



HARMONY ASSET LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 428

TSX - Trading Symbol : HAR

Contents

CORPORATE INFORMATION	2
CHAIRMAN'S STATEMENT	3
MANAGEMENT DISCUSSION & ANALYSIS	5
REPORT OF THE DIRECTORS	8
CORPORATE GOVERNANCE REPORT	17
INDEPENDENT AUDITOR'S REPORT	25
CONSOLIDATED INCOME STATEMENT	27
CONSOLIDATED BALANCE SHEET	28
BALANCE SHEET	29
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	30
CONSOLIDATED CASH FLOW STATEMENT	32
NOTES TO THE FINANCIAL STATEMENTS	33
FIVE YEAR FINANCIAL SUMMARY	96

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Lee Fong Lit David (*Chairman*)

Chow Pok Yu Augustine

(*Chief Executive Officer*)

Lam Andy Siu Wing, JP

(*Chief Financial Officer*)

Chan Shuen Chuen Joseph

(*Qualified Accountant*)

Independent Non-executive Directors

Tong Kim Weng Kelly

Ho Man Kai Anthony

Wong Yun Kuen

AUDIT COMMITTEE

Ho Man Kai Anthony (*Chairman*)

Wong Yun Kuen

Tong Kim Weng Kelly

BANKERS

Wing Hang Bank Limited

Standard Chartered Bank (Hong Kong) Limited

The Hongkong and Shanghai

Banking Corporation Limited

Bank of Communications Co., Limited

AUDITOR

BDO McCabe Lo Limited

Certified Public Accountants

25th Floor, Wing On Centre

111 Connaught Road Central

Hong Kong

COMPANY SECRETARY

Lee Yip Wah Peter

ASSISTANT COMPANY SECRETARY

Codan Trust Company (Cayman) Limited

REGISTERED OFFICE

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

PRINCIPAL PLACE OF BUSINESS

IN HONG KONG

Room 1101, St. George's Building

2 Ice House Street

Central

Hong Kong

PRINCIPAL REGISTRARS

Bank of Bermuda (Cayman) Limited

P.O. Box 513 GT

Strathvale House

North Church Street

George Town

Grand Cayman

Cayman Islands

British West Indies

HONG KONG BRANCH REGISTRARS

Computershare Hong Kong Investor

Services Limited

Shops 1712-1716, 17th Floor

Hopewell Centre

183 Queen's Road East

Wan Chai

Hong Kong

CANADIAN BRANCH REGISTRARS

Computershare Investor Services Inc.

100 University Ave., 9th Floor

Toronto, Ontario M5J 2Y1

Canada

STOCK CODE

Hong Kong Stock Exchange – 428

Toronto Stock Exchange – HAR

Chairman's Statement

The Board of Directors of Harmony Asset Limited takes pleasure in presenting the audited consolidated results of the Group for the year ended 31st December, 2008.

BUSINESS REVIEW

For the year ended 31st December, 2008, the Group recorded a turnover of HK\$12,916,300 as compared to HK\$5,084,365 in the last year, a 154% increase. After taking into account of turnover, other revenue and other (losses) and gains, the Group had a loss of HK\$74,822,392 before operating expenses when compared to the gain of HK\$80,048,650 in the last year, a 193% decrease.

As a result of the continuing turmoil in the global financial markets, the Group recorded fair value loss of HK\$44,044,129 on public traded securities held as financial assets at fair value through profit or loss when compared to the gain of HK\$75,431,756 in the last year, a 158% decrease. Net realised gain on disposal of listed securities was HK\$5,839,602 (2007: HK\$4,929,798). Impairment losses on loans and receivables, accounts receivable, available-for-sale financial assets and deposits on investments written off amounting to HK\$48,522,670 (2007: HK\$9,511,973) were charged to the income statement. Employees benefits and depreciation expenses amounted to HK\$5,699,867 (2007: HK\$3,269,845) while other operating expenses totalled at HK\$13,139,975 (2007: HK\$14,789,073). Finally, the loss attributable to equity holders of the Company for the year recorded HK\$88,590,514 as compared to the profit of HK\$50,907,356 in the last year, a 274% decrease.

PROSPECTS AND FUTURE PLANS

The global economic slowdown has pushed the financial stock markets to a brink of collapse and the impact is being felt worldwide. We are certainly in the middle of a major international shock that is developing from financial turbulence into economic recession.

No doubt the financial crisis and sharp falls in the Hong Kong share market followed by the credit crunch have had a severe impact on the company's business performance and affected its investment strategies. Over this period, we saw governments in many foreign countries announced plans to stabilise their financial institutions, including through large-scale capital injections and guarantees of some forms of bank debt.

The Hong Kong and Chinese governments have introduced similar measures, but the process of readjustment could be very rocky for an exposed economy such as Hong Kong, with real economic costs – in terms of high unemployment and slowdown in business.

We have not escaped the impact of this massive international credit crunch. The next 12 months will be the most challenging year the company have had to face.

Chairman's Statement

The bearish forces developing in world financial markets will certainly create difficult investment conditions especially in the Hong Kong and China markets and caution will be applied to all our direct investments.

The Board of Directors will undertake no further investments in new projects, for at least in the next six months. The key to an optimistic attitude is to have a quality portfolio and our portfolio decisions will focus on that goal.

The Board of Directors is aware, despite the gloom; there will be good investment opportunities over the next year or so especially in China. The Company is financially sound, with no borrowings and with net current assets of HK\$97,920,181, the company remains positive and well-positioned to take advantage of investments opportunities when the economy recovers and confidence returns.

DIVIDEND

The directors do not recommend the payment of dividend in respect of the year ended 31st December, 2008 (2007: HK\$6,630,444).

APPRECIATION

On behalf of the Board of Directors, I thank the management team and our staff for their continued and dedicated efforts and wish to offer as well our sincere appreciation to our banks and shareholders for their support during the year.

Lee Fong Lit David

Chairman

Hong Kong, 30th March, 2009

Management Discussion and Analysis

Turnover of the Group for the year ended 31st December, 2008 was HK\$12,916,300 (2007: HK\$5,084,365) and the loss attributable to equity holders of the Company was HK\$88,590,514 (2007: profit of HK\$50,907,356).

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group had available funds of HK\$10,252,785 which were mainly placed with banks as time deposits. Cash and bank balances held by the Group are mainly denominated in Hong Kong dollars and Canadian dollars.

The Group had shareholders' fund of HK\$183,541,764 at 31st December, 2008 compared to HK\$288,047,095 at 31st December, 2007, a 36% decrease.

At present, the Group has unutilised banking facilities of HK\$3,000,000 and requires no significant funding for investment and capital expenditure commitments. The interest rate charged on the banking facilities is 2% per annum over the Prime Lending Rate or 2% per annum over the prevailing overnight Hong Kong Interbank Offered Rate, whichever is higher.

As at 31st December, 2008, the Group had no borrowing (2007: nil). The gearing ratio for the Group was 0% (2007: 0%) which represents the ratio of the Group's borrowings to the net asset value of the Group.

The Group did not have any capital expenditure commitment as at 31st December, 2008.

Capital Structure

There was no significant change in the Group's capital structure for the year ended 31st December, 2008.

On 18th August, 2008, the Company granted 522,047 and 50,000 share options to three employees and a corporate development advisor respectively at the exercise price of HK\$5.1 per share representing 1.47% of the issued share capital of the Company as at 31st December, 2008. The fair value of the 572,047 share options granted were valued by an independent valuer which amounted to HK\$343,000 as at the date of grant and was recognised as expense in the income statement.

There is no outstanding share options can be granted as at 31st December, 2008.

Management Discussion and Analysis

SIGNIFICANT INVESTMENTS HELD AND THEIR PERFORMANCE

For the year ended 31st December, 2008, the turnover increased to HK\$12,916,300 when compared to HK\$5,084,365 in the last year, a 154% increase. The interest income was HK\$4,391,728 as compared to HK\$3,722,822 in the last year, a 18% increase. Dividends generated from the listed and unlisted securities was HK\$8,524,572 as compared to HK\$1,361,543 in the last year, a 526% increase.

During the year ended 31st December, 2008, the Group disposed of certain publicly traded securities with an aggregate value of HK\$23,180,802, resulting in a net realised gain of HK\$5,839,602 as compared to HK\$4,929,798, a 18% increase. As a result of the continuing global financial turmoil markets, the Group recorded an unrealised loss of HK\$44,044,129 on fair value change on the publicly traded securities as compared to the gain of HK\$75,431,756 in the last year, a 158% decrease. After taking into account of turnover, other revenue, other (losses) and gains, a negative result of HK\$74,822,392 was appeared in the Group's record when compared to the gain of HK\$80,048,650 in the last year, a 193% decrease.

As at 31st December, 2008, the Group's unlisted investments, which represent available-for-sale financial assets ("AFS Financial Assets") and loans and receivables, amounted to HK\$88,136,439 as compared to HK\$117,419,175 as at 31st December, 2007, a 25% decrease. The decrease was primarily due to an impairment loss of HK\$43,818,878 recognised for the year ended 31st December, 2008, consisting of losses of HK\$5,399,014 on AFS Financial Assets, HK\$38,219,864 on loans and receivables and HK\$200,000 on investments deposits. Despite the impairment provision, the Group still increased its investments which included a HK\$19,020,796 investment in a manufacturer of high quality wire and electrical accessory products, an increase in private equity equivalent to HK\$5,000,000 from the receipt of dividend payments on new shares and a subscription of an overseas listed security for HK\$2,211,405.

As at 31st December, 2008, the Group reduced accounts receivable and prepayments to HK\$19,383,342 as compared to HK\$28,940,971 as at 31st December, 2007, a 33% decrease. During the year ended 31st December, 2008, the Group received HK\$10,000,000 from loan repayment. The Group paid a deposit of HK\$3,294,939 to a property development project in Nanning, Guangxi province of PRC. An impairment loss of HK\$4,703,792 was made on the accounts receivable.

SEGMENT INFORMATION

No analysis of the Group's revenue and contribution to the operating (loss) profit for the year set out by principal activities and geographical markets is provided as the Group has only one single business segment, investment holding, and less than 10% of the turnover and other revenue, results and assets of the Group are attributable to markets outside Hong Kong.

Management Discussion and Analysis

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2008, the Group employed a total of 9 full-time employees, including the executive directors of the Company. Employees' remuneration are fixed and determined with reference to the market remuneration.

The remuneration policy of the Company for non-executive directors is to ensure that they are sufficiently compensated for their efforts and time dedicated to the Company and that for the employees, including the executive directors and senior management, is to ensure that the remuneration offered is appropriate for the duties and in line with market practice. The remuneration policy is to ensure that the pay levels are competitive and effective in attracting, retaining and motivating employees. No director, or any of his associates and executive, is involved in deciding his own remuneration.

The key components of the Company's remuneration package include basic salary plus other allowances, discretionary cash bonus and mandatory provident fund. As a long-term incentive plan and with the aim at motivating employees in the continued pursuit of the Company's goal and objectives, the Company has granted share options to subscribe for the shares of the Company to the employees (including directors) of the Company based on their performance and contribution to the Company under the Company's share option scheme.

EXPOSURES TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group has no significant exposures to fluctuations in foreign exchange rates and, therefore, did not employ any financial instruments to hedge such exposures.

CONTINGENT LIABILITIES

As at 31st December, 2008, the Group has no significant contingent liabilities.

Report of the Directors

The directors submit their annual report together with the audited financial statements for the year ended 31st December, 2008.

PRINCIPAL ACTIVITIES

The principal activities of the Company and its subsidiaries during the year are investments in securities listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and unlisted investments with a potential for earnings growth and capital appreciation. The activities of the subsidiaries are set out in note 14 to the financial statements.

The Group’s turnover for the year comprised dividends from listed and unlisted investments, and interest earned from bank deposits and loans and receivables.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 27.

The directors do not recommend the payment of dividend in respect of the year ended 31st December, 2008 (2007: HK\$6,630,444).

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in consolidated statement of changes in equity on page 30 and note 23 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and the Company are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 22 to the financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st December, 2008 according to the Company’s Articles of Association amounted to HK\$91,081,227 (2007: HK\$184,136,307).

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company’s Memorandum and Articles of Association or the laws of the Cayman Islands.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 96.

Report of the Directors

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

SHARE OPTION

The Company has adopted a share option scheme (the "Share Option Scheme") at its annual general meeting held on 28th June, 2005. The purposes of the Share Option Scheme are to provide participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

The details of the Share Option Scheme and movements of share options granted under the Share Option Scheme is set out in note 22(c) to the financial statements.

DIRECTORS

The directors during the year and up to the date of this report were:

Lee Fong Lit David
Chow Pok Yu Augustine
Lam Andy Siu Wing, *JP*
Chan Shuen Chuen Joseph
Tong Kim Weng Kelly
Ho Man Kai Anthony
Wong Yun Kuen

In accordance with the Company's Articles 98(b), Mr. Chan Shuen Chuen Joseph, Mr. Tong Kim Weng Kelly and Dr. Wong Yun Kuen shall retire from office by rotation at the forthcoming annual general meeting, being eligible, offer themselves for re-election.

Mr. Ho Man Kai Anthony, Mr. Tong Kim Weng Kelly and Dr. Wong Yun Kuen are independent non-executive directors.

The Company has received annual confirmation from each of the independent non-executive directors as regards their independence to the Company and considers that each of the independent non-executive directors is independent to the Company.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with any member of the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Report of the Directors

DIRECTORS' INTERESTS IN CONTRACTS

Details of Dr. Chow Pok Yu Augustine's interest in contracts of significance in relation to the Group's business are set out in note 26 to the financial statements.

Save as disclosed above, no other contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of directors are set out below:

Executive Directors:

Mr. Lee Fong Lit David, aged 62, joined the Company in February 1998. He is also the Chairman of the Board of the Company. He obtained his BSc degree from McGill University in Montreal and his MBA degree from Columbia University, New York. Mr. Lee has over 29 years experience in the international finance and investment management industry. He is involved in investing in equity markets of Singapore, Malaysia and Hong Kong. Mr. Lee is a director of Harmony Asset Management Limited, the investment manager of the Company and also a director of Sino Path Consultants Limited, a substantial shareholder of the Company, whose interest in shares of the Company is disclosed in the section "Directors' Interests in Equity or Debt Securities".

Dr. Chow Pok Yu Augustine, aged 56, joined the Company in June 1996, He is also the Chief Executive Officer of the Company. He holds a MSc from London Business School and Ph.D from University of South Australia and Engineering Doctorate from City University of Hong Kong. Dr. Chow has vast experience in managing public listed companies that are involved in manufacturing, marketing and financial services and specialising in mergers and acquisitions. Dr. Chow is also a director of Sino Path Consultants Limited and both director and shareholder of Harmony Asset Management Limited. He is also a non-executive director of Jian ePayment Systems Limited, a public listed company in Hong Kong. Dr. Chow is also a director of Celsion Corporation, a public listed company in USA and an independent director of Augyva Mining Resources Inc. a public listed company in Canada.

Dr. Lam Andy Siu Wing, JP, aged 58, joined the Company in August 1999 and was appointed as executive director in March 2004. He is also the Chief Financial Officer of the Company. He has involved in strategic investment and planning for listed and unlisted companies over 21 years. He holds a doctoral degree from the University of Bolton and an MBA degree from Oklahoma City University. Professionally, Mr. Lam is an American Certified Public Accountant, a Certified Fraud Examiner, a Chartered Secretary and a Chartered Marketer. He also has served on a number of government committees, boards, and tribunals in Hong Kong and was appointed as a Justice of the Peace on 1st July, 2001.

Report of the Directors

Mr. Chan Shuen Chuen Joseph, aged 62, joined the Company in December 2006. He is also the qualified accountant of the Company. He obtained his MBA degree from Heriot-Watt University, Edinburgh Business School, Scotland, UK. Mr. Chan has over 30 years of accounting and management experience in the fields of industrial manufacturing, service industry, academic and Government. Professionally, Mr. Chan is an associate member of The Institute of Chartered Accountants in England and Wales, a Fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, and the Chartered Institute of Management Accountants, as well as a member of the Certified General Accountants Association of Canada.

Independent Non-executive Directors:

Mr. Ho Man Kai Anthony, aged 57, joined the Company in September 2004. He is also the Chairman of the audit committee and remuneration committee. He graduated from The Chinese University of Hong Kong with a BBA degree, an MBA degree from the University of East Asia, Macau and a Master of Professional Accounting Degree from The Hong Kong Polytechnic University. Mr. Ho has over 30 years' experience in management accounting, corporate administration and financial management. He held management positions before with Gammon-Swire Joint Venture, Drageges et Travaux Publics, Mass Transit Railway Corporation and The Hong Kong Jockey Club. He is a Fellow Professional National Accountant of the National Institute of Accountants in Australia and a Fellow Member of The Hong Kong Taxation Institute.

Mr. Tong Kim Weng Kelly, aged 60, joined the Company in November 1998. He is also a member of the audit committee of the Company. He holds degrees in Political Science BA (Hons) and Public Policy (Master of Public Policy) from Victoria University, New Zealand. He was a former senior officer in the New Zealand Trade Department. After leaving the public sector, he served in various capacities as a consultant involved in marketing and business development, IT and the financing services, sourcing and arranging private equity for a variety of projects.

Dr. Wong Yun Kuen, aged 51, joined the Company in September 2004. He is also a member of the audit committee and remuneration committee. He received a Ph.D. Degree from Harvard University, and was "Distinguished Visiting Scholar" at Wharton School of the University of Pennsylvania. Dr. Wong has worked in financial industries in the United States and Hong Kong for more than 10 years, and has considerable experience in Corporate Finance, Investment and Derivative Products. He is Member of Hong Kong Securities Institute. Dr. Wong is an executive director of UBA Investments Limited, and an independent non-executive director respectively of Grand Field Group Holdings Limited, Golden Resorts Group Limited, Bauhaus International (Holdings) Limited, Kaisum Energy Group Limited, Superb Summit International Timber Company Limited, China Yunnan Tin Minerals Group Company Limited, Climax International Company Limited, China E-learning Group Limited and Kong Sun Holdings Limited.

Report of the Directors

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 31st December, 2008, the interests of the directors and chief executive in the shares of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (“SFO”)), as recorded in the register maintained by the Company under Section 352 of the SFO or as 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”) in the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) were as follows:

(a) Ordinary shares of HK\$1 each in the Company

Name of director	Capacity	Number of shares				31st December, 2008	Percentage of issued share capital as at
		Personal interests	Family interests	Corporate interests	Other interests		
Lee Fong Lit David	Interest of controlled corporation	-	-	7,200,315 (Note)	-	18.46%	
Ho Man Kai Anthony	Beneficial owner	32,000	-	-	-	0.08%	

Note: These 7,200,315 shares are held by Sino Path Consultants Limited in the capacity of beneficial owner, a company which is held 70% by Mr. Lee Fong Lit David and 30% by Dr. Chow Pok Yu Augustine. Mr. Lee Fong Lit David and Dr. Chow Pok Yu Augustine are executive directors of the Company.

(b) Share options of the Company

The Company has adopted a share option scheme on 28th June, 2005. The particulars of the Share Option Scheme are set out in note 22(c) to the financial statements. On 18th August, 2008, the Company granted 522,047 and 50,000 share options to three employees and a corporate development advisor respectively at the exercise price of HK\$5.1 per share representing 1.47% of the issued share capital of the Company as at 31st December, 2008. As at 31st December, 2008, the Company had granted a total of 2,922,047 share options, representing approximately 10% of total issued shares of the Company as at the date of adoption of the Share Option Scheme. Accordingly, no further share options can be granted by the Company. Further details of the Share Option Scheme are set out in note 22(c) to the financial statements.

Report of the Directors

The movements of the share options granted to directors and employees during the year ended 31st December, 2008 are as follows:

	Date of grant	Exercise period	Number of options			Exercise price HK\$	Percentage of issued share capital as at 31st December, 2008
			Outstanding as at 1st January, 2008	Granted during the year	Outstanding as at 31st December, 2008		
Directors							
Lee Fong Lit David	30/4/2007	30/4/2007-29/4/2010	28,000	-	28,000	4.29	0.07%
Chow Pok Yu Augustine	30/4/2007	30/4/2007-29/4/2010	28,000	-	28,000	4.29	0.07%
Lam Andy Siu Wing, JP	30/4/2007	30/4/2007-29/4/2010	292,000	-	292,000	4.29	0.75%
Chan Shuen Chuen Joseph	30/4/2007	30/4/2007-29/4/2010	28,000	-	28,000	4.29	0.07%
Tong Kim Weng Kelly	30/4/2007	30/4/2007-29/4/2010	28,000	-	28,000	4.29	0.07%
Ho Man Kai Anthony	30/4/2007	30/4/2007-29/4/2010	28,000	-	28,000	4.29	0.07%
Wong Yun Kuen	30/4/2007	30/4/2007-29/4/2010	28,000	-	28,000	4.29	0.07%
Sub-total			460,000	-	460,000		
Other employees in aggregate							
	30/4/2007	30/4/2007-29/4/2010	584,000	-	584,000	4.29	1.50%
	18/8/2008	18/8/2008-17/8/2011	-	522,047	522,047	5.10	1.34%
Sub-total			584,000	522,047	1,106,047		
Other parties							
Maison Placements Canada Inc	18/6/2007	18/6/2007-17/6/2009	290,000	-	290,000	6.03	0.74%
CanCap Advisory Services Ltd	18/8/2008	18/8/2008-17/8/2011	-	50,000	50,000	5.10	0.13%
Sub-total			290,000	50,000	340,000		
Grand-total			1,334,000	572,047	1,906,047		

Save as disclosed herein, none of the directors or chief executives of the Company had any interest in the equity or debt securities of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under section 352 of the SFO.

At no time during the year did the directors and chief executive (including their spouses and children under 18 years of age) have any interest in, or been granted, or exercised, any rights to subscribe for shares or warrants of the Company and its associated corporations (within the meaning of the SFO).

Note: These options represent personal interest held by the relevant directors as beneficial owners. No options were exercised, lapsed or cancelled during the year.

Report of the Directors

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2008, the persons (other than those of the directors and chief executive as disclosed above) interested in 5% or more of the issued share capital of the Company as recorded in the register kept by the Company pursuant to Section 336 of SFO was as follows:

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company as at 31st December, 2008
ABC Dirt-Cheap Stock Fund	Beneficial Owner	4,042,500	10.36%
Dynamic Global Value Class Fund	Beneficial Owner	2,339,500	6.16%

Saved as disclosed above, the Company has not been notified of any other interests or short positions in the shares or the underlying shares of the Company, representing 5% or more of the issued share capital of the Company as at 31st December, 2008.

MANAGEMENT CONTRACTS

Details of significant management contracts in relation to the Company's business are set out in note 26 to the financial statements.

Save as disclosed above, no other contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group earned less than 30% of its revenue from its five largest customers. The Group is an investment holding company. In the opinion of the directors, it is therefore of no value to disclose details of the Group's suppliers.

CONNECTED TRANSACTIONS

Significant related party transactions entered by the Group during the year ended 31st December, 2008 which also constitute connected transactions under the Listing Rules, are disclosed in note 26 to the financial statements.

Report of the Directors

Opinion from the independent non-executive directors on the continuing connected transactions

Pursuant to Rule 14A.37 of the Listing Rules in relation to management fees and incentive fee payable by the Company to Harmony Asset Management Limited, the independent non-executive directors of the Company have reviewed the above continuing connected transactions and opined that the management fees and the incentive fee paid by the Company to Harmony Asset Management Limited for the year ended 31st December, 2008 were:

- (a) entered into in the ordinary and usual course of business of the Group;
- (b) entered into on normal commercial terms; and
- (c) entered into in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Report from the auditor on the continuing connected transactions

Pursuant to Rule 14A.38 of the Listing Rules in relation to the management fees and incentive fee payable by the Company to Harmony Asset Management Limited, the Board of Directors of the Company engaged the auditor of the Company to perform certain agreed-upon procedures on the above continuing connected transactions as identified by the management for the year ended 31st December, 2008 in accordance with Hong Kong Standard on Related Services 4400 “Engagements to Perform Agreed-Upon Procedures Regarding Financial Information” issued by the Hong Kong Institute of Certified Public Accountants and the auditor reported that:

The management fees and the incentive fee paid by the Company to Harmony Asset Management Limited for the year ended 31st December, 2008:

- (a) had received the approval of the Board of Directors;
- (b) had been entered into in accordance with the terms of the relevant agreements governing the continuing connected transactions (for the samples selected); and
- (c) had not exceeded the relevant cap amount for the financial year ended 31st December, 2008 as set out in the circular of the Company dated 24th April, 2008.

Report of the Directors

AUDIT COMMITTEE

The Audit Committee provides an important link between the Board and the Company's auditor in matters coming within the scope of the Group's audit. It also reviews the Company's financial statements and the effectiveness of the internal controls and risk evaluation. The Committee now comprises three independent non-executive directors, namely Mr. Ho Man Kai Anthony, Dr. Wong Yun Kuen and Mr. Tong Kim Weng Kelly. Four meetings of the audit committee were held during the current financial year. The annual results for the year ended 31st December, 2008 were reviewed by the Audit Committee.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

AUDITOR

Messrs. BDO McCabe Lo Limited, Certified Public Accountants, is the Company's retiring auditor who, being eligible, offers themselves for re-appointment.

By order of the Board
Lee Fong Lit David
Chairman

Hong Kong, 30th March, 2009

Corporate Governance Report

CORPORATE GOVERNANCE

Maintaining high standards of corporate governance in everything we do.

Sound corporate governance practices are crucial to the smooth, effective and transparent operation of a company and its ability to attract investment, protect rights of shareholders and stakeholders, and enhance shareholder value. The Company is committed to high standards of corporate governance with a view to being transparent, open and accountable to our shareholders.

The Company adopted all the code provisions in the Code on Corporate Governance Practices (“the Code”) contained in appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) as its own code on corporate governance practices.

The Company has complied with the code provisions as set out in the Code during the year ended 31st December, 2008.

BOARD OF DIRECTORS

Composition

The Board of Directors of the Company comprises four executive directors. Mr. Lee Fong Lit David acts as Chairman of the Board. Dr. Chow Pok Yu Augustine is Chief Executive Officer of the Company. Other executive directors are Dr. Lam Andy Siu Wing, JP and Mr. Chan Shuen Chuen Joseph. The Company has three independent non-executive directors, Mr. Ho Man Kai Anthony, Mr. Tong Kim Weng Kelly and Dr. Wong Yun Kuen. One of whom namely, Mr. Ho Man Kai Anthony has appropriate professional accounting experience and expertise.

All directors have distinguished themselves in their field of expertise, and have exhibited high standards of personal and professional ethics and integrity. The biographical details of each director are disclosed in pages 10 and 11 of this Annual Report.

Each independent non-executive director has pursuant to the rule 3.13 of the Listing Rules, confirmed that he is independent of the Company and the Company also considers that they are independent.

There is no relationship (including financial, business, family or other material relationship) among members of the Board.

Pursuant to the articles of association of the Company, the directors shall hold office subject to retirement by rotation at the annual general meeting of the Company at least once every three years and eligible for re-election.

Corporate Governance Report

The term of office of each independent non-executive director is for a period of 1 year from 1st January, 2009 to 31st December, 2009, subject to retirement by rotation.

Function

The Board of Directors, headed by the Chairman, is responsible for formulation and approval of the Group's development and business strategies and policies, approval of annual budgets and business plans, recommendation of dividend, and supervision of management in accordance with the rules governing the meeting of the Board of Directors, the Chief Executive Officer's working guides, articles of association and rules governing the meeting of shareholders.

The executive directors are responsible for day-to-day management of the Company's operations. These executive directors conduct regular meetings with the senior management of the Company and its subsidiaries and associated companies, at which operational issues and financial performance are evaluated.

The Company views well-developed and timely reporting systems and internal controls are essential, and the Board of Directors plays a key role in the implementation and monitoring of internal financial controls.

18

The Board of Directors has established schedule of matters specifically reserved to the Board for its decision and those reserved for the management. The Board of Directors reviews this schedule on a periodic basis to ensure that it remains appropriate to the needs of the Company.

The Board of Directors has established procedure to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses.

The articles of association of the Company contain description of responsibilities and operation procedures of the Board of Directors. The Board of Directors holds regular meeting and listens to the operating reports of the Company and makes policies. Significant operating policies of the Company have to be discussed and passed by the Board of Directors. Board meetings include regular meetings and irregular meetings. The Board of Directors meets formally at least 4 times a year.

Besides regular and irregular meetings, the Board of Directors obtains adequate information through working meetings, presided by the Chairman in a timely manner, to monitor objectives and strategies of the management, financial conditions and operating results of the Company and provisions of significant agreements.

Corporate Governance Report

During 2008, the Board of Directors held 4 regular Board meetings at approximately quarterly interval and 18 irregular Board meetings which were convened when deemed necessary. Due notice and Board papers were given to all directors prior to the meeting in accordance with the Company's articles of association and the Code. Details of individual attendance of directors are set out below:

Attendance of individual directors at Board meetings in 2008

Executive Directors	No. of Board Meeting attended
Mr. Lee Fong Lit David	5
Dr. Chow Pok Yu Augustine	20
Dr. Lam Andy Siu Wing, JP	22
Mr. Chan Shuen Chuen Joseph	2
Independent Non-executive Directors	
Mr. Ho Man Kai Anthony	7
Mr. Tong Kim Weng Kelly	7
Dr. Wong Yun Kuen	7

Chairman and Chief Executive Officer

The role of the Chairman, Mr. Lee Fong Lit David is separated from that of the Chief Executive Officer, Dr. Chow Pok Yu Augustine. Such division of responsibilities allows a balance of power between the Board of Directors and the management of the Group, and ensures their independence and accountability.

The Chairman is the leader of the Board and he oversees the Board so that its acts in the best interests of the Group. The Chairman is responsible for deciding the agenda of each Board meeting, taking into account, where appropriate, matters proposed by other directors for inclusion in the agenda. The Chairman has overall responsibility for providing leadership, vision and direction in the development of the business of the Company.

The Chief Executive Officer, assisted by other executive directors, is responsible for the day-to-day management of the business of the Group, attends to formulation and successful implementation of policies, and assumes full accountability to the Board for all operations of the Group. Working with the Chairman and the executive management team of each core business division, he ensures smooth operations and development of the Group. He maintains continuing dialogue with the Chairman and all directors to keep them fully informed of all major business developments and issues. He is also responsible for building and maintaining an effective executive team to support him in his role.

Corporate Governance Report

Responsibilities

In the course of discharging their duties, the directors act in good faith, with due diligence and care, and in the best interests of the Company and its shareholders. Their responsibilities include:

- Attending regular board meetings focusing on business strategy, operational issues and financial performance.
- Active participation on the boards of subsidiaries and associated companies.
- Approval of annual budgets for each operating company covering strategy, financial and business performance, key risks and opportunities.
- Monitoring the quality, timeliness, relevance and reliability of internal and external reporting.
- Monitoring and managing potential conflicts of interest of management, Board members and shareholders, including misuse of corporate assets and abuse in related party transaction.
- Ensuring processes are in place to maintain the overall integrity of the Company, including financial statements, relationships with suppliers, customers and other stakeholders, and compliance with all laws and ethics.

To enable the Company's directors to meet their obligations, an appropriate organisational structure is in place with clearly defined responsibilities and limits of authority.

Board Committees

A number of Board Committees, including Audit Committee, Investment Committee and Remuneration Committee, have been established by the Board of Directors to strengthen its functions and to enhance its expertise. These committees have been formed with specific written terms of reference which deal clearly with the committees' authority and duties.

Investment Committee

The Board has established an Investment Committee comprising two executive directors, Dr. Chow Pok Yu Augustine and Dr. Lam Andy Siu Wing *JP*. It is chaired by Dr. Chow Pok Yu Augustine.

The terms and reference of the Investment Committee have been approved and adopted by the board of directors of the Company.

The Investment Committee considers, evaluates, reviews and recommends to the Board the proposed major investments, acquisitions and disposals, conducts post-investment evaluation of the investment projects, reviews and considers the overall strategic direction and business developments of the Company.

Corporate Governance Report

Remuneration Committee

The Board has established a Remuneration Committee comprising one executive director, Dr. Chow Pok Yu Augustine and two independent non-executive directors, Mr. Ho Man Kai Anthony and Dr. Wong Yun Kuen. It is chaired by Mr. Ho Man Kai Anthony.

The terms of reference of the Remuneration Committee have been reviewed with reference to the Code.

The Remuneration Committee's responsibilities are to review and consider Company's policy for remuneration of directors and senior management, to determine remuneration packages of executive directors and senior management including benefits in kind, pension rights and compensation payments, and to recommend to the Board of Directors on remuneration of independent non-executive directors.

Set out below is the summary of work of the Remuneration Committee done in 2008:

- review of the remuneration policy for 2008/2009;
- review of the remuneration of the directors and employees; and
- consideration and recommendation of the grant of option.

The Remuneration Committee held two meetings during 2008. Details of individual attendance of its members are set out in the table below:

Attendance of individual members of Remuneration Committee in 2008

Names	No. of meeting attended
Dr. Chow Pok Yu Augustine	1
Mr. Ho Man Kai Anthony (<i>Chairman</i>)	2
Dr. Wong Yun Kuen	2

Audit Committee

The Company's Audit Committee is composed of three independent non-executive directors, namely Mr. Ho Man Kai Anthony, Mr. Tong Kim Weng Kelly and Dr. Wong Yun Kuen. It is chaired by Mr. Ho Man Kai Anthony. It reports directly to the Board of Directors and reviews matters within the scope of audit, such as financial statements and internal controls, to protect the interests of the Company's shareholders.

Corporate Governance Report

The Audit Committee meets regularly with the Company's external auditors to discuss audit process and accounting issues, and reviews effectiveness of internal controls and risk evaluation. Written terms of reference, which describes the authority and duties of the Audit Committee are regularly reviewed and updated by the Board.

Set out below is the summary of work done in 2008:

- review of the financial statements for the year ended 31st December, 2007, for the three months ended 31st March 2008, for the six months ended 30th June, 2008 and for the nine months ended 30th September 2008;
- review of effectiveness of the internal control system;
- review of independent auditor's report and management letter; and
- consideration and approval of 2008 audit fees and audit work and recommendation of the re-appointment of auditor.

The Audit Committee held four meetings during the year. Details of individual attendance of its members are set out in the table below:

Attendance of individual members of Audit Committee in 2008

Names	No. of meeting attended
Mr. Ho Man Kai Anthony (<i>Chairman</i>)	4
Mr. Tong Kim Weng Kelly	4
Dr. Wong Yun Kuen	4

Nomination of Directors

The Board of Directors has not established a nomination committee. According to the articles of association of the Company, the Board has the power from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. In assessing nomination of new directors, the Board has taken into consideration of the nominee's qualification, ability and potential contributions to the Company. There was no removal or resignation of director during the year.

Corporate Governance Report

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that in respect of the year ended 31st December, 2008, all Directors have complied with the required standard set out in the Model Code of the Company.

The Company has also established written guidelines regarding securities transaction on no less exacting terms of the Model Code for senior management and specific individual who may have access to price sensitive information in relation to the securities of the Company.

EXTERNAL AUDITORS

The Audit Committee reviews engagement letter and report from the external auditor of the Company, BDO McCabe Lo Limited, Certified Public Accountants (“BDO”), confirming their independence, approves their appointment, discusses the scope of their audit, approves their fees, and the scope and appropriate fees for any non-audit services requested to be provided by them.

BDO provided annual audit services in respect of the Company’s consolidated financial statements prepared under International Financial Reporting Standards (“IFRSs”) for the year ended 31st December, 2008. The financial statements are prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules.

During the year, the fees to BDO in respect of audit services were HK\$830,000. In respect of non-audit services, the fees to BDO were HK\$146,300.

INTERNAL CONTROL

The Company places great importance on internal control and risk management. The Company is making comprehensive improvements to its internal control system and will implement a stricter and more regulated internal control system in the new financial year.

The Company encourages a risk aware and control conscious environment throughout the Company. The Board, either directly or through its committees, sets objectives, performance targets and policies for management of key risks facing the Company. These include strategic planning, political and regulatory, acquisitions, investments, expenditure control, treasury and environment.

During the year, the Board has conducted a review of the effectiveness of the system of internal control and risk management of the Company and its subsidiaries pursuant to the code provision C.2.1.

Corporate Governance Report

GOING CONCERN

The Directors, having made appropriate enquiries, consider that the Company has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

SHAREHOLDER COMMUNICATION

The objective of shareholder communication is to provide our shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner.

The Company uses a range of communication tools to ensure its shareholders are kept well informed of key business imperatives. These include annual general meeting, annual report, interim report, quarterly results announcement, various notices, announcements and circulars. During 2008, procedure for demanding a poll has been included in all circulars accompanying notice convening general meeting and such procedure has been read out by the chairman at general meeting.

At the 2008 Annual General Meeting, a separate resolution was proposed by the Chairman in respect of each separate issue, including re-election Directors. The Chairman of the Board of Directors and a member of Audit Committee and Remuneration Committee attended the 2008 Annual General Meeting to answer questions of shareholders. A member of independent board committee attended the extraordinary general meeting held in 2008 approving the continuing connected transaction.

DIRECTORS' RESPONSIBILITY IN PREPARING THE FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibilities in preparing the financial statements. The statement of the Independent Auditor about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on page 25 to page 26.

Independent Auditor's Report



BDO McCabe Lo Limited
 Certified Public Accountants
 25th Floor, Wing On Centre
 111 Connaught Road Central
 Hong Kong
 Telephone: (852) 2541 5041
 Telefax: (852) 2815 2239

德豪嘉信會計師事務所有限公司

香港干諾道中一百一十一號
 永安中心二十五樓
 電話:(八五二)二五四一五〇四一
 傳真:(八五二)二八一五二二三九

TO THE SHAREHOLDERS OF HARMONY ASSET LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the accompanying consolidated financial statements of Harmony Asset Limited (the “Company”) and its subsidiaries (together the “Group”) which comprise the balance sheet of the Company and of the Group as at 31st December, 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and of the Group as at 31st December, 2008, and of the Group's financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

26

BDO McCabe Lo Limited

Certified Public Accountants

Wong Chi Wai

Practising Certificate Number P04945

Hong Kong, 30th March, 2009

Consolidated Income Statement

for the year ended 31st December

	Note	2008 HK\$	2007 HK\$
Turnover	5	12,916,300	5,084,365
Other revenue	5	599,451	879,909
Other (losses) and gains	5	(88,338,143)	74,084,376
		(74,822,392)	80,048,650
Employee benefits expenses		(5,570,840)	(3,063,128)
Depreciation of property, plant and equipment		(129,027)	(206,717)
Other operating expenses		(13,139,975)	(14,789,073)
Operating (loss) profit	6	(93,662,234)	61,989,732
Finance costs	7	–	(3,613)
(Loss) profit before income tax		(93,662,234)	61,986,119
Income tax credit (expenses)	8	5,071,720	(11,078,763)
(Loss) profit for the year attributable to equity holders of the Company	10	(88,590,514)	50,907,356
Proposed dividend	11	–	6,630,444
(Loss) earnings per share	12		
Basic		(HK\$2.27)	HK\$1.48
Diluted		N/A	HK\$1.46

Consolidated Balance Sheet

as at 31st December

	Note	2008 HK\$	2007 HK\$
Non-current assets			
Property, plant and equipment	13	136,886	213,780
Interests in associates	15	–	–
Available-for-sale financial assets	16	68,058,932	58,321,923
Loans and receivables	17	20,077,507	59,097,252
		88,273,325	117,632,955
Current assets			
Accounts receivable and prepayments	18	19,383,342	28,940,971
Financial assets at fair value through profit or loss	19	72,896,629	132,070,553
Bank balances and cash		10,252,785	21,698,184
		102,532,756	182,709,708
Current liabilities			
Accounts payable and accruals	20	1,786,655	2,246,637
Tax payable		2,825,920	10,048,931
		4,612,575	12,295,568
Net current assets		97,920,181	170,414,140
Total assets less current liabilities		186,193,506	288,047,095
Non-current liabilities			
Deferred tax liabilities	21	2,651,742	–
Net assets		183,541,764	288,047,095
Capital and reserves			
Share capital	22	39,002,615	39,002,615
Reserves	23	144,539,149	249,044,480
Total equity		183,541,764	288,047,095
Net asset value per share	24	HK\$4.71	HK\$7.39

Approved and authorised for issue by the Board of Directors on 30th March, 2009

LAM Andy Siu Wing
Director

CHOW Pok Yu Augustine
Director

Balance Sheet

as at 31st December

	Note	2008 HK\$	2007 HK\$
Non-current assets			
Property, plant and equipment	13	136,886	213,780
Interests in subsidiaries	14	68,903,191	111,860,647
Available-for-sale financial assets	16	10,780,000	10,000,000
		79,820,077	122,074,427
Current assets			
Accounts receivable and prepayments	18	4,676,520	14,880,916
Financial assets at fair value through profit or loss	19	39,425,712	73,153,514
Bank balances and cash		9,726,224	21,575,670
		53,828,456	109,610,100
Current liabilities			
Accounts payable and accruals	20	946,051	2,218,652
Tax payable		–	4,051,313
		946,051	6,269,965
Net current assets		52,882,405	103,340,135
Net assets		132,702,482	225,414,562
Capital and reserves			
Share capital	22	39,002,615	39,002,615
Reserves	23	93,699,867	186,411,947
Total equity		132,702,482	225,414,562

Approved and authorised for issue by the Board of Directors on 30th March, 2009

LAM Andy Siu Wing
Director

CHOW Pok Yu Augustine
Director

Consolidated Statement of Changes in Equity

for the years ended 31st December, 2008 and 2007

	Share capital HK\$	Share premium HK\$	Fair value reserve HK\$	Share option reserve HK\$	Proposed dividend HK\$	Retained profits/ (accumulated losses) HK\$	Total HK\$
At 1st January, 2008	39,002,615	170,354,945	15,268,766	1,007,000	6,630,444	55,783,325	288,047,095
Impairment loss on available-for-sale financial assets recognised in income statement	-	-	5,399,014	-	-	-	5,399,014
Fair value changes on available-for-sale financial assets recognised in equity	-	-	(15,026,387)	-	-	-	(15,026,387)
Net expense recognised in equity	-	-	(9,627,373)	-	-	-	(9,627,373)
Loss for the year	-	-	-	-	-	(88,590,514)	(88,590,514)
Total recognised expense for the year	-	-	(9,627,373)	-	-	(88,590,514)	(98,217,887)
Share option scheme –							
– value of employee services	-	-	-	313,040	-	-	313,040
– value of corporate development advisor services	-	-	-	29,960	-	-	29,960
Dividend paid	-	-	-	-	(6,630,444)	-	(6,630,444)
	-	-	-	343,000	(6,630,444)	-	(6,287,444)
At 31st December, 2008	39,002,615	170,354,945	5,641,393	1,350,000	-	(32,807,189)	183,541,764

Consolidated Statement of Changes in Equity

for the years ended 31st December, 2008 and 2007

	Share capital HK\$	Share premium HK\$	Fair value reserve HK\$	Share option reserve HK\$	Proposed dividend HK\$	Retained profits HK\$	Total HK\$
At 1st January, 2007	29,220,475	143,516,834	7,540,170	908,000	4,383,071	4,875,969	190,444,519
Impairment loss on available-for-sale financial assets recognised in income statement	-	-	288,246	-	-	-	288,246
Fair value changes on available-for-sale financial assets recognised in equity	-	-	7,440,350	-	-	-	7,440,350
Net income recognised in equity	-	-	7,728,596	-	-	-	7,728,596
Profit for the year	-	-	-	-	-	50,907,356	50,907,356
Total recognised income for the year	-	-	7,728,596	-	-	50,907,356	58,635,952
Share option scheme –							
– value of employee services	-	-	-	762,000	-	-	762,000
– value of placing agent services	-	(245,000)	-	245,000	-	-	-
Issue of shares from share placement	8,766,140	36,028,836	-	-	-	-	44,794,976
Issue of shares upon exercise of share options	1,016,000	2,686,000	-	(908,000)	-	-	2,794,000
Share issue expenses	-	(5,001,281)	-	-	-	-	(5,001,281)
Dividend paid	-	-	-	-	(4,383,071)	-	(4,383,071)
Proposed dividend (<i>Note 11</i>)	-	(6,630,444)	-	-	6,630,444	-	-
	9,782,140	26,838,111	-	99,000	2,247,373	-	38,966,624
At 31st December, 2007	39,002,615	170,354,945	15,268,766	1,007,000	6,630,444	55,783,325	288,047,095

Consolidated Cash Flow Statement

for the year ended 31st December

	Note	2008 HK\$	2007 HK\$
Operating activities			
Cash generated from (used in) operations	25(i)	6,473,116	(32,809,640)
Finance charge paid		–	(3,613)
Income tax refunded (paid)		500,451	(1,151,334)
Net cash from (used in) operating activities		6,973,567	(33,964,587)
Investing activities			
Interest received		1,878,039	845,809
Dividend received from available-for-sale financial assets		3,400,000	1,130,000
Advances to investee companies		(1,472,000)	(5,332,000)
Repayments from investee companies		2,641,700	8,848,301
Purchase of property, plant and equipment		(52,133)	(49,705)
Purchase of available-for-sale financial assets		(18,256,891)	(7,500,000)
Proceeds from disposal of available-for-sale financial assets		–	800,000
Net cash used in investing activities		(11,861,285)	(1,257,595)
Financing activities			
Dividend paid		(6,557,681)	(4,383,262)
Proceeds from exercise of share options		–	2,794,000
Proceeds from issue of shares		–	44,794,976
Share issue expenses		–	(5,001,281)
Net cash (used in) from financing activities		(6,557,681)	38,204,433
Net (decrease) increase in cash and cash equivalents		(11,445,399)	2,982,251
Cash and cash equivalents at 1st January		21,698,184	18,715,933
Cash and cash equivalents at 31st December		10,252,785	21,698,184
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		10,252,785	21,698,184

Notes to the Financial Statements

for the year ended 31st December, 2008

1. GENERAL

Harmony Asset Limited is incorporated in the Cayman Islands as an exempted company with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company is Room 1101, St. George's Building, 2 Ice House Street, Central, Hong Kong. Its shares are dual listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Toronto Stock Exchange (the "TSX").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 14.

2. ADOPTION OF AMENDMENTS AND NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

- (a) In the current year, the Group has applied, for the first time, the following amendments and new interpretations issued by the International Accounting Standards Board ("IASB") that are effective for the current accounting period of the Group and the Company.

Amendments to IAS 39 and IFRS 7	Reclassification of Financial Assets
IFRIC – Interpretation 11	IFRS 2: Group and Treasury Share Transactions
IFRIC – Interpretation 12	Service Concession Arrangements
IFRIC – Interpretation 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the above amendments and new interpretations had no material effect on the results or financial position of the Group for the current or prior accounting periods and no prior period adjustment has been recognised.

Notes to the Financial Statements

for the year ended 31st December, 2008

2. ADOPTION OF AMENDMENTS AND NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (continued)

- (b) Potential impact arising on the new or revised IFRSs not yet effective

The Group has not yet applied the following new or revised IFRSs that have been issued but are not yet effective.

IFRSs (Amendments)	Improvements to IFRSs ¹
IFRS 1 (Revised)	First-time Adoption of International Financial Reporting Standards ³
Amendments to IAS 32 and IAS 1	Puttable Financial Instruments and Obligations Arising on Liquidation ²
Amendment to IAS 39	Eligible Hedged Items ³
Amendments to IFRS 1 and IAS 27	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate ²
Amendments to IFRS 7	Improving Disclosures about Financial Instruments ²
Amendments to IFRIC	
– Interpretation 9 and IAS 39	Embedded Derivatives ⁷
IAS 1 (Revised)	Presentation of Financial Statements ²
IAS 23 (Revised)	Borrowings Costs ²
IAS 27 (Revised)	Consolidated and Separate Financial Statements ³
IFRS 2 Amendment	Share-based Payment – Vesting Conditions and Cancellations ²
IFRS 3 (Revised)	Business Combinations ³
IFRS 8	Operating Segments ²
IFRIC – Interpretation 13	Customer Loyalty Programmes ⁴
IFRIC – Interpretation 15	Agreements for the Construction of Real Estate ²
IFRIC – Interpretation 16	Hedges of a Net Investment in a Foreign Operation ⁵
IFRIC – Interpretation 17	Distributions of Non-cash Assets to Owners ³
IFRIC – Interpretation 18	Transfers of Assets from Customers ⁶

Notes to the Financial Statements

for the year ended 31st December, 2008

2. ADOPTION OF AMENDMENTS AND NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (continued)

(b) Potential impact arising on the new or revised IFRSs not yet effective (continued)

- ¹ Effective for annual periods beginning on or after 1st January, 2009 except the amendments to IFRS 5, effective for annual periods beginning on or after 1st July, 2009
- ² Effective for annual periods beginning on or after 1st January, 2009
- ³ Effective for annual periods beginning on or after 1st July, 2009
- ⁴ Effective for annual periods beginning on or after 1st July, 2008
- ⁵ Effective for annual periods beginning on or after 1st October, 2008
- ⁶ Effective for transfers of assets from customers received on or after 1st July, 2009
- ⁷ Effective for annual periods ending on or after 30th June, 2009

The Group is in the process of making an assessment of the potential impact of these standards, amendments or interpretations and the directors of the Company so far concluded that the application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(a) Statement of compliance

These financial statements have been prepared in accordance with IFRS issued by the IASB, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange.

(b) Basis of measurement

The financial statements have been prepared under the historical cost convention, except that, as disclosed in the accounting policies below, available-for-sale financial assets and financial assets at fair value through profit or loss are stated at fair value. A summary of the significant accounting policies adopted by the Group is set out in note 4.

Notes to the Financial Statements

for the year ended 31st December, 2008

3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

(c) Use of estimates and judgements

In the application of the Group's accounting policies, which are described in note 4, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed in note 29.

(d) Functional and presentation currency

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries made up to 31st December each year.

The financial statements of subsidiaries are included into the consolidated financial statements from the date that control commences until the date that control ceases.

All intra-group transactions and balances, and any unrealised profit arising from intra-group transactions, are eliminated in full on consolidation. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Notes to the Financial Statements

for the year ended 31st December, 2008

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Subsidiaries

A subsidiary is an entity controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from the activities.

Investments in subsidiaries are stated in the Company's balance sheet at cost less any impairment losses as set out in note 4(f) below. The results of subsidiaries are accounted for by the Company to the extent of dividends received and receivable.

(c) Associates

An associate is an entity, in which the Group or the Company has significant influence, but not control or joint control over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in associates recognised for the year.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in income statement.

Notes to the Financial Statements

for the year ended 31st December, 2008

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

Goodwill is stated at cost less accumulated impairment losses. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in income statement.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of a cash-generating unit or an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

Notes to the Financial Statements

for the year ended 31st December, 2008

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses as stated in note 4(f) below. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are normally expensed in income statement in the period in which they are incurred.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, over their estimated useful lives using the straight-line method. The annual rate used is 20%.

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. The useful life of an asset and its residual value, if any, are reviewed and adjusted, if appropriate, annually at each balance sheet date.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in income statement on the date of retirement or disposal.

Notes to the Financial Statements

for the year ended 31st December, 2008

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Impairment of non-financial assets other than goodwill

At each balance sheet date, the Group assesses whether there is any indication that property, plant and equipment, investments in subsidiaries and associates have suffered an impairment loss. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount is the higher of the fair value less costs to sell and value in use of an asset. The fair value less costs to sell is the amount that could be obtained from the sale of an asset in an arm's length transaction between knowledgeable and willing parties less the costs of disposal, while value in use is the present value of the future cash flows expected to be derived from an asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit, is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, which is restricted to the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Notes to the Financial Statements

for the year ended 31st December, 2008

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments

Financial assets and financial liabilities are recognised in the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in income statement.

Financial assets

The Group's financial assets are classified into one of the three categories, comprising financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss represent financial assets held for trading if:

- they have been acquired principally for the purpose of selling in the near future; or
- they are part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- they are derivative that are not designated and effective as a hedging instruments.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in income statement in the period in which they arise.

Notes to the Financial Statements

for the year ended 31st December, 2008

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including accounts receivable, loans receivable and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss or loans and receivables. The Group designates certain listed and unlisted investments as available-for-sale financial assets. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in income statement.

The fair value of listed available-for-sale investments is based on their quoted market prices at the balance sheet date, without any deduction for estimated future selling costs.

For available-for-sale equity investments which are not traded in an active market, fair value is estimated based upon an analysis of the respective investee's financial position and results, risk profile, nature of business, prospects, other factors and assumptions not supported by observable market data as well as reference to market valuations for similar entities quoted in an active market, current fair value of comparable investments or applicable price/earning ratios for comparable listed companies adjusted to reflect the circumstances of the investee.

When the fair value of unlisted available-for-sale equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, they are measured at cost less any identified impairment losses.

Notes to the Financial Statements

for the year ended 31st December, 2008

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments (continued)

Impairment loss on financial assets

Objective evidence that the asset is impaired includes observable data that comes to the attention of the Group includes the following loss events:

- significant financial difficulty of the debtor or counterparty; or
- a breach of contract, such as a default or delinquency in interest or principal payments; or
- granting concession to a debtor because of the debtors' financial difficulty; or
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; or
- a significant decline or prolonged decline in the fair value of an investment below its cost.

For loans and receivables

An impairment loss is recognised in the income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

For available-for-sale financial assets

Where a decline in the fair value constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the income statement.

Any impairment losses recognised in the income statement on available-for-sale debt investments, are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investment, any increase in fair value subsequent to an impairment loss is recognised directly in equity.

Notes to the Financial Statements

for the year ended 31st December, 2008

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments (continued)

Impairment loss on financial assets (continued)

For available-for-sale financial assets (continued)

For available-for-sale equity investment that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of a group entity after deducting all of its liabilities.

Other financial liabilities

The Group's financial liabilities are classified into other financial liabilities (including accounts payable and accruals) which are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Consideration paid to reacquire the Company's own equity instruments are deducted from equity. No gain or loss is recognised in income statement on the purchase, sale or cancellation of the Company's own equity instruments.

Notes to the Financial Statements

for the year ended 31st December, 2008

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments (continued)

Financial liabilities and equity (continued)

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in income statement. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowings for the proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in income statement.

(h) Income taxes

Income taxes for the year comprise current tax and movements in deferred tax assets and liabilities. Income taxes are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Notes to the Financial Statements

for the year ended 31st December, 2008

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Income taxes (continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria is adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Notes to the Financial Statements

for the year ended 31st December, 2008

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Income taxes (continued)

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(i) Translation of foreign currencies

Items included in the financial statements of each of the group entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). Foreign currency transactions during the year are translated into functional currency at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into functional currency at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into functional currency using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into functional currency using the foreign exchange rates ruling at the dates the fair value was determined.

Notes to the Financial Statements

for the year ended 31st December, 2008

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Translation of foreign currencies (continued)

The results of foreign operations are translated into presentation currency at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into presentation currency at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(j) Provisions and contingent liabilities

A provision is recognised when the Group or the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the possibility of an outflow of economic benefits is remote.

Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(k) Revenue recognition

Interest income is recognised as it accrues using the effective interest method.

Income from provision of other services are recognised when the related services are rendered.

Dividend income is recognised when the shareholder's right to receive payment is established.

Notes to the Financial Statements

for the year ended 31st December, 2008

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Operating leases

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term. Contingent rentals are charged to income statement in the accounting period in which they are incurred.

(m) Employee benefits

(i) *Short term employee benefits and contributions to defined contribution retirement plan*

Salaries, annual leave and other benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The Group has only one defined contribution plan and the assets of which are held in separate trustee – administered funds. The Group's contributions to the defined contribution retirement scheme for all of its eligible employees are expensed as incurred. The Group's employer contributions vest fully with the employees when contributed into the retirement scheme in accordance with the rules of the retirement scheme.

(ii) *Share-based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a share option reserve within equity. The fair value is measured at grant date using generally accepted option pricing models by taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

Notes to the Financial Statements

for the year ended 31st December, 2008

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Employee benefits (continued)

(ii) Share-based payments (continued)

During the vesting period, the number of share options that is expected to vest is reviewed, any adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to share option reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in share option reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

Where equity instruments are granted to persons other than employees for services rendered in connection with issue of equity instruments, the fair value of services received is charged to share premium account with corresponding increase in share option reserve.

For cash-settled share based payments, a liability is recognised at the fair value of the goods or services received. At each balance sheet date, the liability is remeasured at its fair value until the liability is settled, with any changes in fair value recognised in income statement.

(n) Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

Notes to the Financial Statements

for the year ended 31st December, 2008

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits with banks, and short-terms, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(p) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(q) Dividends

Interim dividends are recognised directly as a liability when they are proposed and declared by the directors.

Final dividends proposed by the directors are classified as a separate allocation of retained profits within capital and reserves in the balance sheet. Final dividends are recognised as a liability when they are approved by the shareholders.

Notes to the Financial Statements

for the year ended 31st December, 2008

5. TURNOVER, OTHER REVENUE AND OTHER (LOSSES) AND GAINS

The Group principally invests in securities listed on the Stock Exchange and unlisted securities, including equity securities, convertible notes issued by corporate entities. Turnover, other revenue and other gains and losses recognised during the year are as follows:

	2008 HK\$	2007 HK\$
Turnover:		
Interest income from		
– bank deposits	334,813	845,809
– loans receivable	4,056,915	2,877,013
Dividend income from		
– listed investments	124,572	231,543
– unlisted investments	8,400,000	1,130,000
	12,916,300	5,084,365
Other revenue:		
Sundry income	599,451	879,909
Other (losses) and gains:		
Fair value changes on financial assets		
at fair value through profit or loss	(44,044,129)	75,431,756
Net realised gain on disposal of financial assets		
at fair value through profit or loss	5,839,602	4,929,798
Exchange (loss) gain, net	(1,610,946)	2,434,795
Reversal of impairment loss upon disposal		
of available-for-sale financial assets	–	800,000
Impairment loss on accounts receivable	(4,703,792)	(356,523)
Impairment loss on loans and receivables	(38,219,864)	(8,617,204)
Impairment loss on available-for-sale financial assets		
– equity investments	(5,399,014)	(288,246)
– deposits on investments written off	(200,000)	(250,000)
	(88,338,143)	74,084,376

Notes to the Financial Statements

for the year ended 31st December, 2008

5. TURNOVER, OTHER REVENUE AND OTHER (LOSSES) AND GAINS (continued)

No analysis of the Group's turnover, other revenue and contribution to operating (loss) profit for the year set out by principal activities and geographical markets is provided as the Group has only one single business segment, investment holding, and less than 10% of the turnover and other revenue, results and assets of the Group are attributable to markets outside Hong Kong.

6. OPERATING (LOSS) PROFIT

Operating (loss) profit has been arrived at after charging the following:

	2008 HK\$	2007 HK\$
Auditor's remuneration		
– Current year	780,000	780,000
– Under provision in prior year	50,000	30,000
	830,000	810,000
Management fees (Note 26)	4,175,591	3,427,995
Incentive fee (Note 26)	–	1,424,700
Pension costs – contributions to defined contribution plan*	76,812	62,695
Operating leases in respect of land and buildings	2,438,110	2,244,839
Equity-settled share-based payment expenses	343,000	762,000
Expenses incurred in connection with dual listing	–	2,250,586

* There was no forfeited contribution in respect of the defined contribution plan available at 31st December, 2008 to reduce future contributions (2007: nil). There was no outstanding contributions to the plan at 31st December, 2008 (2007: nil).

Notes to the Financial Statements

for the year ended 31st December, 2008

7. FINANCE COSTS

	2008 HK\$	2007 HK\$
Bank charges	–	3,613

8. INCOME TAX CREDIT (EXPENSES)

- (a) Provision for Hong Kong Profits Tax has been made at 16.5% (2007: 17.5%) of the Group's estimated assessable profits for the year.

	2008 HK\$	2007 HK\$
Current tax		
Hong Kong Profits Tax:		
Current year	2,825,920	10,542,229
(Over) under provision in prior year	(10,549,382)	536,534
	(7,723,462)	11,078,763
Deferred taxation (<i>Note 21</i>)		
Current year	(3,546,546)	–
Under provision in prior year	6,198,288	–
	2,651,742	–
	(5,071,720)	11,078,763

During the year, the directors consider unrealised gains and losses recognised in income statement should not be taxable and deductible respectively until they have been realised. The current tax and deferred taxation in respect of prior year are adjusted in the current year accordingly.

Notes to the Financial Statements

for the year ended 31st December, 2008

8. INCOME TAX CREDIT (EXPENSES) (continued)

- (b) Reconciliation between income tax (credit) expenses and the Group's accounting (loss) profit at applicable tax rate is set out below:

	2008 HK\$	2007 HK\$
(Loss) profit before income tax	(93,662,234)	61,986,119
Notional tax on (loss) profit before income tax, calculated at Hong Kong Profits Tax rate of 16.5% (2007: 17.5%)	(15,454,269)	10,847,571
Tax effect of income not taxable for tax purpose	(1,575,678)	(1,467,501)
Tax effect of expenses not deductible for tax purpose	7,826,556	2,463,545
Utilisation of tax losses previously not recognised	(12,851)	(1,441,552)
Tax effect of tax losses not recognised	2,678,837	31,375
Tax effect of other temporary differences not recognised	5,847,794	108,791
Deferred tax liabilities not recognised in prior year but recognised during the year	6,198,288	–
(Over) under provision in current tax in prior year	(10,549,382)	536,534
Others	(31,015)	–
Actual income tax (credit) expenses	(5,071,720)	11,078,763

Notes to the Financial Statements

for the year ended 31st December, 2008

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Details of directors' remuneration are as follows:

	Salaries, allowances and benefits		Discretionary bonuses (Note iii) HK\$	Contributions to pension scheme HK\$	Share based payments (Note iv) HK\$	2008 Total HK\$
	Fees HK\$	in kind HK\$				
Executive directors:						
Lee Fong Lit David	-	-	-	-	-	-
Chow Pok Yu Augustine	35,000	-	-	-	-	35,000
Lam Andy Siu Wing, JP	-	555,100	1,865,000	25,620	-	2,445,720
Chan Shuen Chuen Joseph	-	336,820	-	12,450	-	349,270
Independent non-executive directors:						
Tong Kim Weng Kelly	35,000	-	-	-	-	35,000
Ho Man Kai Anthony	35,000	-	-	-	-	35,000
Wong Yun Kuen	35,000	-	-	-	-	35,000
	140,000	891,920	1,865,000	38,070	-	2,934,990

	Salaries, allowances and benefits		Discretionary bonuses (Note iii) HK\$	Contributions to pension scheme HK\$	Share based payments (Note iv) HK\$	2007 Total HK\$
	Fees HK\$	in kind HK\$				
Executive directors:						
Lee Fong Lit David	-	-	-	-	20,435	20,435
Chow Pok Yu Augustine	30,000	-	-	-	20,435	50,435
Lam Andy Siu Wing, JP	-	574,100	-	24,420	213,126	811,646
Chan Shuen Chuen Joseph	-	175,200	-	-	20,435	195,635
Independent non-executive directors:						
Tong Kim Weng Kelly	30,000	-	-	-	20,435	50,435
Ho Man Kai Anthony	30,000	-	-	-	20,435	50,435
Wong Yun Kuen	30,000	-	-	-	20,435	50,435
	120,000	749,300	-	24,420	335,736	1,229,456

Notes to the Financial Statements

for the year ended 31st December, 2008

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(a) Details of directors' remuneration are as follows: (continued)

Note:

- (i) There was no arrangement under which a director waived or agreed to waive any remuneration during the year.
- (ii) In addition to the directors' remuneration disclosed above, Dr. Chow Pok Yu Augustine received emoluments from a related company, namely Harmony Asset Management Limited, which amounted to HK\$1,040,000 (2007: HK\$1,040,000), in respect of his services provided to the Company and its subsidiaries as mentioned in note 26.
- (iii) Discretionary bonuses are related to the performance of the Group and are determined by the Remuneration Committee.
- (iv) No share options were granted to the directors during the year. The amounts in 2007 represent the estimated value of 460,000 share options granted to the directors and vested during the year ended 31st December 2007. Details of the share options granted are set out in note 22(c).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2007: one) directors whose emoluments are disclosed in note 9(a) above. The emoluments payable to the remaining three (2007: four) individuals during the year are as follows:

	2008 HK\$	2007 HK\$
Basic salaries, other allowances and benefits in kind	1,038,700	1,168,957
Discretionary bonuses	660,300	–
Contributions to a pension scheme	47,940	54,191
Share-based payments	312,811	426,262
	2,059,751	1,649,410

Note: The emoluments of the three (2007: four) individuals with the highest emoluments are within the band from nil to HK\$1,000,000.

10. (LOSS) PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated (loss) profit for the year attributable to equity holders of the Company includes a loss of HK\$86,424,636 (2007: profit of HK\$23,755,680) which has been dealt with in the financial statements of the Company.

Notes to the Financial Statements

for the year ended 31st December, 2008

11. PROPOSED DIVIDEND

	2008 HK\$	2007 HK\$
Proposed dividend of nil (2007: HK17 cents per share)	–	6,630,444

The Board of Directors does not recommend payment of any dividend for the year ended 31st December, 2008.

12. (LOSS) EARNINGS PER SHARE

(a) Basic (loss) earnings per share

The calculation of basic (loss) earnings per share is based on the Group's loss attributable to equity holders of the Company amounting to HK\$88,590,514 (2007: profit of HK\$50,907,356) and on the weighted average of 39,002,614 (2007: 34,480,665) ordinary shares in issue during the year.

(b) Diluted earnings per share

No diluted loss per share for the year has been presented as the effect of the assumed conversion of the outstanding share options is anti-dilutive.

The calculation of diluted earnings per share for the year ended 31st December, 2007 is based on the Group's profit attributable to equity holders of the Company amounting to HK\$50,907,356 and the weighted average number of ordinary shares of 34,833,461, calculated as follows:

	2007
Weighted average number of ordinary shares for the purpose of basic earnings per share	34,480,665
Effect of deemed issue of shares under the Company's share option scheme	352,796
Weighted average number of ordinary shares for the purpose of diluted earnings per share	34,833,461

Notes to the Financial Statements

for the year ended 31st December, 2008

13. PROPERTY, PLANT AND EQUIPMENT

	Group				Total HK\$
	Leasehold improvements HK\$	Office equipment HK\$	Furniture and fixtures HK\$	Motor vehicle HK\$	
Cost					
At 1st January, 2007	1,279,629	428,044	403,246	528,200	2,639,119
Additions	12,800	18,096	18,809	–	49,705
At 31st December, 2007	1,292,429	446,140	422,055	528,200	2,688,824
Additions	43,310	7,856	967	–	52,133
Written off	(418,133)	–	–	–	(418,133)
At 31st December, 2008	917,606	453,996	423,022	528,200	2,322,824
Accumulated depreciation					
At 1st January, 2007	1,029,417	385,106	352,014	501,790	2,268,327
Provided for the year	142,127	14,942	23,238	26,410	206,717
At 31st December, 2007	1,171,544	400,048	375,252	528,200	2,475,044
Provided for the year	86,643	17,385	24,999	–	129,027
Written back on written off	(418,133)	–	–	–	(418,133)
At 31st December, 2008	840,054	417,433	400,251	528,200	2,185,938
Carrying amount					
At 31st December, 2008	77,552	36,563	22,771	–	136,886
At 31st December, 2007	120,885	46,092	46,803	–	213,780

Notes to the Financial Statements

for the year ended 31st December, 2008

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Company				Total HK\$
	Leasehold improvements	Office equipment	Furniture and fixtures	Motor vehicle	
	HK\$	HK\$	HK\$	HK\$	
Cost					
At 1st January, 2007	861,496	394,639	403,246	528,200	2,187,581
Additions	12,800	18,096	18,809	–	49,705
At 31st December, 2007	874,296	412,735	422,055	528,200	2,237,286
Additions	43,310	7,856	967	–	52,133
At 31st December, 2008	917,606	420,591	423,022	528,200	2,289,419
Accumulated depreciation					
At 1st January, 2007	671,017	351,702	352,014	501,790	1,876,523
Provided for the year	82,394	14,941	23,238	26,410	146,983
At 31st December, 2007	753,411	366,643	375,252	528,200	2,023,506
Provided for the year	86,643	17,385	24,999	–	129,027
At 31st December, 2008	840,054	384,028	400,251	528,200	2,152,533
Carrying amount					
At 31st December, 2008	77,552	36,563	22,771	–	136,886
At 31st December, 2007	120,885	46,092	46,803	–	213,780

Notes to the Financial Statements

for the year ended 31st December, 2008

14. INTERESTS IN SUBSIDIARIES

	2008 HK\$	2007 HK\$
Unlisted shares, at cost	16,718,596	16,718,596
Impairment loss on investments in subsidiaries	(16,718,580)	(16,718,580)
	16	16
Amounts due from subsidiaries (<i>Note a</i>)	143,997,743	149,235,359
Allowance for impairment loss on amounts due from subsidiaries	(75,094,568)	(37,374,728)
	68,903,175	111,860,631
	68,903,191	111,860,647

The below table reconciled the impairment loss on investments in subsidiaries and allowance for impairment loss on amounts due from subsidiaries for the year.

	2008 HK\$	2007 HK\$
Impairment loss on investments in subsidiaries		
At 1st January	16,718,580	16,718,588
Written off against investment in a subsidiary	–	(8)
At 31st December	16,718,580	16,718,580

Allowance for impairment loss on amounts due from subsidiaries

	2008 HK\$	2007 HK\$
At 1st January	37,374,728	37,374,728
Impairment loss recognised during the year	37,719,840	–
At 31st December	75,094,568	37,374,728

Notes to the Financial Statements

for the year ended 31st December, 2008

14. INTERESTS IN SUBSIDIARIES (continued)

Note:

- (a) Included in amounts due from subsidiaries are advances of HK\$37,078,124 (2007: HK\$36,178,124) made to a subsidiary which are unsecured, interest-bearing at annual rates ranging from 6% to 12% (2007: 6% to 12%) and are not expected to be realised within one year from the balance sheet date. The remaining balances are unsecured, interest free and not expected to be realised within one year from the balance sheet date.
- (b) The following is a list of subsidiaries at 31st December, 2008:

Name of subsidiary	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest held
Plowright Investments Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1	100%*
Powercell Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1	100%
Quickrise Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1	100%
Wingo Venture Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1	100%
IT Star Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1	100%*
Datacom Venture Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1	100%
Gwynneth Gold Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1	100%
Goal Vision Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1	100%
IT Technology Centre Limited	Hong Kong	Operation of an incubation centre in Hong Kong	2 ordinary shares of HK\$1 each	100%
Techlink Venture Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1	100%

* Shares held directly by the Company

None of the subsidiaries issued any debt securities at the end of the year.

Notes to the Financial Statements

for the year ended 31st December, 2008

15. INTERESTS IN ASSOCIATES

	Group	
	2008 HK\$	2007 HK\$
Share of net assets	—	—

Note:

(a) Details of the associates at 31st December, 2008 are as follows:

Name of associate	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest held
Eclipse Investment Holdings Limited	British Virgin Islands	Investment holding in Hong Kong	7,800,000 ordinary shares of HK\$1 each	35%
Lastminute Limited	Hong Kong	Provision of traveling agency services in Hong Kong	10,000 ordinary shares of HK\$1 each	35%

(b) Summary of unaudited financial information on the associates:

	Assets HK\$'000	Liabilities HK\$'000	Equity HK\$'000	Revenue HK\$'000	Loss for the year HK\$'000
2008					
100 per cent	3,986	(8,113)	(4,127)	35,649	(903)
Group's effective interest	1,395	(2,840)	(1,445)	12,477	(316)
2007					
100 per cent	3,915	(7,043)	(3,128)	36,945	(559)
Group's effective interest	1,370	(2,465)	(1,095)	12,931	(196)

The Group has not recognised its share of the associates' loss for current year of approximately HK\$316,000 (2007: HK\$196,000). The accumulated losses not recognised at 31st December, 2008 were approximately HK\$1,023,000 (2007: HK\$707,000).

Notes to the Financial Statements

for the year ended 31st December, 2008

16. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	2008 HK\$	2007 HK\$	2008 HK\$	2007 HK\$
Unlisted equity securities at fair value (<i>Note a</i>)	63,242,932	48,934,059	7,500,000	7,500,000
Equity securities listed outside Hong Kong at fair value (<i>Notes a</i>)	936,000	6,087,864	–	–
Deposits for investments at cost (<i>Note b</i>)	1,380,000	800,000	780,000	–
Club debentures at fair value	2,500,000	2,500,000	2,500,000	2,500,000
	68,058,932	58,321,923	10,780,000	10,000,000
Market value of equity securities listed outside Hong Kong	936,000	6,087,864	–	–

Notes to the Financial Statements

for the year ended 31st December, 2008

16. AVAILABLE-FOR-SALE FINANCIAL ASSETS (continued)

Note:

(a) As at 31st December, 2008, details of major available-for-sale financial assets are as follows:

Name of investee company	Place of incorporation	Principal activities	As at 31st December	Proportion of investee's capital owned	Investment cost thereto HK\$'000	Fair value of investment HK\$'000	Dividend income received during the year HK\$'000	Dividend cover %	Net assets attributable to the investment HK\$'000	Accumulated fair value gains (losses) on investment recognised in the financial statements HK\$'000	Accumulated impairment losses on investment recognised in the financial statements HK\$'000
Win Direct Investments Limited #	British Virgin Islands	Investment holding	2008	23.44%	7,500	7,500	-	-	7,500	-	-
			2007	23.44%	7,500	7,500	-	-	7,500	-	-
Chief Finance Limited	Hong Kong	Provision of commercial financing services	2008	26%	2,600	-	-	-	-	-	(2,600)
			2007	26%	2,600	-	-	-	-	-	(2,600)
Fullpower Holdings Limited	British Virgin Islands	Investment holding	2008	19%	950	-	-	-	-	-	(950)
			2007	19%	950	-	-	-	-	-	(950)
Waltin (HK) Limited	Hong Kong	Investment holding	2008	20%	5	-	-	-	-	-	(5)
			2007	20%	5	-	-	-	-	(5)	-
One Tel Holdings Limited	British Virgin Islands	Investment holding	2008	20%	3,240	8,520	-	-	8,520	5,280	-
			2007	20%	3,240	7,314	-	-	7,314	4,074	-
Green Centre Limited	Hong Kong	Investment holding	2008	30%	3	-	-	-	-	-	(3)
			2007	30%	3	-	-	-	-	(3)	-
Prosperity Materials International Limited	Hong Kong	Trading of cements, iron cores and logs	2008	4.63%	14,000	23,879	5,000	49.31%	23,879	9,879	-
			2007	4.63%	9,000	15,765	-	-	15,765	6,765	-
Chinese WorldNet.com Inc.	Cayman Islands	Provision for financial information services	2008	5.61%	2,044	936	-	-	936	(1,108)	-
			2007	7.32%	2,044	6,088	-	-	6,088	4,044	-
Mainco Limited	British Virgin Islands	Investment holding	2008	30%	19,021	11,530	1,650	36.64%	17,369	(7,491)	-
			2007	-	-	-	-	-	-	-	-

Unless otherwise specified, all investments are indirectly held by the Company through its subsidiaries.

All investments are stated at fair value by reference to their net asset value except for Chinese WorldNet.com Inc. and Mainco Limited which are stated at quoted market price and by reference to price earning ratio respectively.

Directly held by the Company

The equity investments in the above companies with interests being held at 20% or more are not classified as investments in associates as the Group does not participate in their operations and has no significant influence over their management.

(b) The deposits for investments are interest free and placed with the agent or investee companies for conversion to respective unlisted equity interests in the near future.

Notes to the Financial Statements

for the year ended 31st December, 2008

17. LOANS AND RECEIVABLES

	Group	
	2008 HK\$	2007 HK\$
Loans to investee companies (<i>note a</i>)	52,093,103	53,792,984
Loan to an investee company (<i>note b</i>)	29,078,124	28,178,124
Less: Allowance for impairment losses (<i>note c</i>)	(61,093,720)	(22,873,856)
	20,077,507	59,097,252

Note:

- (a) The loans to investee companies are unsecured, interest free and not expected to be realised within one year from the balance sheet date.
- (b) The loan to an investee company is unsecured with interest-bearing at annual fixed rate of 6% and is not expected to be realised within one year from the balance sheet date.
- (c) Movement of allowance for impairment losses

	Group	
	2008 HK\$	2007 HK\$
Balance at 1st January	22,873,856	14,256,652
Impairment losses recognised in income statement	38,219,864	8,617,204
Balance at 31st December	61,093,720	22,873,856

The Group recognised impairment loss on individual assessment of loans and receivables based on the accounting policy stated in note 4(g).

Notes to the Financial Statements

for the year ended 31st December, 2008

17. LOANS AND RECEIVABLES (continued)

Note: (continued)

(d) The loans and receivables can be analysed as follows:

	Group	
	2008 HK\$	2007 HK\$
Balances neither past due nor impaired (<i>Note i</i>)	5,424,087	32,196,092
Balances not past due but impaired (<i>Note ii</i>)	14,653,420	26,901,160
	20,077,507	59,097,252

Note:

- (i) As at the balance sheet date, there are no event of default in repayment of loans which relate to a number of loans made to investees. The directors consider the investees should be able to meet their obligations to repay the debts taking into account their financial position and business prospect.
- (ii) As at the balance sheet date, the Group takes into consideration the likelihood of collection and the financial position of the investees. Specific allowance is made for the loans that are unlikely to be collected and is recognised based on the estimation of the present value of the future cash flow expected to be received by the Group discounted at the original effective interest rate.

Notes to the Financial Statements

for the year ended 31st December, 2008

18. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	Group		Company	
	2008 HK\$	2007 HK\$	2008 HK\$	2007 HK\$
Accounts receivable	5,184,826	4,134,412	3,920,587	3,724,848
Loan receivable, secured (<i>Note a</i>)	8,000,000	8,000,000	–	–
Loan receivable, unsecured (<i>Note b</i>)	–	10,000,000	–	10,000,000
Interests receivable	5,429,015	5,324,161	–	400,000
Other receivables	9,448	135	–	135
Receivables after allowance for impairment loss	18,623,289	27,458,708	3,920,587	14,124,983
Deposits	606,883	796,994	606,833	606,833
Prepayments	153,170	685,269	149,100	149,100
	19,383,342	28,940,971	4,676,520	14,880,916

Note:

- (a) The loan is secured on rental receivables and guaranteed by certain related companies of the borrower. The loan carries interest at annual fixed rate of 12% (2007: 12%) and is repayable on 30th June, 2008. During the year, the loan is renewed and is repayable on 30th June, 2009.
- (b) The loan was unsecured and carried interest at 24% per annum. The Group was entitled to utilise the loan to subscribe for 5% of the share capital of the borrower at a price to be determined by the Group and the borrower within one year from the drawdown date of the loan. However, the Group has not exercised the option and the loan was repaid in full during the year.

Notes to the Financial Statements

for the year ended 31st December, 2008

18. ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

Note: (continued)

- (c) The ageing analysis of the receivables (after allowance for impairment loss) based on due date is as follows:

	Group		Company	
	2008 HK\$	2007 HK\$	2008 HK\$	2007 HK\$
Balances not impaired				
Current (<i>Note d</i>)	13,292,583	25,541,181	3,910,624	14,106,560
Balances overdue between:				
1 – 180 days	69,738	715,997	1,000	12,288
181 – 365 days	42,553	581,603	8,963	135
Over 1 year but less than 2 years	–	522,645	–	6,000
Over 2 years	100,000	97,282	–	–
	212,291	1,917,527	9,963	18,423
Balances not impaired (<i>Note e</i>)	13,504,874	27,458,708	3,920,587	14,124,983
Balances impaired				
Current	3,418,020	–	–	–
Balances overdue between:				
1 – 180 days	341,655	–	–	–
181 – 365 days	341,655	–	–	–
Over 1 year but less than 2 years	919,803	–	–	–
Over 2 years	97,282	–	–	–
	1,700,395	–	–	–
Balances impaired	5,118,415	–	–	–
Receivables after allowance for impairment loss	18,623,289	27,458,708	3,920,587	14,124,983

Notes to the Financial Statements

for the year ended 31st December, 2008

18. ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

Note: (continued)

- (d) The balances that were neither past due nor impaired relate to a number of borrowers for whom there was no recent history of default.
- (e) The balances that were past due but not impaired relate to a number of borrowers. Based on the assessment of these borrowers' financial position and circumstances, the directors consider that the receivables should be fully recoverable.
- (f) The below table reconciled the allowance for impairment loss on receivables for the year.

	Group		Company	
	2008 HK\$	2007 HK\$	2008 HK\$	2007 HK\$
At 1st January	–	232,269	–	–
Impairment loss recognised for the year	2,578,519	–	–	–
Bad debts written off	–	(232,269)	–	–
As at 31 December	2,578,519	–	–	–

During the year, the debts of nil (2007: HK\$232,269) are written off against the carrying amount of the corresponding receivables as the debts are uncollectible.

- (g) During the year, accounts receivable of HK\$2,125,273 (2007: HK\$356,523) were directly written off to income statement as the debts are uncollectible.

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2008 HK\$	2007 HK\$	2008 HK\$	2007 HK\$
Current assets:				
Equity securities held for trading at market value (Note a)				
– Listed in Hong Kong	67,202,405	127,204,394	36,402,405	71,893,514
– Listed outside Hong Kong	5,694,224	4,866,159	3,023,307	1,260,000
	72,896,629	132,070,553	39,425,712	73,153,514

Notes to the Financial Statements

for the year ended 31st December, 2008

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

(a) Listed equity securities

As at 31st December, 2008, details of major financial assets at fair value through profit or loss are as follows:

Name of investee company	Place of incorporation	As at 31st December	Proportion of investee's capital owned	Cost HK\$'000	Market value HK\$'000	Dividend	Dividend cover %	Net assets attributable to the investment HK\$'000	Accumulated
						received during the year HK\$'000			fair value gains/(losses) on investment recognised in the financial statements HK\$'000
Listed in Hong Kong:									
Challenger Group Holdings Limited ("Challenger")	Cayman Islands	2008	10.39%	9,627	30,800	-	-	48,416	21,173
		2007	21.34%	13,868	55,311	-	-	27,911	41,443
<i>(Note (i))[#]</i>									
Prosperity International Holdings (H.K.) Limited ("Prosperity")	Bermuda	2008	11.64%	19,787	32,853	-	-	14,815	13,066
		2007	11.64%	19,787	65,706	-	-	10,773	45,919
<i>(Note (ii))</i>									
Upbest Group Limited ("Upbest")	Cayman Islands	2008	0.31%	1,249	2,720	120	24.59%	2,713	1,471
		2007	0.31%	1,249	3,080	127	19.01%	2,430	1,831
<i>(Note (iii))</i>									
Tonic Industries Holdings Limited ("Tonic")	Cayman Islands	2008	0.99%	3,036	829	-	-	6,137	(2,207)
		2007	1.10%	3,036	2,677	104	39.68%	6,041	(359)
<i>(Note (iv))</i>									
Listed outside Hong Kong:									
Celsion Corporation ("Celsion")	Delaware	2008	1.54%	6,733	2,671	-	-	2,345	(4,062)
		2007	1.54%	6,733	3,606	-	-	3,675	(3,127)
<i>(Note (v))[#]</i>									
Medifocus Inc ("Medifocus")	Toronto	2008	3.90%	2,378	3,001	-	-	103	623
		2007	3.76%	166	875	-	-	-	709
<i>(Note (vi))</i>									

Unless otherwise specified, all investments are directly held by the Company.

[#] Indirectly held by the Company through its subsidiaries

Notes to the Financial Statements

for the year ended 31st December, 2008

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

(a) Listed equity securities (continued)

Note:

- (i) Challenger is principally engaged in the business of auto servicing and repairing operation and integrated coke production, as well as an on-line distributor of office supplies and equipment providing multi-channel and cross-border trade solutions to both corporate and individual on-line buyers. The name of Challenger has been changed to Kaisun Energy Group Limited on 27th February, 2009.
- (ii) Prosperity is principally engaged in the trading of cement clinker and other building materials. Its places of operations are located in Hong Kong and the People's Republic of China.
- (iii) Upbest is principally engaged in provision of a wide range of financial services including securities broking, futures broking, margin financing, money lending, corporate finance advisory and asset management; and property investment. Its place of operation is mainly in Hong Kong.
- (iv) Tonic is principally engaged in the design, manufacturing and trading of consumer electronic products and customers and components and home appliance products. Its places of operations are located in Hong Kong and the People's Republic of China.
- (v) Celsion is principally engaged in furthering the development and commercialisation of treatment systems for cancer and other diseases using focused heat energy in combination with other therapeutic devices, heat-activated drugs or heat-activated genes. Its place of operation is mainly in United States of America.
- (vi) Medifocus is principally engaged in the business of development and commercialisation of minimally invasive, focused-heat tumor targeted cancer treatment devices and system.

The above information is based on the latest published financial statements and information of the investees.

Notes to the Financial Statements

for the year ended 31st December, 2008

20. ACCOUNTS PAYABLE AND ACCRUALS

	Group		Company	
	2008 HK\$	2007 HK\$	2008 HK\$	2007 HK\$
Accruals	1,712,125	2,244,870	871,521	2,216,885
Unclaimed dividend payable	74,530	1,767	74,530	1,767
	1,786,655	2,246,637	946,051	2,218,652

The aging analysis of accounts payable is as follows:

	Group		Company	
	2008 HK\$	2007 HK\$	2008 HK\$	2007 HK\$
Current	1,712,125	2,217,450	871,521	2,216,885
Over 1 year	74,530	29,187	74,530	1,767
	1,786,655	2,246,637	946,051	2,218,652

21. DEFERRED TAX LIABILITIES

The deferred tax of the Group recognised in the financial statements are arising from the net unrealised gains on financial assets at fair value through profit or loss and allowance for impairment loss on certain accounts receivable. The movements in the deferred tax liabilities (assets) during the year are as follows:

	Group		Total HK\$
	Net unrealised gains on financial assets at fair value through profit or loss HK\$	Allowance for impairment loss on accounts receivable HK\$	
At 1st January, 2007 and 31st December, 2007	-	-	-
Charge (credit) to income statement	3,049,200	(397,458)	2,651,742
At 31st December, 2008	3,049,200	(397,458)	2,651,742

Notes to the Financial Statements

for the year ended 31st December, 2008

21. DEFERRED TAX LIABILITIES (continued)

At the balance sheet date, the Group and the Company had unutilised tax losses of HK\$32,965,008 (2007: HK\$5,325,477) and HK\$26,719,219 (2007: nil) respectively available for offsetting against future assessable profits. The Group and the Company also have other temporary differences of HK\$35,441,173 (2007: nil) mainly relating to unrealised losses on investments. However, no deferred tax assets in respect of the tax losses and unrealised losses have been recognised due to the unpredictability of future profit streams. The tax losses can be carried forward indefinitely.

22. SHARE CAPITAL

	Number of shares	Amount HK\$
Authorised:		
Ordinary shares of HK\$1 each at 1st January, 2007, 31st December 2007 and 31st December 2008	100,000,000	100,000,000
Issued and fully paid:		
Ordinary shares of HK\$1 each at 1st January, 2007	29,220,474	29,220,475
Issue of shares of HK\$1 each during the year (<i>notes a & b</i>)	9,782,140	9,782,140
Ordinary shares of HK\$1 each at 31st December, 2007 and 31st December, 2008	39,002,614	39,002,615

Note:

(a) Share placement

Pursuant to an agency agreement with a placing agent dated 31st May, 2007, the Company agreed to place through the placing agent an aggregate of 8,766,140 placing shares of HK\$1 each, to five places, at a price of CDN\$0.70 per share. On 18th June, 2007, such placing shares were issued and fully paid.

(b) Exercise of share options

On 22nd June, 2007, the directors and employees exercised 1,016,000 share options granted at exercise price of HK\$2.75 per share which resulted in 1,016,000 new shares of HK\$1 each issued by the Company.

Notes to the Financial Statements

for the year ended 31st December, 2008

22. SHARE CAPITAL (continued)

Note: (continued)

(c) Share option scheme

The Company has adopted a share option scheme (the “Share Option Scheme”) at its annual general meeting held on 28th June, 2005. The purposes of the Share Option Scheme are to provide participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

All directors (including executive directors, non-executive directors and independent non-executive directors) and employees of the Company and its subsidiaries and consultants, advisors, agents, customers, service providers, contractors, business partners of any member of the Group or any member of it has a shareholding interest, in the sole discretion of the Board, has contributed to the Group or any member of it are eligible to participate in the Share Option Scheme.

The total number of shares of the Company which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not in aggregate exceed 2,922,047 shares of the Company, being approximately 10% of the issued shares of the Company at the date of approval of the Share Option Scheme and 10% of issued share capital at the date of the then financial statements (as adjusted after the share consolidation on 14th December, 2006).

The total number of shares issued and to be issued upon exercise of options granted to each eligible participant (including both exercised and outstanding options) under the Share Option Scheme and any other share option schemes of the Company in any twelve-month period must not exceed 1% of the issued shares of the Company. Where any grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the shares issued and to be issued upon exercise of the options granted and to be granted (including both exercised and outstanding options) in any twelve-month period up to the date of grant should not exceed 0.1% of the issued shares of the Company or an aggregate value of HK\$5,000,000.

An option may be exercised at any time during a period as the Board may determine which shall not be more than ten years from the date of grant of the option subject to the provisions of early termination thereof.

Notes to the Financial Statements

for the year ended 31st December, 2008

22. SHARE CAPITAL (continued)

Note: (continued)

(c) Share option scheme (continued)

Unless otherwise determined by the Board at its sole discretion, the Share Option Scheme does not require a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised.

Upon acceptance of the options, the grantee shall pay HK\$1 to the Company by way of consideration for the grant.

The subscription price for the shares of the Company (the subject of an option) shall be no less than the higher of (i) the closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant. The subscription price will be determined by the Board at the time the option is offered to the relevant participant.

The Share Option Scheme will remain in force for a period of ten years from 28th June, 2005.

On 30th April, 2007, the Company granted 1,044,000 share options to seven directors and three employees at the exercise price of HK\$4.29 per share representing 2.68% of the issued share capital of the Company as at 31st December, 2007.

On 18th June, 2007, the Company granted 290,000 share options to a placing agent at the exercise price of HK\$6.03 per share representing 0.74% of the issued share capital of the Company as at 31st December, 2007.

During the year ended 31st December, 2007, 1,016,000 share options were exercised by the Company's directors and employees.

On 18th August, 2008, the Company granted 522,047 and 50,000 share options to three employees and a corporate development advisor respectively at the exercise price of HK\$5.1 per share representing 1.47% of the issued share capital of the Company as at 31st December, 2008.

The estimated fair value of HK\$343,000 (2007: HK\$762,000) with respect to the share options granted to other employees and consultant were charged to income statement during the year.

As at 31st December, 2008, a total of 572,047 shares, representing 1.47% of the existing issued share capital of the Company were available for issue in respect of the remaining options of 572,047 which had been granted under the Share Option Scheme on 18th August, 2008. As the Company had granted a total of 2,922,047 share options representing approximately 10% of the total issued shares of the Company as at the date of adoption of the Share Option Scheme, no further share options can be granted by the Company.

Notes to the Financial Statements

for the year ended 31st December, 2008

22. SHARE CAPITAL (continued)

Note: (continued)

(c) Share option scheme (continued)

Details of the share options granted and exercised under the Share Option Scheme during the year are as follows:

2008	Date of grant	Exercise period	Number of options			Exercise price HK\$
			Outstanding as at 1 st January, 2008	Granted during the year	Outstanding as at 31 st December, 2008	
Directors						
Lee Fong Lit David	30/4/2007	30/4/2007-29/4/2010	28,000	–	28,000	4.29
Chow Pok Yu Augustine	30/4/2007	30/4/2007-29/4/2010	28,000	–	28,000	4.29
Lam Andy Siu Wing, JP	30/4/2007	30/4/2007-29/4/2010	292,000	–	292,000	4.29
Chan Shuen Chuen Joseph	30/4/2007	30/4/2007-29/4/2010	28,000	–	28,000	4.29
Tong Kim Weng Kelly	30/4/2007	30/4/2007-29/4/2010	28,000	–	28,000	4.29
Ho Man Kai Anthony	30/4/2007	30/4/2007-29/4/2010	28,000	–	28,000	4.29
Wong Yun Kuen	30/4/2007	30/4/2007-29/4/2010	28,000	–	28,000	4.29
Sub-total			460,000	–	460,000	
Other employees in aggregate						
	30/4/2007	30/4/2007-29/4/2010	584,000	–	584,000	4.29
	18/8/2008	18/8/2008-17/8/2011	–	522,047	522,047	5.10
Sub-total			584,000	522,047	1,106,047	
Other parties						
Maison Placements Canada Inc	18/6/2007	18/6/2007-17/6/2009	290,000	–	290,000	6.03
CanCap Advisory Services Ltd	18/8/2008	18/8/2008-17/8/2011	–	50,000	50,000	5.10
Sub-total			290,000	50,000	340,000	
Grand-total			1,334,000	572,047	1,906,047	

Notes to the Financial Statements

for the year ended 31st December, 2008

22. SHARE CAPITAL (continued)

Note: (continued)

(c) Share option scheme (continued)

	Date of grant	Exercise period	Number of options			Outstanding as at 31 st December, 2007	Exercise price HK\$	Share price at exercise date of 22nd June, 2007 HK\$
			Outstanding as at 1 st January, 2007	Granted during the year	Exercised during the year			
Directors								
Lee Fong Lit David	17/1/2006	17/1/2006-16/1/2009	28,000	-	(28,000)	-	2.75	5.88
	30/4/2007	30/4/2007-29/4/2010	-	28,000	-	28,000	4.29	
Chow Pok Yu Augustine	17/1/2006	17/1/2006-16/1/2009	28,000	-	(28,000)	-	2.75	5.88
	30/4/2007	30/4/2007-29/4/2010	-	28,000	-	28,000	4.29	
Lam Andy Siu Wing, JP	17/1/2006	17/1/2006-16/1/2009	292,000	-	(292,000)	-	2.75	5.88
	30/4/2007	30/4/2007-29/4/2010	-	292,000	-	292,000	4.29	
Chan Shuen Chuen Joseph	30/4/2007	30/4/2007-29/4/2010	-	28,000	-	28,000	4.29	
Tong Kim Weng Kelly	17/1/2006	17/1/2006-16/1/2009	28,000	-	(28,000)	-	2.75	5.88
	30/4/2007	30/4/2007-29/4/2010	-	28,000	-	28,000	4.29	
Ho Man Kai Anthony	17/1/2006	17/1/2006-16/1/2009	28,000	-	(28,000)	-	2.75	5.88
	30/4/2007	30/4/2007-29/4/2010	-	28,000	-	28,000	4.29	
Wong Yun Kuen	17/1/2006	17/1/2006-16/1/2009	28,000	-	(28,000)	-	2.75	5.88
	30/4/2007	30/4/2007-29/4/2010	-	28,000	-	28,000	4.29	
Sub-total			432,000	460,000	(432,000)	460,000		
Other employees in aggregate	17/1/2006	17/1/2006-16/1/2009	584,000	-	(584,000)	-	2.75	5.88
	30/4/2007	30/4/2007-29/4/2010	-	584,000	-	584,000	4.29	
Sub-total			584,000	584,000	(584,000)	584,000		
Other parties								
Maison Placements Canada Inc.	18/6/2007	18/6/2007-17/6/2009	-	290,000	-	290,000	6.03	
Grand-total			1,016,000	1,334,000	(1,016,000)	1,334,000		

Notes to the Financial Statements

for the year ended 31st December, 2008

22. SHARE CAPITAL (continued)

Note: (continued)

(c) Share option scheme (continued)

Note:

- The closing prices of share immediately before the date of grant of the options on 18th August, 2008, 18th June, 2007 and 30th April, 2007 were HK\$5.10, HK\$6.02 and HK\$4.23 respectively.
- The options granted during the years ended 31st December 2007 and 2008 vested at the dates of grant.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes Options Pricing Model.

The variables of the options granted during the years ended 31st December, 2007 and 2008 served as inputs into the model are listed as follows:

Grant date/Date of valuation	30th April, 2007	18th June, 2007	18th August, 2008
Option type	American	American	American
Stock asset price (closing on the date of valuation) (HK\$)	4.29	6.01	5.10
Option exercise price (HK\$)	4.29	6.03	5.10
Exercise period	30th April, 2007 to 29th April, 2010	18th June, 2007 to 17th June, 2009	18th August, 2008 to 17th August, 2011
Maturity (Years)	Three	Two	Three
Assumed life of option from the date of valuation (years)	1.5	1	1.5
Risk-free interest rate (Note a)	3.942%	4.17%	1.895%
Annualised volatility (Note b)	35.3%	35.46%	26%
Indicated option value (HK\$/share)	0.7297	0.8449	0.5992
Number of shares to be issued if options are exercised	1,044,000	290,000	572,047
Fair value of options granted (HK\$)	762,000	245,000	343,000

Note:

- Risk-free rate:** The applicable risk-free interest rate was the yield of one year and two years Hong Kong Monetary authority exchange fund notes quoted at the date of valuation.
- Volatility:** The conventional measure for systemic risk, or price volatility, is the standard deviation, which is a measure of price dispersion or variation. This variable is just the average of the square of the difference between share price and mean price over time.

Notes to the Financial Statements

for the year ended 31st December, 2008

22. SHARE CAPITAL (continued)

Note: (continued)

(c) Share option scheme (continued)

The estimated fair values of HK\$343,000 (2007: HK\$762,000) with respect to share options granted to employees and a corporate development advisor were charged to income statement during the year. The fair value of HK\$245,000 with respect to the share options granted to a placing agent during the year ended 31st December, 2007 was charged to share premium.

(d) Capital management

The Company's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders or issue new shares. It is the Company's policy to finance its operations merely by internal funding and raising capital from shareholders. Therefore, the Group has no or insignificant borrowings. No changes were made in the objectives or policies during the year.

Notes to the Financial Statements

for the year ended 31st December, 2008

23. RESERVES

	Group					
	Share premium	Fair value reserve	Share option reserve	Proposed dividend	Retained profits/ (accumulated losses)	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1st January, 2008	170,354,945	15,268,766	1,007,000	6,630,444	55,783,325	249,044,480
Loss for the year	–	–	–	–	(88,590,514)	(88,590,514)
Impairment loss on available-for-sale financial assets recognised in income statement	–	5,399,014	–	–	–	5,399,014
Fair value changes on available-for-sale financial assets recognised in equity	–	(15,026,387)	–	–	–	(15,026,387)
Share option scheme –						
– value of employee services	–	–	313,040	–	–	313,040
– value of corporate development advisor services	–	–	29,960	–	–	29,960
Dividend paid	–	–	–	(6,630,444)	–	(6,630,444)
At 31st December, 2008	170,354,945	5,641,393	1,350,000	–	(32,807,189)	144,539,149

Notes to the Financial Statements

for the year ended 31st December, 2008

23. RESERVES (continued)

	Group					
	Share premium HK\$	Fair value reserve HK\$	Share option reserve HK\$	Proposed dividend HK\$	Retained profits HK\$	Total HK\$
At 1st January, 2007	143,516,834	7,540,170	908,000	4,383,071	4,875,969	161,224,044
Profit for the year	–	–	–	–	50,907,356	50,907,356
Impairment loss on available-for-sale financial assets recognised in income statement	–	288,246	–	–	–	288,246
Fair value changes on available-for-sale financial assets recognised in equity	–	7,440,350	–	–	–	7,440,350
Share option scheme –						
– value of employee services	–	–	762,000	–	–	762,000
– value of placing agent services	(245,000)	–	245,000	–	–	–
Arising from issue of shares upon exercise of share options	2,686,000	–	(908,000)	–	–	1,778,000
Arising from issue of shares from share placement	36,028,836	–	–	–	–	36,028,836
Shares issue expenses	(5,001,281)	–	–	–	–	(5,001,281)
Dividend paid	–	–	–	(4,383,071)	–	(4,383,071)
Proposed dividend (Note 11)	(6,630,444)	–	–	6,630,444	–	–
At 31st December, 2007	170,354,945	15,268,766	1,007,000	6,630,444	55,783,325	249,044,480

Notes to the Financial Statements

for the year ended 31st December, 2008

23. RESERVES (continued)

	Company					
	Share premium	Fair value reserve	Share option reserve	Proposed dividend	Retained profits/ losses (accumulated)	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1st January, 2008	170,354,945	1,268,640	1,007,000	6,630,444	7,150,918	186,411,947
Loss for the year	-	-	-	-	(86,424,636)	(86,424,636)
Share option scheme –						
– value of employee services	-	-	313,040	-	-	313,040
– value of corporate development advisor services	-	-	29,960	-	-	29,960
Dividend paid	-	-	-	(6,630,444)	-	(6,630,444)
At 31st December, 2008	170,354,945	1,268,640	1,350,000	-	(79,273,718)	93,699,867

Notes to the Financial Statements

for the year ended 31st December, 2008

23. RESERVES (continued)

	Company					
	Share premium	Fair value reserve	Share option reserve	Proposed dividend	Retained profits/ losses (accumulated)	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1st January, 2007	143,516,834	1,268,640	908,000	4,383,071	(16,604,762)	133,471,783
Profit for the year	-	-	-	-	23,755,680	23,755,680
Share option scheme –						
– value of employee services	-	-	762,000	-	-	762,000
– value of placing agent services	(245,000)	-	245,000	-	-	-
Arising from issue of shares upon exercise of share options	2,686,000	-	(908,000)	-	-	1,778,000
Arising from issue of shares from share placement	36,028,836	-	-	-	-	36,028,836
Shares issue expenses	(5,001,281)	-	-	-	-	(5,001,281)
Dividend paid	-	-	-	(4,383,071)	-	(4,383,071)
Proposed dividend (<i>Note 11</i>)	(6,630,444)	-	-	6,630,444	-	-
At 31st December, 2007	170,354,945	1,268,640	1,007,000	6,630,444	7,150,918	186,411,947

Notes to the Financial Statements

for the year ended 31st December, 2008

23. RESERVES (continued)

Note:

(a) Nature and purpose of reserves

Share premium represents the amount by which the issue price of shares exceeds the par value of those shares and is distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

Fair value reserve represents the cumulative net change in fair value of available-for-sale financial assets held at the balance sheet date and is dealt with in accordance with the accounting policies in note 4(g).

Share option reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company and other parties recognised in accordance with the accounting policy adopted for share-based payments in note 4(m)(ii).

24. NET ASSET VALUE PER SHARE

The calculation of net asset value per share is based on the Group's net assets of HK\$183,541,764 (2007: HK\$288,047,095) divided by the Company's 39,002,614 (2007: 39,002,614) ordinary shares in issue as at 31st December, 2008.

Notes to the Financial Statements

for the year ended 31st December, 2008

25. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

- (i) Reconciliation of (loss) profit before income tax to cash generated from (used in) operations:

	2008 HK\$	2007 HK\$
Operating activities		
(Loss) profit before income tax	(93,662,234)	61,986,119
Interest income	(4,391,728)	(3,722,822)
Finance costs	–	3,613
Dividend income from available-for-sale financial assets	(8,400,000)	(1,130,000)
Depreciation of property, plant and equipment	129,027	206,717
Equity-settled share-based payment expenses	343,000	762,000
Reversal of impairment loss upon disposal of available-for-sale financial assets	–	(800,000)
Fair value changes on financial assets at fair value through profit or loss	44,044,129	(75,431,756)
Impairment loss on available-for-sale financial assets		
– equity investments	5,399,014	288,246
– deposits on investments written off	200,000	250,000
Impairment loss on loans and receivables	38,219,864	8,617,204
Impairment loss on accounts receivable	4,703,792	356,523
Loss before working capital changes	(13,415,136)	(8,614,156)
Decrease (increase) in financial assets at fair value through profit or loss	15,129,795	(11,770,447)
Decrease (increase) in accounts receivable and prepayments	6,055,107	(7,242,406)
Decrease in accounts payable and accruals	(1,296,650)	(5,182,631)
Cash generated from (used in) operations	6,473,116	(32,809,640)

Notes to the Financial Statements

for the year ended 31st December, 2008

25. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(ii) Major non-cash transaction

During the year, dividend income of HK\$5,000,000 (2007: nil) was received from an available-for-sale investment as bonus shares of the investee company.

26. RELATED PARTY TRANSACTIONS

The Company has entered into an investment management agreement with Harmony Asset Management Limited (“HAML”), a company which is wholly-owned by a director of the Company, Dr. Chow Pok Yu Augustine. Under the investment management agreement together with a supplemental agreement entered into between the Company and HAML on 17th May, 2007, HAML has agreed to assist the Board with the day-to-day management of the Group for additional three years until 31st May, 2010. In accordance with the investment management agreement and the supplemental agreement, HAML is entitled to a monthly management fee calculated at 1.5% per annum on the net asset value of the Group of the preceding month and an incentive fee calculated at 10% of the audited net profit of a financial year (before accrual of the incentive fee) subject to an annual cap of HK\$5,672,353 (2007: HK\$3,427,995) and HK\$5,531,145 (2007: HK\$1,424,700) for the year ended 31st December, 2008 respectively. Dr. Chow Pok Yu Augustine, being the beneficial shareholder of HAML, is interested in these contracts in 2008 and 2007. The management fees and incentive fee paid and payable to HAML are as follows:

	2008 HK\$	2007 HK\$
Management fees	4,175,591	3,427,995
Incentive fee	–	1,424,700
	4,175,591	4,852,695

In the opinion of the Company’s independent non-executive directors, the transactions have been entered into on normal commercial terms and in the ordinary and usual course of business of the Company. The independent non-executive directors also consider that the transactions are conducted in accordance with the terms of the investment management agreement and the supplemental agreement that are fair and reasonable, and in the interests of the Company’s shareholders as a whole.

Remuneration of key management personnel of the Group representing amounts paid to the Company’s directors is disclosed in note 9(a).

Notes to the Financial Statements

for the year ended 31st December, 2008

27. COMMITMENTS

Commitments under operating leases

At 31st December, 2008, the Group and the Company had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group		Company	
	2008 HK\$	2007 HK\$	2008 HK\$	2007 HK\$
Within one year	2,109,360	2,419,232	2,109,360	2,109,360
In the second to fifth years inclusive	615,230	2,724,590	615,230	2,724,590
	2,724,590	5,143,822	2,724,590	4,833,950

The Group leases an office under operating leases. The leases typically run from an initial period of three years, with an option to renew the lease after that date at which time all terms are renegotiated.

28. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's financial instruments comprise available-for-sale financial assets, loans and receivables, accounts receivable, financial assets at fair value through profit or loss, bank balances and cash and accounts payable and accruals. Details of these financial instruments are disclosed in respective notes. The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The board of directors review and agree policies for managing each of these risks and they are summarised below.

Notes to the Financial Statements

for the year ended 31st December, 2008

28. FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(i) Market risk

– Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the exchange rate of Hong Kong (“HK”) dollar against Canadian dollar. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

As substantial amount of the Group and the Company’s financial assets and financial liabilities other than bank balances and cash are denominated in HK dollar, the directors consider that the Group’s foreign exchange risk is merely limited to the carrying amount of bank balances and cash denominated in Canadian dollar.

As at 31 December 2008, bank balances and cash of the Group and the Company were denominated in the following currencies:

	Group		Company	
	2008 HK\$	2007 HK\$	2008 HK\$	2007 HK\$
HK dollars	5,789,987	8,686,348	5,271,230	8,563,847
US dollars	41,561	492,322	33,757	492,309
Canadian dollars	4,421,237	12,519,514	4,421,237	12,519,514
	10,252,785	21,698,184	9,726,224	21,575,670

The Group does not use any derivative contracts to hedge foreign exchange exposure. However, management monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Notes to the Financial Statements

for the year ended 31st December, 2008

28. FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(i) Market risk (continued)

- Foreign exchange risk (continued)

Sensitivity analysis

The following sensitivity analysis on foreign exchange risk only represents cash and bank balances that are denominated in Canadian dollars as the Group has no other significant financial assets and liabilities denominated in foreign currencies. The following tables indicate the approximate effect on the profit after tax in the next accounting period at one year after balance sheet date in response to reasonably possible changes in an exchange rate to which the Group has significant exposure at the balance sheet date.

	Group		Company	
	2008 HK\$	2007 HK\$	2008 HK\$	2007 HK\$
CAD to HK\$:				
Appreciates				
by 6%	265,274	751,171	265,274	751,171
Depreciates				
by 6%	(265,274)	(751,171)	(265,274)	(751,171)

- Price risk

The Group is exposed to price risk of equity securities which are classified on the Group and the Company's balance sheets either as available-for-sale financial assets or as financial assets at fair value through profit or loss. Such investments are susceptible to market price risk arising from uncertainties about their future prices. Such risk is managed through diversification of investment portfolio.

A substantial amount of the Group's listed investments are listed in Hong Kong as shown in note 19. The directors believe that the exposure to equity price risk from these activities is acceptable in the Group's circumstances.

Notes to the Financial Statements

for the year ended 31st December, 2008

28. FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(i) Market risk (continued)

– Price risk (continued)

The sensitivity analysis on equity price risk represents the Group and the Company's financial assets classified as at fair value through profit or loss which fair value or future cash flows will fluctuate because of changes in their corresponding or underlying asset's equity price. The below analysis is estimated based on the historical correlation (One year is used by the Company) between Hang Seng Index and Growth Enterprise Market ("GEM") Index in respect of those financial assets at fair value through profit or loss and listed in relevant stock exchanges in Hong Kong at each balance sheet date assuming all other variables remain constant.

	Group		Company	
	2008 Effect on profit after tax HK\$	2007 Effect on profit after tax HK\$	2008 Effect on profit after tax HK\$	2007 Effect on profit after tax HK\$
Hang Seng Index				
Increase				
by 35%	1,453,940	4,080,679	1,453,940	4,080,679
Decrease				
by 35%	(1,453,940)	(4,080,679)	(1,453,940)	(4,080,679)
GEM Index				
Increase				
by 15%	5,712,586	8,405,333	–	3,561,159
Decrease				
by 15%	(5,712,586)	(8,405,333)	–	(3,561,159)

Sensitivity analysis on equity price of both financial assets at fair value through profit or loss and available-for-sale equity investments listed in other overseas stock exchanges has not been presented as the reasonably possible changes in their prices will have insignificant impact on the financial statements.

Notes to the Financial Statements

for the year ended 31st December, 2008

28. FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(i) Market risk (continued)

– Price risk (continued)

As mentioned in note 4(g), the directors estimate the fair value of those available-for-sale equity instruments which are not traded in an active market by analysis of respective investee's circumstances on case by case basis. Majority of these investments' fair value have been estimated by the directors to be equal to their net asset value attributable to the Group. Accordingly, the directors consider it is not meaningful to present sensitivity analysis resulted from reasonably possible changes in price of these investments.

– Interest rate risk

The Group's fair value interest rate risk from financial assets merely arises from the loans and receivables as shown in note 17 which are not expected to be demanded by the Group for repayment within one year. As the Group has the right to demand repayment of these loans and receivables, which have no fixed repayment terms, as necessary, the directors consider the exposure of fair value interest rate risk from these loans and receivables is insignificant.

The Group and the Company also expose to interest rate risk from bank balances and cash and accounts receivable as shown in note 18. The directors consider the fair value interest rate risk from accounts receivable and bank balances and cash is insignificant due to their short maturity. Moreover, a reasonably possible change in interest rate will not have material impact on the Group and the Company's profit or equity.

Notes to the Financial Statements

for the year ended 31st December, 2008

28. FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(i) Market risk (continued)

– Interest rate risk (continued)

The Group does not use any derivative contracts to hedge its exposure to interest rate risk. However, management will consider hedging significant interest rate exposure should the need arise.

(ii) Credit risk

Counter parties and cash transactions are limited to those debtors, borrowers and investees considered by directors having a good credit standing and business prospect. The Group and the Company regard the maximum credit risk exposure limited to the carrying amounts of the bank balances and cash as well as loans and receivables and accounts receivable as shown in notes 17 and 18 respectively.

The bank balances and cash are placed with financial institutions that have a high credit rating and therefore the Group considers the credit risk on bank deposits to be insignificant.

The Group and the Company have concentration of credit risk as the Group's loans to its five (2007: five) investees account for 88% (2007: 80%) of the total carrying amount of the loans and receivables as at 31st December, 2008. The Company's loan to one of its borrowers accounts for 84% (2007: 71%) of its total carrying amount of accounts receivable. Taking into account the financial position and business prospect of these investees and borrowers, the directors consider the borrowers should be able to meet their obligations to repay the debts (after impairment loss recognised by the Group). As the aforementioned borrowers are the Group's investees or potential investees, the Group is in a better position to assess the recoverability of the loans, recognise adequate impairment losses and enforce the repayment of loans. In this regard, the directors consider the exposure from concentration of credit risk is reduced to an acceptable level.

Notes to the Financial Statements

for the year ended 31st December, 2008

28. FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(iii) Liquidity risk

Liquidity risk is the risk the Group is unable to meet its current obligations when they fall due.

Management of the Group aims to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its investment commitments and daily operation.

The contractual undiscounted cash flows of the Group and the Company's financial liabilities approximate the carrying amount of the accounts payable and accruals as shown in note 20 which are payable within one year, as the impact of discounting is insignificant.

(b) Fair value

The directors consider all the financial instruments are carried at amounts in the balance sheets not materially different from their fair values.

29. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair value of unlisted equity investments

As described in note 4(g), the directors use their judgement in selecting an appropriate valuation technique for equity investments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied as appropriate.

The fair value of the Group's unlisted equity investments with aggregate carrying amount of HK\$63,242,932 (2007: HK\$48,934,059) as shown in note 16 are estimated based upon an analysis of respective investee's financial position and results, risk profile, nature of business, prospects, other factors and assumptions not supported by observable market data, as well as reference to market valuations for similar entities quoted in an active market, current fair value of comparable investments or applicable price/earning ratios for comparable listed companies adjusted to reflect the circumstances of the investee.

Notes to the Financial Statements

for the year ended 31st December, 2008

29. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Fair value of unlisted equity investments (continued)

Based on the directors' analysis on each of these unlisted investments, the directors consider it is appropriate to estimate the fair values of majority of these investments based on their net asset value attributable to the Group. The carrying amounts of these unlisted investments may be materially different from their fair values estimated by more complex or sophisticated valuation techniques.

Impairment of available-for-sale financial assets

The Group has available-for-sale financial assets which were stated at their fair values at the balance sheet date, on an individual basis. Any gains or losses are recognised as a separate component of equity (i.e. fair value reserve) until the asset is derecognised or until the asset is determined to be impaired, at which time the cumulative gains or losses previously reported in equity is included in the income statement. Management has to assess whether objective evidence of significant impairment exists and consider whether it is appropriate to charge the cumulative loss to income statement. In making the judgement, management considers (i) the future prospect of the underlying assets; (ii) the underlying financial position of the assets; and (iii) significant or prolonged decline in the fair values below the respective costs of the assets. Management considers that objective evidence of impairment exists and the cumulative losses of HK\$5,599,014 (2007: HK\$538,246) for the year was charged to the income statement.

Impairment of loans and receivables made to investees and accounts receivables

Management regularly reviews the recoverability of loans and receivables made to investees and accounts receivable. Appropriate impairment for estimated irrecoverable amounts are recognised in income statement when there is objective evidence that the amounts are not recoverable. In determining whether allowances for impairment loss is required, management takes into consideration the aged status and likelihood of collection as well as the financial position of the counterparties. Specific allowance is made for receivables that are unlikely to be collected and is recognised based on the estimation of the present value of the future cash flows expected to be received by the Group discounted at the original effective interest rate. During the year, impairment losses on loans and receivables amounting to HK\$38,219,864 (2007: HK\$8,617,204) and accounts receivable amounting to HK\$4,703,792 (2007: HK\$356,523) were recognised in the income statement.

Five Year Financial Summary

	Year ended 31st December,				
	2004 HK\$ Note	2005 HK\$	2006 HK\$	2007 HK\$	2008 HK\$
Results:					
Profit (loss) attributable to shareholders	8,119,191	21,561,356	10,685,282	50,907,356	(88,590,514)

	As at 31st December,				
	2004 HK\$ Note	2005 HK\$	2006 HK\$	2007 HK\$	2008 HK\$
Assets and liabilities:					
Current assets	71,689,900	82,999,060	82,862,358	182,709,708	102,532,756
Total assets	171,428,904	179,107,866	197,995,480	300,342,663	190,806,081
Current liabilities	22,616,450	9,448,460	7,550,961	12,295,568	4,612,575
Total liabilities	22,616,450	9,448,460	7,550,961	12,295,568	7,264,317
Shareholders' funds	148,812,454	169,659,406	190,444,519	288,047,095	183,541,764

Note: The financial information is prepared based on Hong Kong Financial Reporting Standards as the directors consider it is not practicable to restate this information under International Financial Reporting Standards ("IFRS") when the Group first time adopted IFRS for the year ended 31st December, 2005. The adjustments required to be made on this information in order to comply with IFRS mainly relate to recognition of the changes in fair value of financial assets and financial liabilities, and reclassification of assets, liabilities and equity.