period				<u>(38,744)</u>	<u>420</u>	<u>(38,324)</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

4. OPERATING SEGMENTS *(Continued)*

For six months ended June 30, 2013 (Restated)

	Continuing operations				Discontinued operation Hotel Business	Total
	Credit Guarantee and Investment Business	Trading Business	Financial Planning Services Business	Sub-total		
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000		
Revenue						
External sales	<u>1,159</u>	<u>58,254</u>	<u>6,942</u>	<u>66,355</u>	<u>7,418</u>	<u>73,773</u>
Result						
Segment results	<u>(7,545)</u>	<u>(2,484)</u>	<u>49</u>	<u>(9,980)</u>	<u>(2,316)</u>	<u>(12,296)</u>
Interest revenue				775	–	775
Other income				1,988	–	1,988
Unallocated corporate expenses				(4,055)	–	(4,055)
Interest expenses				<u>(18,113)</u>	<u>(75)</u>	<u>(18,188)</u>
Loss before taxation				(29,385)	(2,391)	(31,776)
Income tax expenses				<u>–</u>	<u>–</u>	<u>–</u>
Loss for the period				<u>(29,385)</u>	<u>(2,391)</u>	<u>(31,776)</u>

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.

As at June 30, 2014, the Group has entered into an agreement to dispose of the segment of financial planning services business but the disposal was subjected to satisfactory or waive of the conditions precedent.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

5. TURNOVER

Turnover represents credit guarantee business and investment 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,	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Restated) (Unaudited)
<u>Continuing operations</u>		
Credit guarantee and investment business income	882	1,159
Sales of goods in trading business	53,037	58,254
Insurance brokerage commission income	5,176	6,942
	<u>59,095</u>	<u>66,355</u>
<u>Discontinued operation</u>		
Provision of hotel accommodation service	10,895	7,418
	<u>10,895</u>	<u>7,418</u>
Total	<u><u>69,990</u></u>	<u><u>73,773</u></u>

6. FINANCE COSTS

	Six months ended June 30,	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Restated) (Unaudited)
<u>Continuing operations</u>		
Interest expense on bank loans repayable within five years	233	68
Imputed interest expense on convertible bond	5,579	4,886
Other loan interest	27,530	13,159
	<u>33,342</u>	<u>18,113</u>
<u>Discontinued operation</u>		
Interest expense on bank loans repayable within five years	45	75
	<u>45</u>	<u>75</u>
Total	<u><u>33,387</u></u>	<u><u>18,188</u></u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

7. LOSS BEFORE TAXATION

	Six months ended June 30,	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Loss before taxation has been arrived at after charging/(crediting):		
Depreciation	231	3,660
Staff costs, including directors' emoluments	4,680	9,793
Interest income	(1,835)	(775)
	<u>231</u>	<u>(775)</u>

8. TAXATION

No Hong Kong Profits Tax was provided as there was no estimated assessable profit for the period (June 30, 2013: Nil).

9. DISCONTINUED OPERATION

During the six months ended June 30, 2014, the Group disposed of its hotel business segment.

The results of discontinued segment

	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	10,895	7,418
Expenses	(11,195)	(9,809)
Result from operating activities	(300)	(2,391)
Income tax	—	—
Result from operating activities, net of tax	(300)	(2,391)
Gain on disposal of discontinued operation	720	—
Profit/(Loss) for the period from discontinued operation	<u>420</u>	<u>(2,391)</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

9. DISCONTINUED OPERATION *(Continued)*

Cash flows from discontinued operation

	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash from operating activities	13	2,060
Net cash to financial activities	(2,040)	(3,029)
Net cash from investing activities	3,676	—
	<u>1,649</u>	<u>(969)</u>

Effect of disposal on the financial position of the Group

	2014
	<i>HK\$'000</i>
Property, plant and equipment	909
Deferred taxation	5,505
Prepayments, deposits and other receivables	1,608
Cash and cash equivalents	4,424
Accruals and other payables	(3,553)
Bank borrowings-secured	<u>(1,517)</u>
Net assets and liabilities	7,376
Consideration received, satisfied in cash	8,100
Cash and cash equivalents disposed of	<u>(4,424)</u>
Net cash inflow	<u>3,676</u>

10. DIVIDEND

The Board did not recommend any interim dividend for the six months ended June 30, 2014 (June 30, 2013: Nil).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

11. LOSS PER SHARE

The calculations of basic loss per share and basic loss per share — continuing operations for the interim period were based on the consolidated loss attributable to equity shareholders of the Company of approximately HK\$38.3 million and HK\$38.7 million respectively (June 30, 2013: HK\$31.3 million and HK\$28.9 million respectively) and the weighted average number of shares in issue during the period, which was 1,839,396,961 shares (June 30, 2013: 1,559,032,321 shares).

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

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended June 30, 2014, the Group incurred approximately HK\$0.3 million (June 30, 2013: HK\$1.4 million) on acquisition of property, plant and equipment.

13. 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.

	As at June 30, 2014	As at December 31, 2013
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
0 to 30 days	6,933	7,342
31 to 60 days	2,218	6,731
61 to 90 days	3,435	7,360
Over 90 days	1,545	7,309
	14,131	28,742

During the six months ended June 30, 2014, no trade receivables of the Group were individually determined to be impaired (December 31, 2013: Nil).

The carrying amounts of trade receivables approximate their fair values.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

14. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.1 each:		
Authorised:		
As at December 31, 2013 and June 30, 2014	5,000,000	500,000
Issued and fully paid:		
As at December 31, 2013	1,787,850	178,785
Issue of new shares	330,000	33,000
As at June 30, 2014	2,117,850	211,785

15. CONVERTIBLE BOND

As at June 30, 2014, the face value of the outstanding convertible bond of the Company was HK\$1,258,937,500. The face value of HK\$1,156,937,500 was covenanted by its holder, Market Speed Limited, which is wholly-owned by the executive director of the Company, Mr. Tong Nai Kan, by deed with the Company that it will (1) convert all convertible bond into fully-paid shares of the Company on or before the maturity date on August 26, 2015, subject to existing terms and conditions under which the convertible bond was issued by the Company and approved by the Stock Exchange, and waive its right to demand repayment from the Company in respect of any its convertible bond not so converted on the maturity date; and (2) procure all Market Speed Limited's future transferees, if any, of the convertible bond transferred to observe and comply with the covenant. Therefore, according to the prevailing Hong Kong Financial Reporting Standards, the Company will no longer be required to provide for notional interest in respect of such amount of convertible bond in the future.

	Equity portion HK\$'000	Liability portion HK\$'000	Total HK\$'000
At December 31, 2013	1,828,475	81,853	1,910,328
Imputed interest charged	—	5,579	5,579
Deferred tax arising from convertible bond	921	—	921
At June 30, 2014	1,829,396	87,432	1,916,828

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

16. TRADE PAYABLES

	As at June 30, 2014	As at December 31, 2013
	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
0 to 30 days	3,449	7,661
31 to 60 days	655	1,635
61 to 90 days	40	420
	<u>4,144</u>	<u>9,716</u>

The carrying amounts of trade payables approximate their fair values.

17. RELATED PARTY TRANSACTIONS

(a) Compensation of senior management of the Group

	Six months ended June 30, 2014	2013
	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Unaudited)
Salaries, allowances and other benefits	1,129	2,300
Contributions to retirement scheme	17	66
	<u>1,146</u>	<u>2,366</u>

(b) Financial arrangement

	As at June 30, 2014	As at December 31, 2013
	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
Amounts due to directors [#]	<u>1,616</u>	<u>225</u>

[#] The amounts due to directors are unsecured, interest-free and repayable on demand.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

18. FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

On December 20, 2012, the Group has extended a 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 Financing Guarantee Company Limited), a floating charge of the Company, a deed of assignment regarding the assignment of current accounts due to group companies by Hong Kong New Smart Energy Group Limited and a personal guarantee from a director as securities.

19. EVENTS AFTER REPORTING PERIOD

Subsequent to the reporting period, the Company has allotted and issued an aggregate of 357,000,000 shares at the subscription price of HK\$0.1 per share. The net proceeds derived from the subscription is approximately HK\$35.7 million.

HK\$450,000,000 convertible bond of the Company were converted into 360,000,000 shares after the end of the reporting period.

20. COMPARATIVE FIGURE

Certain comparative figures have been reclassified to conform with the current period presentation.

21. APPROVAL OF INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements were approved by the Board on August 29, 2014.