

Harmonic Strait Financial Holdings Limited

(Formerly known as Rainbow Brothers Holdings Limited)

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 33

Interim Report 2012

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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 (*Vice Chairman*)

Tong Nai Kan

(*appointed on February 24, 2012*)

Wong Sai Ming

(*resigned with effect from January 4, 2012*)

Sun Pei Ying

(*resigned with effect from February 24, 2012*)

Non-executive Director

Ko Ming Tung, Edward

Independent Non-executive Directors

Chan Cheuk Ming (*Chairman*)

Cheung Wah Keung

Anthony Espina

Executive Committee

An Yu Xin

Tong Nai Kan

(*appointed on February 24, 2012*)

Wong Sai Ming

(*resigned with effect from January 4, 2012*)

Sun Pei Ying

(*resigned with effect from February 24, 2012*)

Audit Committee

Anthony Espina (*Chairman*)

Cheung Wah Keung

Chan Cheuk Ming

Ko Ming Tung, Edward

Remuneration Committee

Cheung Wah Keung (*Chairman*)

Anthony Espina

Chan Cheuk Ming

Ko Ming Tung, Edward

Nomination Committee (established on March 27, 2012)

Chan Cheuk Ming (*Chairman*)

Cheung Wah Keung

Anthony Espina

Ko Ming Tung, Edward

Tong Nai Kan

Authorised Representatives

Tong Nai Kan

(*appointed on February 24, 2012*)

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

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

The Bank of East Asia, Limited
Hang Seng Bank Limited

Legal Adviser

Tsang, Chan & Woo
12th Floor, Grand Building
15–18 Connaught 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)

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed at an Extraordinary General Meeting held on March 6, 2012, the name of the Company was changed from Rainbow Brothers Holdings Limited to Harmonic Strait Financial Holdings Limited 和協海峽金融集團有限公司. The Registrar of Companies in the Cayman Islands issued the Certificate of Incorporation on Change of Name with effect on March 6, 2012. The Registrar of Companies in Hong Kong also issued the Certificate of Registration of Change of Corporate Name of Non-Hong Kong company on March 29, 2012.

BUSINESS REVIEW

During the six months ended June 30, 2012 (the “Current Half Year”), the credit guarantee and investment business recorded revenue of HK\$80.1 million and segmental profit of HK\$64.9 million both of which have great improvement from revenue of HK\$2.1 million and segmental loss of HK\$4.4 million for the six months ended June 30, 2011 (the “Previous Half Year”). The handsome return was mainly contributed by the disposal of equity interest of the investment project in respect of a piece of land located in Beijing, the PRC.

The Group has determined to scale down the financial guarantee operations in view of the increased inherent default risk of the overall market, therefore, the Group has decided to change the second year and third year plan of Harmonic Strait Credit Guarantee Co., Ltd. (“Harmonic Strait”) as stated in the circular dated August 9, 2010 in respect of the acquisition of 90% interest in Harmonic Strait, i.e. to suspend opening the regional offices and branch offices, to suspend expanding the branch offices, and to suspend upgrading the Taiwan operation into a full office until further notice.

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

During the Current Half Year, the Group’s export business struggled and tried to recover from the unfavorable operating conditions aroused in last year. Some staffs with professional skills and/or management experience have been appointed in the key positions of this segment. Facing both external economic adverse conditions and limited supports from the bankers, the export business has targeted to concentrate on the more profitable customers/orders and given up the remaining. Export business recorded a decrease in revenue by 72.5%, while the segmental result was slightly improved by 1.1%, as much effort has been put on the cost control and simplifying of the structure. However, the progress of recovery of banking facilities was worse than originally expected.

MANAGEMENT DISCUSSION AND ANALYSIS

The operations of our concept hotel business in Shenzhen and financial planning services business in Hong Kong had continued improvement but the deterioration of business environments including intense market competition, rises in general cost in the PRC and recruitment difficulties still adversely affected the businesses. Both of the businesses were approximately at the breakeven level during the Current Half Year and are expected to be stable.

Except for the investment project of Harmonic Strait as mentioned above, the Group did not have any material acquisition and disposal of subsidiaries and associated companies during the Current Half Year.

FINANCIAL REVIEW

During the Current Half Year, the Group's turnover was HK\$162.6 million, representing a decrease of 38.6% from HK\$264.6 million for the Previous Half Year. The decrease in turnover was mainly due to reduce in customer orders of the exporting business, consequential to our high staff turnover, difficult industry environment and dwindling bank support.

Gross profit during the Current Half Year was HK\$92.7 million, representing an increase of 123.3% from the HK\$41.5 million for the Previous Half Year. In terms of gross profit margin, the current figure was 57.0%, representing an increase of 41.3 percentage point from the 15.7% for the Previous Half Year. The significant increase in gross profit margin was mainly due to the investment return of Harmonic Strait. Operating expenses during the Current Half Year was HK\$29.8 million, representing a decrease of 45.5% from HK\$54.6 million for the Previous Half Year. This decrease was mainly attributable to the simplification of corporate and export business structure, and a tight cost control in response to the adverse factors mentioned above.

Finance costs during the Current Half Year were HK\$10.2 million which decreased from HK\$12.8 million of the Previous Half Year. The decrease was mainly attributable to the reduction of notional interest expenses of convertible bond following further waives of the right to demand for repayment in respect of convertible bond with face value of HK\$150.0 million.

Owing to the PRC government's tightened monetary policy and expanded property-purchasing limitations, the development on credit guarantee and investment business of Harmonic Strait was hindered. Some investment projects under negotiation were abolished. In this connection, its goodwill has been impaired by HK\$1,688.0 million.

LIQUIDITY AND FINANCIAL RESOURCES

As at June 30, 2012, net current assets were HK\$117.7 million (December 31, 2011: HK\$69.1 million). The Group's current ratio was 1.65 (December 31, 2011: 1.42), based on current assets of HK\$297.4 million and current liabilities of HK\$179.7 million. The gearing ratio, which is total bank borrowings divided by total assets, was 0.2% as at June 30, 2012 (December 31, 2011: 0.3%).

As at June 30, 2012, the Group had cash and bank balances of HK\$171.5 million (December 31, 2011: HK\$128.2 million) including restricted cash of HK\$34.9 million (December 31, 2011: HK\$14.8 million) and total bank borrowings of HK\$4.0 million (December 31, 2011: HK\$9.7 million). The cash and bank balances were denominated in Renminbi, HK dollar and US dollar and the bank borrowings were denominated in HK dollar. The bank borrowings 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.

MANAGEMENT DISCUSSION AND ANALYSIS

As at June 30, 2012, the face value of the outstanding convertible bond of the Company was HK\$2,098,937,500 (December 31, 2011: HK\$2,498,937,500).

The Company has provided corporate guarantees to secure banking facilities granted to its subsidiaries. Harmonic Strait had provided guarantees to its customers amounted to approximately HK\$27.7 million in return of service income as its ordinary business. The Group has also charged shares of the wholly-owned subsidiaries, Market Season Limited and Green Link Holdings Limited in association of a related party loan for our part of the registered capital of Harmonic Strait.

As at June 30, 2012, the Group had prepayments, deposits and other receivables of HK\$39.6 million, which represented a HK\$7.0 million (14.9%) decrease from HK\$46.6 million at December 31, 2011. The decrease was mainly attributable to the result of reduced turnover.

As at June 30, 2012, the Group had no material capital commitments (December 31, 2011: Nil). The operating lease commitment for the Group as at June 30, 2012 was around HK\$16.0 million (December 31, 2011: HK\$11.6 million).

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

CONTINGENT LIABILITIES

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

HUMAN RESOURCES

As at June 30, 2012, the Group had 123 employees (December 31, 2011: 124 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, 2012 (June 30, 2011: Nil).

OUTLOOK

Although the current politic and economic environments are not favorable to the development of Harmonic Strait at this moment, the Board and the management of Harmonic Strait are confident that we will have a bright future in participating the projects do involve land development on top of a Taiwan element in its conceptualization and capturing guarantee business opportunities aroused from the development, wholesaling and retailing of such land and properties. The Group will continue to explore any other new potential profitable investments opportunities and will try to finance them both internally and externally to satisfy any additional capital requirements.

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, 2012, 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. Tong Nai Kan | Interest of a controlled corporation (<i>Note</i>) | 1,744,750,000 (long position) | 156.36% |

Note: Market Speed Limited, a company wholly-owned by Mr. Tong Nai Kan, holds 307,200,000 shares and HK\$1,796,937,500 convertible bond of the Company which can be converted into 1,437,550,000 shares upon conversion at an exercise price of HK\$1.25.

Save as disclosed above, as at June 30, 2012, 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, 2012, the Company had no Chief Executive Officer.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at June 30, 2012, 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 1,115,850,000 shares of the Company as at June 30, 2012.

DISCLOSURE OF INTEREST

| Name | Nature of Interests | Number of shares | Percentage to the issued share capital of the Company |
|-----------------------------|---|----------------------------------|---|
| Market Speed Limited | Beneficial owner | 1,744,750,000 (long position) | 156.36% |
| Jin Run Investments Limited | Beneficial owner | 180,480,000 (long position) | 16.17% |
| | | 80,000,000 (short position) | 7.17% |
| Ms. Leung Ka Ki | Interest of a controlled corporate | 180,480,000 (long position) | 16.17% |
| | | 80,000,000 (short position) | 7.17% |
| New Stature Limited | Beneficial owner | 144,728,000 (long position) | 12.97% |
| Skill Effort Limited | Interest of a controlled corporate | 144,728,000 (long position) | 12.97% |
| Mr. Fong Stanley Kai Yuen | Interest of a controlled corporate | 144,728,000 (long position) | 12.97% |
| Direct Value Limited | Beneficial owner | 135,300,000 (long position) | 12.13% |
| Mr. Hui Kwan Wah, Hugo | Interest of a controlled corporate | 135,300,000 (long position) | 12.13% |
| Ms. Cheng Yin Lee, Francie | Interest of spouse | 135,300,000 (long position) | 12.13% |
| Yardley Finance Limited | Person having a security interest in shares | 80,000,000 (long position) | 7.17% |
| Mr. Chan Kin Sun | Interest of a controlled corporate | 80,000,000 (long position) | 7.17% |
| Mr. Lee Hung Shing | Beneficial owner | 80,000,000 (long position) | 7.17% |

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, 2012.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

For the six months ended June 30, 2012, 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, 2012.

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, 2012, the Executive Committee comprises all the executive directors of the Company, namely Mr. An Yu Xin and Mr. Tong Nai Kan (appointed on February 24, 2012). The Executive Committee has discussed the Group's business strategy, financing arrangements and various daily operations during the six months ended June 30, 2012.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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, 2012, 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 (Independent Non-executive Director) and Mr. Ko Ming Tung, Edward (Non-executive Director). The Audit Committee has reviewed the condensed consolidated financial statements of the Group for the six months ended June 30, 2012. 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, 2012, 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 (Independent Non-executive Director) and Mr. Ko Ming Tung, Edward (Non-executive Director). 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, 2012.

NOMINATION COMMITTEE

The Nomination Committee was established on March 27, 2012 and its responsibilities include reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and making recommendations to the board regarding any proposed changes, As at June 30, 2012, the Nomination Committee comprises of Mr. Chan Cheuk Ming (Chairman of Nomination Committee and Independent Non-executive Director), Mr. Anthony Espina (Independent Non-executive Director), Mr. Cheung Wah Keung (Independent Non-executive Director), Mr. Ko Ming Tung, Edward (Non-executive Director) and Mr. Tong Nai Kan (Executive Director appointed on February 24, 2012). The Nomination Committee has reviewed the Board structure, size and composition during the six months ended June 30, 2012.

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

Hong Kong, August 31, 2012

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, 2012, 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, | |
|-------------------------------|-------|---------------------------|-------------------------|
| | | 2012 | 2011 |
| | Notes | HK\$'000 (Unaudited) | HK\$'000 (Unaudited) |
| Turnover | 5 | 162,573 | 264,647 |
| Cost of sales | | (69,910) | (223,156) |
| Gross profit | | 92,663 | 41,491 |
| Other revenue | | 960 | 2,114 |
| Operating expenses | | (29,769) | (54,629) |
| Profit/(Loss) from operations | | 63,854 | (11,024) |
| Finance costs | 6 | (10,170) | (12,830) |
| Impairment on goodwill | | (1,688,000) | — |
| Loss before taxation | 7 | (1,634,316) | (23,854) |
| Taxation | 8 | (11,484) | (70) |
| Loss for the period | | (1,645,800) | (23,924) |

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | <i>Notes</i> | Six months ended June 30, | |
|--|--------------|----------------------------------|---------------------------|
| | | 2012 | 2011 |
| | | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | (Unaudited) | (Unaudited) |
| Loss for the period | | (1,645,800) | (23,924) |
| Other comprehensive (loss)/income: | | | |
| Exchange differences on translating foreign operations | | <u>(773)</u> | 4,213 |
| Other comprehensive (loss)/income for the period, net of tax | | <u>(773)</u> | 4,213 |
| Total comprehensive loss for the period | | <u>(1,646,573)</u> | <u>(19,711)</u> |
| (Loss)/Profit for the period attributable to: | | | |
| Equity shareholders of the Company | | (1,651,202) | (23,510) |
| Non-controlling interest | | <u>5,402</u> | <u>(414)</u> |
| | | <u>(1,645,800)</u> | <u>(23,924)</u> |
| Loss for the period attributable to equity shareholders of the Company, before notional interest | 7 | <u>(1,646,911)</u> | <u>(14,263)</u> |
| Total comprehensive (loss)/income attributable to: | | | |
| Equity shareholders of the Company | | (1,651,900) | (19,666) |
| Non-controlling interest | | <u>5,327</u> | <u>(45)</u> |
| | | <u>(1,646,573)</u> | <u>(19,711)</u> |
| Dividend | 9 | <u>—</u> | <u>—</u> |
| Loss per share | | | |
| — Basic | 10 | <u>(HK\$1.890)</u> | <u>(HK\$0.037)</u> |
| — Diluted | 10 | <u>N/A</u> | <u>N/A</u> |

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | | As at June 30, 2012 | As at December 31, 2011 |
|--|--------------|--------------------------------|-------------------------------|
| | <i>Notes</i> | <u>HK\$'000</u> (Unaudited) | <u>HK\$'000</u> (Audited) |
| Non-current assets | | | |
| Property, plant and equipment | 11 | 16,015 | 18,829 |
| Goodwill | | 1,344,375 | 3,032,375 |
| | | <u>1,360,390</u> | <u>3,051,204</u> |
| Current assets | | | |
| Inventories | | 27,776 | 14,104 |
| Trade receivables | 12 | 58,442 | 44,432 |
| Prepayments, deposits and other receivables | | 39,631 | 46,558 |
| Restricted cash | | 34,889 | 14,794 |
| Cash and bank balances | | 136,617 | 113,449 |
| | | <u>297,355</u> | <u>233,337</u> |
| Total assets | | <u><u>1,657,745</u></u> | <u><u>3,284,541</u></u> |
| Equity | | | |
| Share capital | 13 | 111,585 | 79,585 |
| Reserves | | 1,277,255 | 2,858,544 |
| Equity attributable to shareholders of the Company | | 1,388,840 | 2,938,129 |
| Non-controlling interest | | 20,534 | 15,207 |
| Total equity | | <u>1,409,374</u> | <u>2,953,336</u> |
| Non-current liabilities | | | |
| Deferred taxation | | 1,791 | 12,038 |
| Convertible bond | 14 | 66,883 | 154,946 |
| | | <u>68,674</u> | <u>166,984</u> |
| Current liabilities | | | |
| Trade and bills payable | 15 | 16,423 | 8,011 |
| Accruals and other payables | | 139,781 | 144,774 |
| Amount due to a director | | 6,456 | — |
| Bank borrowings — secured | | 3,958 | 9,709 |
| Tax payable | | 13,079 | 1,727 |
| | | <u>179,697</u> | <u>164,221</u> |
| Total equity and liabilities | | <u><u>1,657,745</u></u> | <u><u>3,284,541</u></u> |
| Net current assets | | <u><u>117,658</u></u> | <u><u>69,116</u></u> |
| Total assets less current liabilities | | <u><u>1,478,048</u></u> | <u><u>3,120,320</u></u> |

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 |
|---|------------------|------------------|------------------------|--------------------|--------------------------------|---|---------------------------------|------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| At January 1, 2011 (Audited) | 63,585 | 528,305 | 4,841 | (15,000) | 1,105,658 | 17,510 | 15,452 | 1,720,351 |
| Transfer from convertible bond 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) | 63,585 | 502,871 | 8,685 | (15,000) | 2,610,818 | (6,000) | 15,407 | 3,180,366 |
| At January 1, 2012 (Audited) | 79,585 | 609,773 | 12,432 | (15,000) | 2,489,574 | (238,235) | 15,207 | 2,953,336 |
| Transfer from convertible bond liability portion to equity portion | — | — | — | — | 101,903 | — | — | 101,903 |
| Deferred tax arising from convertible bond | — | — | — | — | 708 | — | — | 708 |
| Issue of new shares upon conversion of convertible bond | 32,000 | 213,804 | — | — | (245,804) | — | — | — |
| Total comprehensive (loss)/income for the period | — | — | (698) | — | — | (1,651,202) | 5,327 | (1,646,573) |
| At June 30, 2012 (Unaudited) | 111,585 | 823,577 | 11,734 | (15,000) | 2,346,381 | (1,889,437) | 20,534 | 1,409,374 |

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | Six months ended June 30, | |
|--|---------------------------|----------------------|
| | 2012 | 2011 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) |
| Net cash inflow/(outflow) from operating activities | 43,887 | (28,398) |
| Net cash (outflow)/inflow from investing activities | (963) | 6,117 |
| Net cash outflow from financing activities | <u>(19,756)</u> | <u>(4,356)</u> |
| Net increase/(decrease) in cash and cash equivalents | 23,168 | (26,637) |
| Cash and cash equivalents at beginning of period | <u>113,449</u> | <u>115,996</u> |
| Cash and cash equivalents at end of period | <u><u>136,617</u></u> | <u><u>89,359</u></u> |

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, 2012 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 PRC, exporting business, 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 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, 2011.

(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, 2011.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied in these condensed consolidated interim financial statements are consistent with those of the consolidated financial statements for the year ended December 31, 2011.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2012 are the same as those followed in the preparation of the Group's consolidated financial statements for the year ended December 31, 2011.

| | |
|----------------------|--|
| HKFRS 1 (Amendment) | Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters |
| HKFRS 7 (Amendments) | Disclosures — Transfers of Financial Assets |
| HKAS 12 (Amendments) | Deferred Tax: Recovery of Underlying Asset |

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements. Accordingly, no prior period adjustments are required.

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new HKFRSs will have no material impact on the results and the financial position of the Group.

| | |
|----------------------------------|---|
| HKAS 1 (Amendments) | Presentation of Items of Other Comprehensive Income ¹ |
| HKFRS 7 and HKFRS 9 (Amendments) | Mandatory Effective Date of HKFRS 9 and Transition Disclosures ⁴ |
| HKFRS 9 | Financial Instruments ⁴ |
| HKFRS 10 | Consolidated Financial Statements ² |
| HKFRS 11 | Joint Arrangements ² |
| HKFRS 12 | Disclosure of Interests in Other Entities ² |
| HKFRS 13 | Fair Value Measurement ² |
| HKFRS 7 (Amendments) | Disclosures — Offsetting Financial Assets and Financial Liabilities ² |
| HKAS 32 (Amendments) | Presentation — Offsetting Financial Assets and Financial Liabilities ³ |
| HKAS 19 (as revised in 2011) | Employee Benefits ² |
| HKAS 27 (as revised in 2011) | Separate Financial Statements ² |
| HKAS 28 (as revised in 2011) | Investments in Associates and Joint Ventures ² |
| HK(IFRIC)-Int 20 | Stripping Costs in the Production Phase of a Surface Mine ² |

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

² Effective for annual periods beginning on or after January 1, 2013

³ Effective for annual periods beginning on or after January 1, 2014

⁴ Effective for annual periods beginning on or after January 1, 2015

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

4. OPERATING SEGMENTS

After the relocation of the principal place of business of the Company and appointment of management staff, the allocation basis among operating segments varied from previous years, the comparatives are therefore consistently presented in this regard.

For six months ended June 30, 2012

| | Credit Guarantee and Investment Business | Export Business | Others | Total |
|--------------------------------|---|--------------------|-----------------|---------------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Revenue | | | | |
| External sales | <u>80,121</u> | <u>66,922</u> | <u>15,530</u> | <u>162,573</u> |
| Result | | | | |
| Segment results | <u>64,872</u> | <u>5,204</u> | <u>(87)</u> | 69,989 |
| Interest revenue | | | | 701 |
| Other income | | | | 259 |
| Unallocated corporate expenses | | | | (3,599) |
| Interest expenses | | | | (10,170) |
| Depreciation and amortization | | | | (3,496) |
| Impairment loss on goodwill | | | | <u>(1,688,000)</u> |
| Loss before taxation | | | | (1,634,316) |
| Income tax expenses | | | | <u>(11,484)</u> |
| Loss for the period | | | | <u><u>(1,645,800)</u></u> |

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

4. OPERATING SEGMENTS *(Continued)*

For six months ended June 30, 2011 (Restated)

| | Credit Guarantee and Investment Business <i>HK\$ '000</i> | Export Business <i>HK\$ '000</i> | Others <i>HK\$ '000</i> | Total <i>HK\$ '000</i> |
|--------------------------------|---|--|----------------------------|---------------------------|
| Revenue | | | | |
| External sales | <u>2,109</u> | <u>243,137</u> | <u>19,401</u> | <u>264,647</u> |
| Result | | | | |
| Segment results | <u>(4,359)</u> | <u>5,145</u> | <u>(1,599)</u> | (813) |
| Interest revenue | | | | 278 |
| Other income | | | | 2,033 |
| Unallocated corporate expenses | | | | (8,306) |
| Interest expenses | | | | (12,830) |
| Depreciation and amortization | | | | (4,216) |
| Impairment loss on goodwill | | | | <u>—</u> |
| Loss before taxation | | | | (23,854) |
| Income tax expenses | | | | <u>(70)</u> |
| Loss for the period | | | | <u>(23,924)</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.

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, | |
|---|---------------------------|-----------------|
| | 2012 | 2011 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) |
| Credit guarantee and investment business income | 80,121 | 2,109 |
| Sales of goods in export business | 66,922 | 243,137 |
| Insurance brokerage commission income | 8,599 | 13,296 |
| Provision of hotel accommodation service | 6,931 | 6,105 |
| | <u>162,573</u> | <u>264,647</u> |

6. FINANCE COSTS

| | Six months ended June 30, | |
|--|---------------------------|-----------------|
| | 2012 | 2011 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) |
| Interest expense on bank loans repayable within five years | 110 | 754 |
| Interest expense on loan advance from a related party [#] | 5,769 | 2,829 |
| Imputed interest expense on convertible bond | 4,291 | 9,247 |
| | <u>10,170</u> | <u>12,830</u> |

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

7. LOSS BEFORE TAXATION

| | Six months ended June 30, | |
|---|---|--|
| | 2012 | 2011 |
| | <i>HK\$'000</i> (Unaudited) | <i>HK\$'000</i> (Unaudited) |
| Loss before taxation has been arrived at after charging/(crediting): | | |
| Depreciation | 3,446 | 4,186 |
| Staff costs, including directors' emoluments | 16,090 | 20,456 |
| Interest income | (701) | (278) |
| | <u> </u> | <u> </u> |
| Loss for the period, before notional interest is arrived as the following: | | |
| Loss for the period attributable to: | | |
| Equity shareholders of the Company | (1,651,202) | (23,510) |
| Imputed interest expense on convertible bond | 4,291 | 9,247 |
| | <u> </u> | <u> </u> |
| Loss for the period, before notional interest | <u> </u> (1,646,911) | <u> </u> (14,263) |

8. TAXATION

| | Six months ended June 30, | |
|---------------------------------------|--|--|
| | 2012 | 2011 |
| | <i>HK\$'000</i> (Unaudited) | <i>HK\$'000</i> (Unaudited) |
| Hong Kong Profits Tax | | |
| — Under provision in previous periods | — | 70 |
| PRC enterprise income tax (at 25%) | 11,484 | — |
| | <u> </u> | <u> </u> |
| | <u> </u> 11,484 | <u> </u> 70 |

Hong Kong Profits Tax has been provided at 16.5% (June 30, 2011: 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 are 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.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

9. DIVIDEND

The Board did not recommend any interim dividend for the six months ended June 30, 2012 (June 30, 2011: Nil).

10. LOSS 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\$1,651.2 million (June 30, 2011: HK\$23.5 million) and the weighted average number of shares in issue during the period, which was 874,531,318 shares (June 30, 2011: 635,850,000 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.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended June 30, 2012, the Group incurred approximately HK\$0.9 million (June 30, 2011: HK\$11.1 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.

| | As at June 30, 2012 | As at December 31, 2011 |
|---------------|---------------------------------------|-------------------------------------|
| | <i>HK\$'000</i> (Unaudited) | <i>HK\$'000</i> (Audited) |
| 0 to 30 days | 47,700 | 17,397 |
| 31 to 60 days | 5,333 | 13,511 |
| 61 to 90 days | 3,481 | 6,257 |
| Over 90 days | 1,928 | 7,267 |
| | 58,442 | 44,432 |

For the period ended June 30, 2012, no trade receivables of the Group were individually determined to be impaired (December 31, 2011: 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 |
|---|-------------------------|-----------------|
| | <i>'000</i> | <i>HK\$'000</i> |
| Ordinary shares of HK\$0.1 each: | | |
| Authorised: | | |
| As at December 31, 2011 and June 30, 2012 | <u>5,000,000</u> | <u>500,000</u> |
| Issued and fully paid: | | |
| As at December 31, 2011 | 795,850 | 79,585 |
| Issue of new shares upon conversion of convertible bond | <u>320,000</u> | <u>32,000</u> |
| As at June 30, 2012 | <u>1,115,850</u> | <u>111,585</u> |

14. CONVERTIBLE BOND

During the period, Market Speed Limited which is wholly-owned by the executive director of the Company, Mr. Tong Nai Kan, further covenanted by deed with the Company that it will (1) convert all its HK\$150,000,000 convertible bond, which were newly transferred to Market Speed Limited during the period, into fully-paid shares of the Company on or before the maturity date on August 26, 2015, subject to existing terms and conditions under which the convertible bond was issued by the Company and approved by the Stock Exchange, and waive its right to demand repayment from the Company in respect of any its convertible bond not so converted on the maturity date; and (2) procure all Market Speed Limited future transferees, if any, of the convertible bond transferred to observe and comply with the covenant. Therefore, 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 bond in the future.

| | Equity portion | Liability portion | Total |
|---|---------------------------|------------------------------|------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| At December 31, 2011 | 2,489,574 | 154,946 | 2,644,520 |
| Imputed interest charged | — | 4,291 | 4,291 |
| Transfer from convertible bond liability portion to equity portion as Market Speed Limited covenanted by deed with the company | 101,903 | (92,354) | 9,549 |
| Conversion into new shares | (245,804) | — | (245,804) |
| Deferred tax arising from convertible bond | <u>708</u> | <u>—</u> | <u>708</u> |
| At June 30, 2012 | <u>2,346,381</u> | <u>66,883</u> | <u>2,413,264</u> |

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

15. TRADE AND BILLS PAYABLE

| | As at June 30, 2012 | As at December 31, 2011 |
|---------------|--------------------------------|-------------------------------|
| | <i>HK\$'000</i> (Unaudited) | <i>HK\$'000</i> (Audited) |
| 0 to 30 days | 13,042 | 7,293 |
| 31 to 60 days | 730 | 693 |
| 61 to 90 days | 1,427 | — |
| Over 90 days | 1,224 | 25 |
| | <u>16,423</u> | <u>8,011</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, | |
|---|--------------------------------|--------------------------------|
| | 2012 | 2011 |
| | <i>HK\$'000</i> (Unaudited) | <i>HK\$'000</i> (Unaudited) |
| Commission paid or payable to an ex-director (<i>Note (i)</i>) | — | 9,075 |
| Interest on loan advance from a substantial shareholder (<i>Note (ii)</i>) | 5,769 | 2,829 |
| License fee paid or payable to an associate of a director | <u>364</u> | <u>—</u> |

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) Mr. Hui Kwan Wah, a substantial shareholder and an ex-director of the Company, through his wholly owned 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 and charged shares of its wholly-owned subsidiaries, Market Season Limited and Green Link Holdings Limited in association of the loan advance in favour of the lender. On May 6, 2011, the Group extended the above said loan advance to August 30, 2011. The loan bears interest at 3% per annum before October 31, 2010 and 5% per annum thereafter till August 31, 2011. The interest for the period after the expiration of repayment date on August 31, 2011 was calculated at the HSBC default rate minus 3%, or at 10% whichever is lower.

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, | |
|---|---------------------------|-----------------|
| | 2012 | 2011 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) |
| Salaries, allowances and other benefits | 2,611 | 7,514 |
| Contributions to retirement scheme | 60 | 192 |
| | <u>2,671</u> | <u>7,706</u> |

(c) Financial arrangement

| | As at | As at |
|---|------------------|----------------------|
| | June 30, 2012 | December 31, 2011 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Audited) |
| Loan from a substantial shareholder [#] | 115,000 | 116,930 |
| Loan from a director ^{##} | 6,455 | — |
| Loan from an associate of a substantial shareholder ^{##} | — | 2,642 |
| Loan from an associate of a director ^{##} | 3,006 | — |
| | <u>3,006</u> | <u>—</u> |

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

^{##} The loan from Mr. Tong Nai Kan, who is a substantial shareholder of the Company and was appointed as the director of the Company on February 24, 2012, and the loan from his associate are unsecured, interest-free and repayable on demand.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

17. IMPAIRMENT LOSS ON GOODWILL

Owing to the PRC government's tightened monetary policy and expanded property-purchasing limitations, the development on credit guarantee and investment business of Harmonic Strait was hindered. Some investment projects under negotiation were abolished. In this connection, its goodwill has been impaired by HK\$1,688.0 million.

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:

| | Credit Guarantee and Investment Business | Export Business | Total |
|--------------------------------------|---|------------------------|-------------------------|
| | <i>HK\$ '000</i> | <i>HK\$ '000</i> | <i>HK\$ '000</i> |
| As at December 31, 2011 | 3,006,000 | 26,375 | 3,032,375 |
| Less: impairment loss for the period | (1,688,000) | — | (1,688,000) |
| As at June 30, 2012 | <u>1,318,000</u> | <u>26,375</u> | <u>1,344,375</u> |

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management.

The key assumptions for credit guarantee and investment business, include: there will be no major changes in the existing political, legal and economic conditions in the locations in which Market Season's Group is operating; there will be no major changes 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. The gross margin and growth rate were not applicable in its valuation model and the discount rate adopted is 13%.

18. APPROVAL OF INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements were approved by the Board on August 31, 2012.