HARMONY ASSET LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock Code:428

2007
ANNUAL REPORT

Contents

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 Ltd.
Standard Chartered Bank (Hong Kong) Limited
Bank of Communications Co., Ltd.

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/TRADING SYMBOL

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, 2007.

BUSINESS REVIEW

For the year ended 31st December, 2007, the Group had turnover, other revenue and other gains (net of losses) of HK$80,048,650 as compared to HK$23,594,093 in the previous year, representing a 239% increase. The Group's turnover amounted to HK$5,084,365 as compared to HK$5,095,847 in the previous year, representing a 0.2% decrease.

The Group recorded fair value gain of HK$75,431,756 on public traded securities held as financial assets at fair value through profit or loss when compared to HK$9,522,128 in the previous year, representing a 692% increase. Net realised gain on disposal of listed securities was HK$4,929,798 (2006: HK$3,403,625). Impairment losses on loans and receivables, accounts receivable, available-for-sale financial assets and deposits on investment written off amounting to HK$9,511,973 (2006: HK$9,134,554) were charged to the income statement. Employees benefits and depreciation expenses were HK$3,269,845 (2006: HK$3,277,218) while other operating expenses totalled at HK$14,789,073 (2006: HK$9,376,103). Profit attributable to equity holders of the Company for the year recorded HK$50,907,356 as compared to HK$10,685,282 in the previous year, representing a 376% increase.

PROSPECTS AND FUTURE PLANS

The Group has enjoyed a successful year for the year ended 31st December, 2007. On one hand, the Group remained debt free; on the other hand, profit of the Group soared along with a 51% (HK$ 97.6 million) increase in net asset. In addition, the Company has successfully listed its shares on the Toronto Stock Exchange in Canada on 29th June, 2007, securing a dual-listing status that allows us to be more accessible to North American funding sources.

Looking ahead, the sub-prime crisis may continue to affect Asian market sentiment in 2008. If so, it presents opportunities for the Group to acquire high quality, yet undervalued assets. We expect our three areas of investment focus to continue stronger than the rest of the economy. We judge that resources, technology and food/retail experience consistent demand that serves to buffer them somewhat against economic pull-backs, and will continue to provide us with superior capital appreciation.

In the coming year, at least two of our investee companies expect to be listed. Furthermore, the Group has identified excellent investment opportunities in coking coal, renewable energy and pharmaceuticals, among others, all of which fit nicely into the Group's current business strategy of unlocking the value in private companies with our proven management.

Chairman's Statement

PROPOSED DIVIDEND

The Board of Directors has recommended a dividend out of the share premium account of the Company of HK17 cents per share (2006: HK15 cents per share) in respect of the year ended 31st December, 2007, totalling not less than HK$6,630,444 (2006: HK$4,383,071) which is subject to approval of shareholders at the forthcoming annual general meeting to be held on 22nd May, 2008 and compliance with the Companies Law of Cayman Islands.

If approved, the said dividend will be paid on or about 29th May, 2008 to shareholders whose names appear on the register of members of the Company at the close of business on 23rd April, 2008.

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, 28th March, 2008

Management Discussion and Analysis

Turnover of the Group for the year ended 31st December, 2007 was HK$5,084,365 (2006: HK$5,095,847) and the profit attributable to equity holders of the Company was HK$50,907,356 (2006: HK$10,685,282).

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group had available funds of HK$21,698,184 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$288,047,095 at 31st December, 2007 compared to HK$190,444,519 at 31st December, 2006, a 51% increase.

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, 2007, the Group had no borrowing (2006: nil). The gearing ratio for the Group was 0% (2006: 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, 2007.

Capital Structure

On 18th June, 2007, the Group issued 8,766,140 new shares to third parties in Canada through a placing agent. The Board approved the placement of shares at a price of CDN$0.70 per share. After completion of the placement of shares, a gross proceeds of CDN$6,136,298 (equivalent: HK$44,794,976) was received by the Company.

On 30th April, 2007, 1,044,000 share options were granted to the Company's directors and employees. On 22nd June, 2007, 1,016,000 share options granted on 17th January, 2006 were exercised by the directors and employees which resulted in 1,016,000 new shares issued by the Company at HK$2.75 per share. The Company received HK$2,794,000 from the issue of new shares upon exercise of share options.

On 18th June, 2007, another 290,000 share options were granted to the placing agent at an exercise price of HK$6.03 per share.

The fair values of 1,044,000 and 290,000 share options granted were valued by an independent valuer which amounted to HK$762,000 and HK$245,000 respectively as at the date of grant.

Management Discussion and Analysis

SIGNIFICANT INVESTMENTS HELD AND THEIR PERFORMANCE

For the year ended 31st December, 2007, the Group had interest income of HK$3,722,822 as compared to HK$4,144,939 in the previous year, representing a 10% decrease. Dividend generated from the listed and unlisted securities held by the Group amounted to HK$1,361,543 as compared to HK$950,908 in the previous year, representing a 43% increase. The amount of turnover for the whole year was HK$5,084,365 as compared to HK$5,095,847 in the previous year, representing a 0.2% decrease. Net realised gain on disposal of listed securities was HK$4,929,798 as compared to HK$3,403,625 in the previous year, representing a 45% increase. The fair value gain on the listed securities was HK$75,431,756 as compared to HK$9,522,128 in the previous year, representing a 692% increase. The Group's turnover, other revenue and other gains (net of losses) amounted to HK$80,048,650 as compared to HK$23,594,093 in the previous year, representing a 239% increase.

As at 31st December, 2007, the Group has invested HK$132,070,553 in listed securities held as financial assets at fair value through profit or loss which consists of HK$4,866,159 of overseas listed securities and HK$127,204,394 of Hong Kong listed securities. During the year, the Group disposed of listed securities of HK$17,133,021 to the market resulting in a net realised gain of HK$4,929,798. The total market value of listed securities held by the Group was HK$132,070,553 when compared to HK$44,868,350 in previous year, representing a 194% increase.

As at 31st December, 2007, the Group's unlisted investments, which comprise available-for-sale financial assets as well as loans and receivables, amounted to HK$108,031,311 as compared to HK$102,554,231 in the previous year, representing a 5% increase. Impairment losses on loans and receivables, available-for-sale financial assets and deposits on investment written off amounted to HK$9,511,973 when compared to HK$9,134,554 in the previous year, representing a 4% increase. During the year, the Group invested HK$7,500,000 in a largest manufacturer of amino acid products, capturing over 70% of China market. The Group also expanded its mining investment by paying of HK$10,000,000 in form of a loan with an option right to subscribe for 5% share capital of the borrower at a price to be determined between the Group and the borrower. The accounts receivable and prepayments were therefore increased by HK$9,662,896 from the previous year, representing a 50% increase.

SEGMENT INFORMATION

No analysis of the Group's revenue and contribution to the operating 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, 2007, 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 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, 2007, 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, 2007.

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 investments in convertible notes, bank deposits and other sources.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 28.

The Board of Directors has recommended a dividend out of the share premium account of the Company of HK17 cents per share (2006: HK15 cents per share) in respect of the year ended 31st December, 2007, totalling not less than HK$6,630,444 (2006: HK$4,383,071) which is subject to approval of shareholders at the forthcoming annual general meeting to be held on 22nd May, 2008 and compliance with the Companies Law of the Cayman Islands.

If approved, the said dividend will be paid on or about 29th May, 2008 to shareholders whose names appear on the register of members of the Company at the close of business on 23rd April, 2008.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Wednesday, 23rd April, 2008 to Thursday, 22nd May, 2008, both days inclusive. In order to qualify for the dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrars of the Company in Hong Kong, Computershare Investor Hong Kong Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, or the branch share registrars of the Company in Canada, Computershare Investor Services Inc. at 100 University Ave., 9th Floor, Toronto, Ontario, M5J 2Y1, Canada, not later than 4:00 p.m. on Tuesday, 22nd April, 2008.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 22 to the financial statements.

Report of the Directors

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 21 to the financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st December, 2007 are set out in note 22 to the financial statements.

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 92.

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 21(d) to the financial statements.

Report of the Directors

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. LEE Fong Lit David, Dr. LAM Andy Siu Wing and Mr. HO Man Kai Anthony 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.

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 25 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.

Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of directors are set out below:

Executive Directors:

Mr. LEE Fong Lit David, aged 61, 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 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 55, 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. 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.

Dr. LAM Andy Siu Wing, ***JP***, aged 57, 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.

Mr. CHAN Shuen Chuen Joseph, aged 61, 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 Accounts' Association of Canada.

Report of the Directors

Independent Non-executive Directors:

Mr. HO Man Kai, Anthony, aged 56, 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 59, 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 50, 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, Challenger Group Holdings Limited, Superb Summit International Timber Company Limited, Poly Investments Holdings Limited, Climax International Company Limited, ProSticks International Holdings Limited and Kong Sun Holdings Limited. Dr. Wong was an independent non-executive director of Haywood Investments Limited until 7th July, 2005.

Report of the Directors

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 31st December, 2007, 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

		Number of shares				Percentage of issued share capital as at
Name of director	Capacity	Personal interests	Family interests	Corporate interests	Other interests	31 December 2007
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 the Share Option Scheme on 28th June, 2005. Pursuant to the Share Option Scheme, the Company had granted share options of 1,016,000 and 1,044,000 to seven directors and three employees on 17th January, 2006 and 30th April, 2007 respectively. On 18th June 2007, the Company had granted share options of 290,000 to a placing agent at an exercise price of HK$6.03. On 22nd June, 2007, 1,016,000 share options had been exercised by all directors and employees. As at 31st December, 2007, the outstanding share options were 1,334,000.

Report of the Directors

The movements of the share options granted to directors and employees and other parties during the year ended 31st December, 2007 are as follows:

	Date of grant	Exercise period	Number of options As at 1st January, 2007	Exercised during the year	Granted during the year	As at 31st December, 2007	Exercise price HK$	Percentage of issued share capital as at 31st December, 2007
Directors								
LEE Fong Lit David	17th January, 2006	17th January, 2006 – 16th January, 2009	28,000	(28,000)	–	–	2.75	–
	30th April, 2007	30th April, 2007 – 29th April, 2010	–	–	28,000	28,000	4.29	0.07%
CHOW Pok Yu Augustine	17th January, 2006	17th January, 2006 – 16th January, 2009	28,000	(28,000)	–	–	2.75	–
	30th April, 2007	30th April, 2007 – 29th April, 2010	–	–	28,000	28,000	4.29	0.07%
LAM Andy Siu Wing, JP	17th January, 2006	17th January, 2006 – 16th January, 2009	292,000	(292,000)	–	–	2.75	–
	30th April, 2007	30th April, 2007 – 29th April, 2010	–	–	292,000	292,000	4.29	0.75%
CHAN Shuen Chuen Joseph	30th April, 2007	30th April, 2007 – 29th April, 2010	–	–	28,000	28,000	4.29	0.07%
TONG Kim Weng Kelly	17th January, 2006	17th January, 2006 – 16th January, 2009	28,000	(28,000)	–	–	2.75	–
	30th April, 2007	30th April, 2007 – 29th April, 2010	–	–	28,000	28,000	4.29	0.07%
HO Man Kai Anthony	17th January, 2006	17th January, 2006 – 16th January, 2009	28,000	(28,000)	–	–	2.75	–
	30th April, 2007	30th April, 2007 – 29th April, 2010	–	–	28,000	28,000	4.29	0.07%
WONG Yun Kuen	17th January, 2006	17th January, 2006 – 16th January, 2009	28,000	(28,000)	–	–	2.75	–
	30th April, 2007	30th April, 2007 – 29th April, 2010	–	–	28,000	28,000	4.29	0.07%
Sub-total			432,000	(432,000)	460,000	460,000		
Employees in aggregrate	17th January, 2006	17th January, 2006 – 16th January, 2009	584,000	(584,000)	–	–	2.75	–
	30th April, 2007	30th April, 2007 – 29th April, 2010	–	–	584,000	584,000	4.29	1.5%
Sub-total			1,016,000	(1,016,000)	1,044,000	1,044,000		
Other parties								
Maison Placements Canada Inc.	18th June, 2007	18th June, 2007 – 17th June, 2009	–	–	290,000	290,000	6.03	0.74%
Grand-total			1,016,000	(1,016,000)	1,334,000	1,334,000		

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

Report of the Directors

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).

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, 2007, 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, 2007
ABC Dirt-Cheap Stock Fund	Beneficial Owner	4,042,500	10.36%
Dynamic Global Value Class Fund	Beneficial Owner	2,339,500	6%

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, 2007.

MANAGEMENT CONTRACTS

Details of significant management contracts in relation to the Company's business are set out in note 25 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.

Report of the Directors

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, 2007, which also constitute connected transactions under the Listing Rules, are disclosed in note 25 to the financial statements.

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, 2007 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, 2007 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, 2007:

(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

Report of the Directors

(c) had not exceeded the relevant cap amount for the financial year ended 31st December, 2007 as set out in the circular of the Company dated 6th June, 2007.

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 effectiveness of the external audit and internal controls and risk evaluation. The Committee now comprises three independent non-executive directors, namely Mr. HO Man Kai, Dr. WONG Yun Kuen and Mr. TONG Kim Weng Kelly. The annual results for the year ended 31st December, 2007 was 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.

AUDITORS

Messrs. Chu and Chu, Certified Public Accountants were auditors of the Company for the year ended 31st December, 2005 who resigned and the directors appointed BDO McCabe Lo Limited, Certified Public Accountants to fill the casual vacancy. BDO McCabe Lo Limited was appointed as auditor of the Company in 2006 and 2007.

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, 28th March, 2008

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 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, 2007.

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. Dr. LAM Andy Siu Wing is Chief Financial Officer and Mr. CHAN Shuen Chuen Joseph is the Qualified Accountant. The Company has three independent non-executive directors, namely, 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 11 and 12 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, 2008 to 31st December, 2008, 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.

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 2007, the Board of Directors held 4 regular Board meetings at approximately quarterly interval. 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 regular Board meetings in 2007

	No. of Board Meeting attended
Executive directors	
Mr. LEE Fong Lit David	2
Dr. CHOW Pok Yu Augustine	4
Dr. LAM Andy Siu Wing, JP	4
Mr. CHAN Shuen Chuen Joseph	3
Independent non-executive directors	
Mr. HO Man Kai Anthony	4
Mr. TONG Kim Weng Kelly	3
Dr. WONG Yun Kuen	3

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 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.

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.

Corporate Governance Report

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 remuneration of independent non-executive directors.

Set out below is the summary of work of the Remuneration Committee done in 2007:

– review of the remuneration policy for 2007/2008;

– 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 2007. Details of individual attendance of its members are set out in the table below:

Attendance of individual members of Remuneration Committee in 2007

Names	**No. of meeting attended**
Dr. CHOW Pok Yu Augustine	2
Mr. HO Man Kai Anthony *(Chairman)*	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.

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.

Corporate Governance Report

Set out below is the summary of work done in 2007:

- review of the financial statements for the year ended 31st December, 2006, for the six months ended 30th June, 2007 and for the nine months ended 30th September, 2007;
- review of effectiveness of the internal control system;
- review of independent auditor's report and management letter; and
- consideration and approval of 2007 audit fees and audit work and proposal for re-appointment of auditor.

The Audit Committee held three 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 2007

Names	**No. of meeting attended**
Mr. HO Man Kai Anthony *(Chairman)*	3
Mr. TONG Kim Weng Kelly	3
Dr. WONG Yun Kuen	3

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 change of directorship 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, 2007, 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 a letter 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, 2007. The financial statements are also prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of The Stock Exchange of Hong Kong Limited.

During the year, the fees to BDO in respect of audit services were HK$790,000. In respect of non-audit services, the fees to BDO was HK$120,400.

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. 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 2007 Annual General Meeting, a separate resolution was proposed by the Chairman in respect of each separate issue, including re-election of Directors. The Chairmen of the Board of Directors, Audit Committee and Remuneration Committee attended the 2007 Annual General Meeting to answer questions of shareholders.

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 26 to page 27.

Independent Auditor's Report

BDO

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Certified Public Accountants
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111 Connaught Road Central
Hong Kong
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德豪嘉信會計師事務所有限公司

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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, 2007, 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, 2007, 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.

BDO McCabe Lo Limited
Certified Public Accountants
Wong Chi Wai
Practising Certificate Number P04945

Hong Kong, 28th March, 2008

Consolidated Income Statement

for the year ended 31st December

	Note	2007 HK$	2006 HK$
Turnover	5	5,084,365	5,095,847
Other revenue	5	879,909	6,780,109
Other gains and losses	5	74,084,376	11,718,137
		80,048,650	23,594,093
Employee benefits expenses		(3,063,128)	(2,967,022)
Depreciation of property, plant and equipment		(206,717)	(310,196)
Other operating expenses		(14,789,073)	(9,376,103)
Operating profit	6	61,989,732	10,940,772
Finance costs	7	(3,613)	(141,024)
Profit before income tax		61,986,119	10,799,748
Income tax expenses	8	(11,078,763)	(114,466)
Profit for the year attributable to equity holders of the Company	10	50,907,356	10,685,282
Proposed dividend	11	6,630,444	4,383,071
Earnings per share	12		
Basic		HK$1.48	HK$0.37
Diluted		HK$1.46	HK$0.36

Consolidated Balance Sheet

as at 31st December

	Note	2007 HK$	2006 HK$
Non-current assets			
Property, plant and equipment	13	213,780	370,792
Interests in associates	15	–	–
Available-for-sale financial assets	16	58,321,923	43,228,573
Loans and receivables	17	59,097,252	71,533,757
		117,632,955	115,133,122
Current assets			
Accounts receivable and prepayments	18	28,940,971	19,278,075
Financial assets at fair value through profit or loss	19	132,070,553	44,868,350
Bank balances and cash		21,698,184	18,715,933
		182,709,708	82,862,358
Current liabilities			
Accounts payable and accruals	20	2,246,637	7,429,459
Tax payable		10,048,931	121,502
		12,295,568	7,550,961
Net current assets		170,414,140	75,311,397
Net assets		288,047,095	190,444,519
Capital and reserves			
Share capital	21	39,002,615	29,220,475
Reserves	22	249,044,480	161,224,044
Total equity		288,047,095	190,444,519
Net asset value per share	23	HK$7.39	HK$6.52

Approved and authorised for issue by the Board of Directors on 28th March, 2008

LAM Andy Siu Wing	**CHOW Pok Yu Augustine**
Director	*Director*

Balance Sheet

as at 31st December

	Note	2007 HK$	2006 HK$
Non-current assets			
Property, plant and equipment	13	213,780	311,058
Interests in subsidiaries	14	111,860,647	118,342,984
Available-for-sale financial assets	16	10,000,000	6,778,100
		122,074,427	125,432,142
Current assets			
Accounts receivable and prepayments	18	14,880,916	8,247,226
Financial assets at fair value through profit or loss	19	73,153,514	24,815,791
Bank balances and cash		21,575,670	6,396,324
		109,610,100	39,459,341
Current liabilities			
Accounts payable and accruals	20	2,218,652	2,199,225
Tax payable		4,051,313	–
		6,269,965	2,199,225
Net current assets		103,340,135	37,260,116
Net assets		225,414,562	162,692,258
Capital and reserves			
Share capital	21	39,002,615	29,220,475
Reserves	22	186,411,947	133,471,783
Total equity		225,414,562	162,692,258

Approved and authorised for issue by the Board of Directors on 28th March, 2008

LAM Andy Siu Wing	**CHOW Pok Yu Augustine**
Director	*Director*

Consolidated Statement of Changes in Equity

for the years ended 31st December, 2007 and 2006

	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, 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 *(Note 21(b))*	8,766,140	36,028,836	–	–	–	–	44,794,976
Issue of shares upon exercise of share options *(Note 21(c))*	1,016,000	2,686,000	–	(908,000)	–	–	2,794,000
Share issue expenses	–	(5,001,281)	–	–	–	–	(5,001,281)
Proposed dividend transferred to current liabilities upon approval of shareholders at annual general meeting	–	–	–	–	(4,383,071)	–	(4,383,071)
Proposed dividend *(Note 11)*	–	(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
At 1st January, 2006	29,220,475	147,899,905	(6,034,732)	–	4,383,071	(5,809,313)	169,659,406
Impairment loss on available-for-sale financial assets recognised in income statement	–	–	5,980,000	–	–	–	5,980,000
Transfer to income statement upon disposal of available-for-sale financial assets	–	–	400,000	–	–	–	400,000
Fair value changes on available-for-sale financial assets recognised in equity	–	–	7,194,902	–	–	–	7,194,902
Net income recognised in equity	–	–	13,574,902	–	–	–	13,574,902
Profit for the year	–	–	–	–	–	10,685,282	10,685,282
Total recognised income for the year	–	–	13,574,902	–	–	10,685,282	24,260,184
Share option scheme –							
– value of employee services	–	–	–	908,000	–	–	908,000
Proposed dividend transferred to current liabilities upon approval of shareholders at annual general meeting	–	–	–	–	(4,383,071)	–	(4,383,071)
Proposed dividend *(Note 11)*	–	(4,383,071)	–	–	4,383,071	–	–
	–	(4,383,071)	–	908,000	–	–	(3,475,071)
At 31st December, 2006	29,220,475	143,516,834	7,540,170	908,000	4,383,071	4,875,969	190,444,519

Consolidated Cash Flow Statement

for the year ended 31st December

	Note	2007 HK$	2006 HK$
Operating activities			
Cash (used in) generated from operations	24	(32,809,640)	32,208,405
Interest paid		(3,613)	(141,024)
Income tax paid		(1,151,334)	–
Net cash (used in) from operating activities		(33,964,587)	32,067,381
Investing activities			
Interest received		845,809	2,276,289
Dividend income from available-for-sale financial assets		1,130,000	1,185,266
Advances to investee companies		(5,332,000)	(16,206,981)
Repayments from investee companies		8,848,301	17,400,000
Purchase of property, plant and equipment		(49,705)	(27,813)
Purchase of available-for-sale financial assets		(7,500,000)	(11,230,716)
Proceeds from disposal of available-for-sale financial assets		800,000	22,530
Net cash used in investing activities		(1,257,595)	(6,581,425)
Financing activities			
Dividend paid		(4,383,262)	(4,381,113)
Proceeds from exercise of share options		2,794,000	–
Proceeds from issue of shares		44,794,976	–
Share issue expenses		(5,001,281)	–
Repayments of loans		–	(7,500,000)
Net cash from (used in) financing activities		38,204,433	(11,881,113)
Net increase in cash and cash equivalents		2,982,251	13,604,843
Cash and cash equivalents at 1st January		18,715,933	5,111,090
Cash and cash equivalents at 31st December		21,698,184	18,715,933
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		21,698,184	18,715,933

Notes to the Financial Statements

for the year ended 31st December, 2007

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 listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). On 29th June, 2007, the application for dual-listing of the Company's shares on the Toronto Stock Exchange in Canada was approved.

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

2. ADOPTION OF NEW OR REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

(a) In the current year, the Group has applied all the new and revised standards, amendments and interpretations ("new IFRSs") issued by the International Accounting Standards Board ("IASB"), that are relevant to its operation and effective for the current accounting period of the Group and the Company.

The adoption of these new IFRSs did not affect recognition or measurement of the amounts recognised in the financial statements for the current or prior accounting periods. As a result, no prior period adjustment has been required.

However, the adoption of "IFRS 7 Financial Instruments: Disclosures" and "Amendment to International Accounting Standard ("IAS") 1, Presentation of Financial Statements: Capital Disclosures" resulted in a much extensive disclosure in respect of financial instruments and an additional disclosure on capital management policy respectively. The relevant comparative information has been presented for the first time in the current year.

Notes to the Financial Statements

for the year ended 31st December, 2007

2. ADOPTION OF NEW OR REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(b) Potential Impact Arising On The New Accounting Standards Not Yet Effective

The Group has not yet applied the following new or revised IFRSs that have been issued but are not yet effective. The directors of the Company anticipated that the application of these new or revised IFRSs will have no material impact on the financial statements of the Group.

IAS 1 (Revised)	Presentation of Financial Statements[1]
IAS 23 (Revised)	Borrowing Costs[1]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[5]
IAS 32 and IAS 1 (Amendments)	Financial Instruments – Puttable Financial Instruments and Obligations Arising from Liquidation[1]
IFRS 2 (Amendment)	Share-based Payments – Vesting Conditions and Cancellations[1]
IFRS 3 (Revised)	Business Combinations[5]
IFRS 8	Operating Segments[1]
IFRIC – Interpretation 11	Group and Treasury Share Transactions[4]
IFRIC – Interpretation 12	Service Concession Arrangements[3]
IFRIC – Interpretation 13	Customer Loyalty Programmes[2]
IFRIC – Interpretation 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Fund Requirements and their Interaction[3]

1 Effective for annual periods beginning on or after 1st January, 2009
2 Effective for annual periods beginning on or after 1st July, 2008
3 Effective for annual periods beginning on or after 1st January, 2008
4 Effective for annual periods beginning on or after 1st March, 2007
5 Effective for annual periods beginning on or after 1st July, 2009

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, 2007

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 28.

(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.

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.

(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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Goodwill (continued)

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.

(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.

Notes to the Financial Statements

for the year ended 31st December, 2007

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property, plant and equipment (continued)

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.

(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, 2007

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments

Financial assets and financial liabilities are recognised on 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 derivatives that are not designated and effective as hedging instruments.

Notes to the Financial Statements

for the year ended 31st December, 2007

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments (continued)

Financial assets **(continued)**

Financial assets at fair value through profit or loss (continued)

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.

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 designated 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments (continued)

Financial assets **(continued)**

Available-for-sale financial assets (continued)

The fair value of 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 another investment that is substantially the same 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.

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 debtor's financial difficulty; or
– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

Notes to the Financial Statements

for the year ended 31st December, 2007

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments (continued)

Impairment loss on financial assets **(continued)**

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.

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.

Notes to the Financial Statements

for the year ended 31st December, 2007

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments (continued)

***Financial liabilities and equity* (continued)**

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 generally classified into other financial liabilities (including accounts payable and accruals and other borrowings) 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.

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 recognise 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.

Notes to the Financial Statements

for the year ended 31st December, 2007

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Income taxes (continued)

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.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Income taxes (continued)

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.

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.

Notes to the Financial Statements

for the year ended 31st December, 2007

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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, which 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Provisions and contingent liabilities (continued)

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.

(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.

Notes to the Financial Statements

for the year ended 31st December, 2007

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Employee benefits (continued)

(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.

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.

(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, 2007

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, 2007

5. TURNOVER, OTHER REVENUE AND OTHER GAINS AND LOSSES

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:

	2007 HK$	2006 HK$
Turnover:		
Interest income from		
– bank deposits	845,809	531,373
– loans receivable	2,877,013	3,519,867
– convertible notes	–	93,699
Dividend income from		
– listed investments	231,543	215,642
– unlisted investments	1,130,000	735,266
	5,084,365	5,095,847
Other revenue:		
Consultancy fee	–	5,000,000
Sundry income	879,909	1,780,109
	879,909	6,780,109
Other gains and (losses):		
Fair value changes on financial assets at fair value through profit or loss	75,431,756	9,522,128
Net realised gain on disposal of financial assets at fair value through profit or loss	4,929,798	3,403,625
Exchange gain, net	2,434,795	4,408
Reversal of impairment loss on accounts receivable	–	8,300,000
Reversal of impairment loss (net losses) upon disposal of available-for-sale financial assets	800,000	(377,470)
Impairment loss on loans and receivables *(Notes 17 and 18)*	(8,973,727)	(228,654)
Impairment loss on available-for-sale financial assets	(288,246)	(5,980,000)
Deposits on investments written off	(250,000)	(2,925,900)
	74,084,376	11,718,137

Notes to the Financial Statements

for the year ended 31st December, 2007

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

No analysis of the Group's turnover, other revenue and contribution to operating 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 PROFIT

Operating profit has been arrived at after charging the following:

	2007 HK$	2006 HK$
Auditor's remuneration		
– Current year	780,000	885,000
– Under provision in prior year	30,000	–
	810,000	885,000
Management fees *(Note 25)*	3,427,995	2,657,352
Incentive fee *(Note 25)*	1,424,700	1,187,254
Pension costs – contributions to defined contribution plan*	62,695	58,943
Operating leases in respect of land and buildings	2,244,839	1,342,966
Equity-settled share-based payment expenses	762,000	908,000
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, 2007 to reduce future contributions (2006: Nil). There was no outstanding contributions to the plan at 31st December, 2007 (2006: Nil).

7. FINANCE COSTS

	2007 HK$	2006 HK$
Bank charges	3,613	2,509
Interest on loans wholly repayable within one year	–	138,515
	3,613	141,024

Notes to the Financial Statements

for the year ended 31st December, 2007

8. INCOME TAX EXPENSES

(a) Provision for Hong Kong Profits Tax has been made at 17.5% (2006: 17.5%) of the Group's estimated assessable profits for the year.

	2007 HK$	2006 HK$
Current tax		
Hong Kong Profits Tax		
– Current year	10,542,229	114,466
– Under provision in prior year	536,534	–
Actual income tax expenses	11,078,763	114,466

(b) Reconciliation between tax expense and the Group's accounting profit at applicable tax rates is set out below:

	2007 HK$	2006 HK$
Profit before income tax	61,986,119	10,799,748
Notional tax on profit before taxation, calculated at Hong Kong Profits Tax rate of 17.5% (2006: 17.5%)	10,847,571	1,889,956
Tax effect of income not taxable for tax purpose	(1,467,501)	(3,097,744)
Tax effect of expenses not deductible for tax purpose	2,463,545	2,862,425
Utilisation of tax losses previously not recognised	(1,441,552)	(1,597,811)
Tax effect of tax losses not recognised	31,375	47,207
Other temporary differences not recognised	108,791	10,433
Under provision in prior year	536,534	–
Actual income tax expenses	11,078,763	114,466

Notes to the Financial Statements

for the year ended 31st December, 2007

8. INCOME TAX EXPENSES (continued)

(c) At the balance sheet date, the Group had unutilised tax losses of HK$5,325,477 (2006: HK$13,383,630) available for offsetting against future assessable profits. However, no deferred tax asset in respect of the tax losses has been recognised due to the unpredictability of future profit streams. The tax losses can be carried forward indefinitely.

There was no other material unrecognised deferred taxation at the balance sheet date.

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

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

	Fees	Salaries, allowances and benefits in kind	Contributions to pension scheme	Share based payments (Note iii)	2007 Total
	HK$	HK$	HK$	HK$	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, 2007

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

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

	Fees	Salaries, allowances and benefits in kind	Contributions to pension scheme	Share based payments (Note iii)	2006 Total
	HK$	HK$	HK$	HK$	HK$
Executive directors:					
Lee Fong Lit David	–	–	–	25,000	25,000
Chow Pok Yu Augustine	25,000	–	–	25,000	50,000
Lam Andy Siu Wing, JP	–	526,000	22,200	261,000	809,200
Chan Shuen Chuen Joseph*	–	–	–	–	–
Independent non-executive directors:					
Tong Kim Weng Kelly	25,000	–	–	25,000	50,000
Ho Man Kai Anthony	25,000	–	–	25,000	50,000
Wong Yun Kuen	25,000	–	–	25,000	50,000
	100,000	526,000	22,200	386,000	1,034,200

* Mr. Chan Shuen Chuen Joseph was appointed as an executive director on 29th December, 2006.

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 (2006: HK$1,040,000), in respect of his services provided to the Company and its subsidiaries as mentioned in note 25.

(iii) These represent the estimated value of 460,000 (2006: 432,000) share options granted to the directors and vested fully during the year. Details of the share options granted are set out in note 21(d) to the financial statements.

Notes to the Financial Statements

for the year ended 31st December, 2007

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2006: one) director whose emoluments are disclosed in note 9(a) above. The emoluments payable to the remaining four (2006: four) individuals during the year are as follows:

	2007 HK$	2006 HK$
Basic salaries, other allowances and benefits in kind	1,168,957	1,132,553
Contributions to a pension scheme	54,191	52,861
Share-based payments	426,262	522,000
	1,649,410	1,707,414

Note: The emoluments of the four (2006: four) individuals with the highest emoluments are within the band from nil to HK$1,000,000 (2006: nil to HK$1,000,000).

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

The consolidated profit attributable to equity holders of the Company includes a profit of HK$23,755,680 (2006: HK$6,011,092) which has been dealt with in the financial statements of the Company.

Notes to the Financial Statements

for the year ended 31st December, 2007

11. PROPOSED DIVIDEND

	2007 HK$	2006 HK$
Proposed dividend of HK17 cents per share (2006: HK15 cents per share)	6,630,444	4,383,071

The Board of Directors (the "Board") has recommended a dividend out of the share premium account of the Company of HK17 cents per share (2006: HK15 cents per share) in respect of the year ended 31st December, 2007, totalling not less than HK$6,630,444 (2006: HK$4,383,071) which is subject to the approval of shareholders at the forthcoming annual general meeting to be held on 22nd May, 2008 and compliance with the Companies Law of the Cayman Islands.

The dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

Notes to the Financial Statements

for the year ended 31st December, 2007

12. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to equity holders of the Company amounting to HK$50,907,356 (2006: HK$10,685,282) and on the weighted average of 34,480,665 (2006: 29,220,474) ordinary shares in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year is based on the Group's profit attributable to equity holders of the Company amounting to HK$50,907,356 (2006: HK$10,685,282) and the weighted average number of ordinary shares of 34,833,461 (2006: 29,483,310), calculated as follows:

	2007	2006
Weighted average number of ordinary shares for the purpose of basic earnings per share	34,480,665	29,220,474
Effect of deemed issue of shares under the Company's share option scheme	352,796	262,836
Weighted average number of ordinary shares for the purpose of diluted earnings per share	34,833,461	29,483,310

Notes to the Financial Statements

for the year ended 31st December, 2007

13. PROPERTY, PLANT AND EQUIPMENT

	Group				
	Leasehold improvements	Office equipment	Furniture and fixtures	Motor vehicle	Total
	HK$	HK$	HK$	HK$	HK$
Cost					
At 1st January, 2006	1,279,629	400,231	403,246	528,200	2,611,306
Additions	–	27,813	–	–	27,813
At 31st December, 2006	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
Accumulated depreciation					
At 1st January, 2006	859,342	371,655	330,984	396,150	1,958,131
Provided for the year	170,075	13,451	21,030	105,640	310,196
At 31st December, 2006	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
Carrying amount					
At 31st December, 2007	120,885	46,092	46,803	–	213,780
At 31st December, 2006	250,212	42,938	51,232	26,410	370,792

Notes to the Financial Statements

for the year ended 31st December, 2007

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Company				
	Leasehold improvements HK$	**Office equipment** HK$	**Furniture and fixtures** HK$	**Motor vehicle** HK$	**Total** HK$
Cost					
At 1st January, 2006	861,496	366,826	403,246	528,200	2,159,768
Additions	–	27,813	–	–	27,813
At 31st December, 2006	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
Accumulated depreciation					
At 1st January, 2006	590,542	338,251	330,984	396,150	1,655,927
Provided for the year	80,475	13,451	21,030	105,640	220,596
At 31st December, 2006	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
Carrying amount					
At 31st December, 2007	120,885	46,092	46,803	–	213,780
At 31st December, 2006	190,479	42,937	51,232	26,410	311,058

Notes to the Financial Statements

for the year ended 31st December, 2007

14. INTERESTS IN SUBSIDIARIES

	2007 HK$	2006 HK$
Unlisted shares, at cost	16,718,596	16,718,590
Impairment loss on investments in subsidiaries	(16,718,580)	(16,718,588)
	16	2
Amounts due from subsidiaries *(Note a)*	149,235,359	155,717,710
Allowance for impairment loss on amounts due from subsidiaries	(37,374,728)	(37,374,728)
	111,860,631	118,342,982
	111,860,647	118,342,984

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

	2007 HK$	2006 HK$
Impairment loss on investments in subsidiaries		
At 1st January	16,718,588	16,718,588
Written off against investment in a subsidiary	(8)	–
At 31st December	16,718,580	16,718,588
Allowance for impairment loss on amounts due from subsidiaries		
At 1st January and 31st December	37,374,728	37,374,728

Notes to the Financial Statements

for the year ended 31st December, 2007

14. INTERESTS IN SUBSIDIARIES (continued)

Note:

(a) Included in amounts due from subsidiaries are advances of HK$36,178,124 (2006: HK$40,016,124) made to a subsidiary which are unsecured, interest-bearing at annual rates ranging from 6% to 12% (2006: 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, 2007:

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%*
Marrick Investments Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	100%

Notes to the Financial Statements

for the year ended 31st December, 2007

14. INTERESTS IN SUBSIDIARIES (continued)

(b) The following is a list of subsidiaries at 31st December, 2007: (continued)

Name of subsidiary	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest held
Wayfairer Investments 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.

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for the year ended 31st December, 2007

15. INTERESTS IN ASSOCIATES

	Group 2007 HK$	Group 2006 HK$
Share of net assets	–	–

Note:

(a) Details of the associates at 31st December, 2007 are as follows:

Name of associate	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital held	Interest held
Eclipse Investment Holdings Limited	British Virgin Islands	Investment holding in Hong Kong	2,730,000 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
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)
2006					
100 per cent	4,170	(6,419)	(2,249)	39,603	(225)
Group's effective interest	1,460	(2,247)	(787)	13,861	(79)

The Group has not recognised its share of the associates' loss for current year of approximately HK$196,000 (2006: HK$79,000). The accumulated losses not recognised at 31st December, 2007 were approximately HK$707,000 (2006: HK$511,000).

Notes to the Financial Statements

for the year ended 31st December, 2007

16. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	2007	2006	2007	2006
	HK$	HK$	HK$	HK$
Unlisted equity securities at fair value *(Note a)*	48,934,059	31,020,474	7,500,000	–
Equity securities listed outside Hong Kong at fair value *(Notes a and b)*	6,087,864	4,680,000	–	–
Deposits for investments at cost *(Note c)*	800,000	5,028,099	–	4,278,100
Club debentures at fair value	2,500,000	2,500,000	2,500,000	2,500,000
	58,321,923	43,228,573	10,000,000	6,778,100
Market value of equity securities listed outside Hong Kong	6,087,864	4,680,000	–	–

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

Note:

(a) As at 31st December, 2007, details of major available-for-sale financial assets are as follows:

Name of investee company	Place of incorporation	Principal activities	As as 31st December	Proportion of investee's capital owned	Investment cost and advances thereto HK$'000	Fair value of investment and advances HK$'000	Dividend income received during the year HK$'000	Dividend cover %	Net assets attributable to the investment HK$'000	Accumulated fair value changes on investment recognised in the financial statements HK$'000	Accumulated impairment loss on investment recognised in the financial statements HK$'000
Win Direct Investments Limited#	British Virgin Islands	Investment holding	2007	23.44%	7,500	7,500	–	–	7,500	–	–
			2006	–	–	–	–	–	–	–	–
Chief Finance Limited	Hong Kong	Provision of commercial financing services	2007	26%	10,400	7,800	–	–	–	–	(2,600)
			2006	26%	15,039	12,439	–	–	–	–	(2,600)
Fullpower Holdings Limited	British Virgin Islands	Investment holding	2007	19%	9,538	8,588	–	–	–	–	(950)
			2006	35%	10,338	8,588	–	–	–	–	(1,750)
Waltin (HK) Limited	Hong Kong	Investment holding	2007	20%	9,035	9,030	–	–	–	(5)	–
			2006	20%	9,483	9,480	–	–	–	(3)	–
One.Tel Holdings Limited	British Virgin Islands	Investment holding	2007	20%	4,000	8,074	–	–	7,314	4,074	–
			2006	20%	4,000	6,029	–	–	5,269	2,029	–
Green Centre Limited	Hong Kong	Investment holding	2007	30%	28,181	28,178	–	–	–	(3)	–
			2006	30%	24,319	24,316	–	–	–	(3)	–
Prosperity Materials (International) Limited	Hong Kong	Trading of cements, iron cores and logs	2007	4.63%	9,000	15,765	–	–	15,765	6,765	–
			2006	4.63%	9,000	9,000	–	–	9,000	–	–
ChineseWorldNet.com Inc.	Cayman Islands	Provision for financial information services	2007	7.32%	2,044	6,088	–	–	6,088	4,044	–
			2006	7.32%	2,044	4,680	–	–	4,680	2,636	–
Guce Technology Park Limited	Hong Kong	Investment holding	2007	25%	3.500	3.500	–	–	3.500	–	–
			2006	–	–	–	–	–	–	–	–

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

Directly held by the Company

Notes to the Financial Statements

for the year ended 31st December, 2007

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

Note: (continued)

(a) (continued)

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) In the opinion of the directors, the listed equity securities are not held for trading. Such investments are classified as available-for-sale financial assets and stated at fair value.

(c) 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.

17. LOANS AND RECEIVABLES

	Group	
	2007 HK$	2006 HK$
Loans to investee companies *(Note a)*	53,792,984	61,474,285
Loan to an investee company *(Note b)*	28,178,124	24,316,124
Less: Allowance for impairment losses *(Note c)*	(22,873,856)	(14,256,652)
	59,097,252	71,533,757

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	
	2007 HK$	2006 HK$
Balance at 1st January	14,256,652	15,686,277
Impairment losses recognised in income statement	8,617,204	–
Bad debts written off	–	(1,429,625)
Balance at 31st December	22,873,856	14,256,652

17. LOANS AND RECEIVABLES (continued)

Note: (continued)

(c) (continued)

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

(d) As at the balance sheet date, there is no event of default in repayment of loans by the investees. The directors consider the investees should at least be able to meet their obligations to repay the debts (after impairment losses) taking into account their financial position and business prospect.

18. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	Group		Company	
	2007 HK$	2006 HK$	2007 HK$	2006 HK$
Accounts receivable	4,134,412	6,471,880	3,724,848	6,190,090
Loan receivable, secured *(Note a)*	8,000,000	8,000,000	–	–
Loan receivable, unsecured *(Note b)*	10,000,000	–	10,000,000	–
Interests receivable	5,324,161	2,547,148	400,000	–
Other receivables	135	8,000	135	–
Receivables after allowance for impairment loss	27,458,708	17,027,028	14,124,983	6,190,090
Deposits	796,994	469,790	606,833	279,629
Prepayments	685,269	1,781,257	149,100	1,777,507
	28,940,971	19,278,075	14,880,916	8,247,226

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% (2006: 12%) and is repayable on 30th June, 2007. During the year, the loan is renewed and is repayable on 30th June, 2008.

(b) The loan is unsecured and carries interest at 24% per annum. The loan is repayable in full nine months from the date of drawdown of 1st November, 2007. The Group is 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.

Notes to the Financial Statements

for the year ended 31st December, 2007

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	
	2007 HK$	2006 HK$	2007 HK$	2006 HK$
Current *(Note d)*	25,541,181	16,099,698	14,106,560	6,182,090
Balances overdue between:				
1 – 180 days *(Note e)*	715,997	630,048	12,288	8,000
181 – 365 days *(Note e)*	581,603	93,699	135	–
Over 1 year but less than 2 years *(Note e)*	522,645	203,583	6,000	–
Over 2 years *(Note e)*	97,282	–	–	–
	1,917,527	927,330	18,423	8,000
	27,458,708	17,027,028	14,124,983	6,190,090

(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 related 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	
	2007 HK$	2006 HK$	2007 HK$	2006 HK$
At 1st January	232,269	232,269	–	–
Bad debts written off	(232,269)	–	–	–
At 31st December	–	232,269	–	–

During the year, the debts of HK$232,269 (2006: nil) are written off against the carrying amount of the corresponding receivables as the debts are uncollectible.

(g) During the year, accounts receivable of HK$356,523 (2006: HK$228,654) were directly written off to income statement as the debts are uncollectible.

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19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2007 HK$	2006 HK$	2007 HK$	2006 HK$
Current assets:				
Equity securities held for trading *(Note a)*				
– Listed in Hong Kong	127,204,394	41,686,365	71,893,514	23,940,791
– Listed outside Hong Kong	4,866,159	3,181,985	1,260,000	875,000
	132,070,553	44,868,350	73,153,514	24,815,791
Market value of equity securities listed				
– in Hong Kong	127,204,394	41,686,365	71,893,514	23,940,791
– outside Hong Kong	4,866,159	3,181,985	1,260,000	875,000
	132,070,553	44,868,350	73,153,514	24,815,791

Notes to the Financial Statements

for the year ended 31st December, 2007

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

(a) Listed equity securities

As at 31st December, 2007, 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 income received during the year HK$'000	Dividend cover %	Net assets attributable to the investment HK$'000	Accumulated fair value changes on investment recognised in the financial statements HK$'000
Listed in Hong Kong:									
Challenger Group Holdings Limited ("Challenger") *(Note (i))*#	Cayman Islands	2007	21.34%	13,868	55,311	–	–	27,911	41,443
		2006	21.34%	13,868	17,746	–	–	10,125	3,878
Prosperity International Holdings (H.K.) Limited ("Prosperity") *(Note (ii))*	Bermuda	2007	11.64%	19,787	65,706	–	–	10,773	45,919
		2006	8.49%	10,030	10,384	–	–	1,198	354
Upbest Group Limited ("Upbest") *(Note (iii))*	Cayman Islands	2007	0.31%	1,249	3,080	127	19.01%	2,430	1,831
		2006	0.32%	1,249	7,880	111	22.59%	1,715	6,631
Tonic Industries Holdings Limited ("Tonic") *(Note (iv))*	Cayman Islands	2007	1.10%	3,036	2,677	104	39.68%	6,041	(359)
		2006	1.10%	3,036	1,827	104	51.20%	5,732	(1,209)
EganaGoldpfeil (Holdings) Limited ("Egana') *(Note (v))*	Cayman Island	2007	0.44%	4,944	–	–	–	–	(4,944)
		2006	–	–	–	–	–	–	–
Listed outside Hong Kong:									
Celsion Corporation ("Celsion") *(Note (vi))*#	Delaware	2007	1.54%	6,733	3,606	–	–	3,675	(3,127)
		2006	1.45%	6,733	2,307	–	–	(363)	(4,426)
Tysan Holdings Limited ("Tysan") *(Note (vii))*	Bermuda	2007	–	–	–	–	–	–	–
		2006	1.19%	7,255	3,850	–	–	13,734	(3,405)

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

Indirectly held by the Company through its subsidiaries

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

(a) Listed equity securities (continued)

Note:

(i) Challenger (formally known as Ultra Group Holdings Limited) was principally engaged in the manufacturing and sales of office furniture. During the year, Challenger changed its business from manufacturing and sales of office furniture to auto servicing and repairing operation.

(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) EganaGoldpfeil is principally engaged in design, assembly, manufacturing and distribution of timepieces, jewellery and leather products; licensing or assignment of brand names to third parties; and trading of timepiece components, jewellery and consumer electronic products. Its place of operation is mainly in Hong Kong. During the year, the trading of EganaGoldpfeil's shares are suspended and it has sustained significant net liabilities. Up to the date of this report, trading of EganaGoldpfeil's shares is still suspended. Based on the above premises, the directors consider the Group is unlikely able to recover its investment in EganaGoldpfeil and therefore the carrying amount of the investment is written down to nil.

(vi) 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.

(vii) Tysan is principally engaged in foundation piling, machinery trading and leasing, property investment and development, electric and mechanic engineering and building construction. Its place of operation is mainly in Hong Kong.

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

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20. ACCOUNTS PAYABLE AND ACCRUALS

	Group		Company	
	2007	2006	2007	2006
	HK$	HK$	HK$	HK$
Accounts payable	–	5,000,000	–	–
Accruals	2,244,870	2,427,501	2,216,885	2,197,267
Unclaimed dividend payable	1,767	1,958	1,767	1,958
	2,246,637	7,429,459	2,218,652	2,199,225

The ageing analysis of accounts payable and accruals is as follows:

	Group		Company	
	2007	2006	2007	2006
	HK$	HK$	HK$	HK$
Current	2,217,450	7,402,038	2,216,885	2,196,039
Over 1 year	29,187	27,421	1,767	3,186
	2,246,637	7,429,459	2,218,652	2,199,225

Notes to the Financial Statements

for the year ended 31st December, 2007

21. SHARE CAPITAL

	Number of shares	Amount HK$
Authorised:		
Ordinary shares of HK$0.2 each at 1st January, 2006	500,000,000	100,000,000
Share consolidation on 14th December, 2006 *(Note a)*	(400,000,000)	–
Ordinary shares of HK$1 each at 1st January, 2007 and at 31st December, 2007	100,000,000	100,000,000
Issued and fully paid:		
Ordinary shares of HK$0.2 each at 1st January, 2006	146,102,374	29,220,475
Share consolidation on 14th December, 2006 *(Note a)*	(116,881,900)	–
Ordinary shares of HK$1 each at 31st December, 2006 and at 1st January, 2007	29,220,474	29,220,475
Issue of shares of HK$1 each during the year *(Notes b & c)*	9,782,140	9,782,140
Ordinary shares of HK$1 each at 31st December, 2007	39,002,614	39,002,615

Note:

(a) Share consolidation

Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 13th December, 2006, 5 shares (issued and unissued) of the Company of HK$0.2 each were consolidated into 1 new share of the Company of HK$1 each with effect on 14th December, 2006.

(b) 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 placees, at a price of CDN$0.70 per share. On 18th June, 2007, such placing shares were issued and fully paid.

Notes to the Financial Statements

for the year ended 31st December, 2007

21. SHARE CAPITAL (continued)

Note: (continued)

(c) 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.

(d) 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 14,610,237 shares (before the share consolidation) of the Company, being 10% of the issued share capital 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. After the share consolidation on 14th December, 2006, the maximum number of shares which may be issued under the Share Option Scheme had been adjusted to 2,922,047.

As at 31st December, 2007, a total of 572,047 shares (2006: 1,906,047 shares) (after adjustment of consolidation of shares), representing 1.47% (2006: 6.52%) of the existing issued share capital of the Company are available for issue in respect of the remaining options which may be granted under the Share Option Scheme.

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.

Notes to the Financial Statements

for the year ended 31st December, 2007

21. SHARE CAPITAL (continued)

Note: (continued)

(d) Share option scheme (continued)

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.

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 17th January, 2006, the Company granted 5,080,000 share options to six directors and three employees at the exercise price of HK$0.55 per share. After the share consolidation becoming effective on 14th December, 2006, the number of share options granted had been adjusted from 5,080,000 to 1,016,000 with the exercise price of HK$2.75 per share representing 3.48% of the existing issued share capital of the Company as at 31st December, 2006. During the year ended 31st December, 2006, no share option has been exercised by the Company's directors and employees.

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.

Notes to the Financial Statements

for the year ended 31st December, 2007

21. SHARE CAPITAL (continued)

Note: (continued)

(d) Share option scheme (continued)

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

	Date of grant	Exercise period	Number of options: Outstanding as at 1st January, 2007	Number of options: Granted during the year	Number of options: Exercised during the year	Number of options: Outstanding as at 31st December, 2007	Exercise price	Share price at exercise date of 22nd June, 2007
							HK$	HK$
Director								
Lee Fong Lit David	17th January, 2006	17th January, 2006– 16th January, 2009	28,000	–	(28,000)	–	2.75	5.88
	30th April, 2007	30th April, 2007– 29th April, 2010	–	28,000	–	28,000	4.29	
Chow Pok Yu Augustine	17th January, 2006	17th January, 2006– 16th January, 2009	28,000	–	(28,000)	–	2.75	5.88
	30th April, 2007	30th April, 2007– 29th April, 2010	–	28,000	–	28,000	4.29	
Lam Andy Siu Wong, JP	17th January, 2006	17th January, 2006– 16th January, 2009	292,000	–	(292,000)	–	2.75	5.88
	30th April, 2007	30th April, 2007– 29th April, 2010	–	292,000	–	292,000	4.29	
Chan Shuen Chuen Joseph	30th April, 2007	30th April, 2007– 29th April, 2010	–	28,000	–	28,000	4.29	
Tong Kim Weng Kelly	17th January, 2006	17th January, 2006– 16th January, 2009	28,000	–	(28,000)	–	2.75	5.88
	30th April, 2007	30th April, 2007 29th April, 2010	–	28,000	–	28,000	4.29	
Ho Man Kai Anthony	17th January, 2006	17th January, 2006– 16th January, 2009	28,000	–	(28,000)	–	2.75	5.88
	30th April, 2007	30th April, 2007– 29th April, 2010	–	28,000	–	28,000	4.29	
Wong Yun Kuen	17th January, 2006	17th January, 2006– 16th January, 2009	28,000	–	(28,000)	–	2.75	5.88
	30th April, 2007	30th April, 2007– 29th April, 2010	–	28,000	–	28,000	4.29	
Sub-total			432,000	460,000	(432,000)	460,000		

Notes to the Financial Statements

for the year ended 31st December, 2007

21. SHARE CAPITAL (continued)

Note: (continued)

(d) Share option scheme (continued)

	Date of grant	Exercise period	Number of options: Outstanding as at 1st January, 2007	Granted during the year	Exercised during the year	Outstanding as at 31st December, 2007	Exercise price HK$	Share price at exercise date of 22nd June, 2007 HK$
Other employees in aggregate	17th January, 2006	17th January, 2006– 16th January, 2009	584,000	–	(584,000)	–	2.75	5.88
	30th April, 2007	30th April, 2007– 29th April, 2010	–	584,000	–	584,000	4.29	
Sub-total			1,016,000	1,044,000	(1,016,000)	1,044,000		
Other parties								
Maison Placements Canada Inc.	18th June, 2007	18th June, 2007– 17th June, 2009	–	290,000	–	290,000	6.03	
Grand-total			1,016,000	1,334,000	(1,016,000)	1,334,000		

Note:

1. The closing price of the share immediately before the date on which the options were exercised on 22nd June, 2007 was HK$5.86.

2. The closing prices of share immediately before the dates of grant of the options on 30th April, 2007 and 18th June, 2007 were HK$4.23 and HK$6.02 respectively.

3. No option was lapsed or cancelled during the year. The options granted during the year vested at the date 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.

Notes to the Financial Statements

for the year ended 31st December, 2007

21. SHARE CAPITAL (continued)

Note: (continued)

(d) Share option scheme (continued)

The variables of the options granted during the year served as inputs into the model are listed as follows:

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

Note:

(a) 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.

(b) 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.

The estimated fair values of HK$762,000 and HK$245,000 with respect to share options granted to directors and employees, and the placing agent, were charged to income statement and share premium during the year respectively.

Notes to the Financial Statements

for the year ended 31st December, 2007

21. SHARE CAPITAL (continued)

Note: (continued)

(e) 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.

22. RESERVES

	Group					
	Share premium	**Fair value reserve**	**Share option reserve**	**Proposed dividend**	**Retained profits**	**Total**
	HK$	HK$	HK$	HK$	HK$	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)
Proposed dividend transferred to current liabilities upon approval of shareholders at annual general meeting	–	–	–	(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, 2007

22. RESERVES (continued)

	Group					
	Share premium HK$	**Fair value reserve** HK$	**Share option reserve** HK$	**Proposed dividend** HK$	**Retained profits/ (Accumulated losses)** HK$	**Total** HK$
At 1st January, 2006	147,899,905	(6,034,732)	–	4,383,071	(5,809,313)	140,438,931
Profit for the year	–	–	–	–	10,685,282	10,685,282
Impairment loss on available-for-sale financial assets recognised in income statement	–	5,980,000	–	–	–	5,980,000
Transfer to income statement upon disposal of available-for-sale financial assets	–	400,000	–	–	–	400,000
Fair value changes on available-for-sale financial assets recognised in equity	–	7,194,902	–	–	–	7,194,902
Employee share option scheme – – value of employee services	–	–	908,000	–	–	908,000
Proposed dividend transferred to current liabilities upon approval of shareholders at annual general meeting	–	–	–	(4,383,071)	–	(4,383,071)
Proposed dividend *(Note 11)*	(4,383,071)	–	–	4,383,071	–	–
At 31st December, 2006	143,516,834	7,540,170	908,000	4,383,071	4,875,969	161,224,044

22. RESERVES (continued)

	Company					
	Share premium HK$	Fair value reserve HK$	Share option reserve HK$	Proposed dividend HK$	Retained profits/ (Accumulated losses) HK$	Total 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)
Proposed dividend transferred to current liabilities upon approval of shareholders at annual general meeting	–	–	–	(4,383,071)	–	(4,383,071)
Proposed dividend *(Note 11)*	(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
At 1st January, 2006	147,899,905	698,640	–	4,383,071	(22,615,854)	130,365,762
Profit for the year	–	–	–	–	6,011,092	6,011,092
Fair value changes on available-for-sale financial assets	–	570,000	–	–	–	570,000
Share option scheme –						
– value of employee services	–	–	908,000	–	–	908,000
Proposed dividend transferred to current liabilities upon approval of shareholders at annual general meeting	–	–	–	(4,383,071)	–	(4,383,071)
Proposed dividend *(Note 11)*	(4,383,071)	–	–	4,383,071	–	–
At 31st December, 2006	143,516,834	1,268,640	908,000	4,383,071	(16,604,762)	133,471,783

Notes to the Financial Statements

for the year ended 31st December, 2007

22. 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) to the financial statements.

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).

(b) Distributability of reserves

Distributable reserves of the Company at 31st December, 2007 according to the Company's Articles of Association amounted to HK$184,136,307 (2006: HK$131,295,143).

23. NET ASSET VALUE PER SHARE

The calculation of net asset value per share is based on the Group's net assets of HK$288,047,095 (2006: HK$190,444,519) divided by the Company's 39,002,614 (2006: 29,220,474) ordinary shares in issue as at 31st December, 2007.

Notes to the Financial Statements

for the year ended 31st December, 2007

24. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2007 HK$	2006 HK$
Operating activities		
Profit before income tax	61,986,119	10,799,748
Interest income	(3,722,822)	(4,144,939)
Finance costs	3,613	141,024
Dividend income from available-for-sale financial assets	(1,130,000)	(735,266)
Depreciation of property, plant and equipment	206,717	310,196
Equity-settled share-based payment expenses	762,000	908,000
(Reversal of impairment loss) net losses upon disposal of available-for-sale financial assets	(800,000)	377,470
Fair value changes on financial assets at fair value through profit or loss	(75,431,756)	(9,522,128)
Impairment loss on available-for-sale financial assets	288,246	5,980,000
Impairment loss on loans and receivables	8,973,727	228,654
Deposits on investments written off	250,000	2,925,900
(Loss) profit before working capital changes	(8,614,156)	7,268,659
Increase in financial assets at fair value through profit or loss	(11,770,447)	(16,090,116)
(Increase) decrease in accounts receivable and prepayments	(7,242,406)	40,543,785
(Decrease) increase in accounts payable and accruals	(5,182,631)	486,077
Cash (used in) generated from operations	(32,809,640)	32,208,405

Notes to the Financial Statements

for the year ended 31st December, 2007

25. RELATED PARTY TRANSACTIONS AND CONNECTED 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$3,427,995 and HK$1,424,700 for the year ended 31st December, 2007 respectively. No annual cap of the fees was set for the year ended 31st December, 2006. Dr. Chow Pok Yu Augustine, being the beneficial shareholder of HAML, is interested in these contracts in 2007 and 2006. The management fees and incentive fee paid and payable to HAML are as follows:

	2007 HK$	2006 HK$
Management fees	3,427,995	2,657,352
Incentive fee	1,424,700	1,187,254
	4,852,695	3,844,606

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).

26. COMMITMENTS

Commitments under operating leases

At 31st December, 2007, 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	
	2007 HK$	2006 HK$	2007 HK$	2006 HK$
Within one year	2,419,232	727,739	2,109,360	253,330
In the second to fifth years inclusive	2,724,590	309,873	2,724,590	–
	5,143,822	1,037,612	4,833,950	253,330

The Group leases an office and an incubation centre 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.

The incubation centre contains contingent rentals calculated based on the profit of a subsidiary of the Company. No contingent rentals were payable by the Group for the years ended 31st December, 2007 and 2006.

Notes to the Financial Statements

for the year ended 31st December, 2007

27. 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.

(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 31st December, 2007, bank balances and cash of the Group and the Company were denominated in the following currencies:

	Group		Company	
	2007 HK$	2006 HK$	2007 HK$	2006 HK$
HK dollar	8,686,348	18,004,340	8,563,847	5,684,844
US dollar	492,322	711,593	492,309	711,480
Canadian dollar	12,519,514	–	12,519,514	–
	21,698,184	18,715,933	21,575,670	6,396,324

27. FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(i) *Market risk* (continued)

– Foreign exchange risk (continued)

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.

Sensitivity analysis

The following sensitivity analysis on foreign exchange risk only represents cash and bank balances that are denominated in Canadian dollar as the Group has no other significant financial assets and liabilities denominated in foreign currencies. The following table indicates 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	
	2007 HK$	2006 HK$	2007 HK$	2006 HK$
Canadian dollar to HK$:				
Appreciates by 6%	751,171	–	751,171	–
Depreciates by 6%	(751,171)	–	(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 is listed in Hong Kong as shown in note 19. The directors believe that the exposure to equity price risk from these investments is acceptable in the Group's circumstances.

Notes to the Financial Statements

for the year ended 31st December, 2007

27. 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	
	2007 Effect on profit after tax HK$	2006 Effect on profit after tax HK$	2007 Effect on profit after tax HK$	2006 Effect on profit after tax HK$
Hang Seng Index				
Increases by 35%	4,080,679	1,686,485	4,080,679	1,686,485
Decreases by 35%	(4,080,679)	(1,686,485)	(4,080,679)	(1,686,485)
GEM Index				
Increases by 15%	8,405,333	362,749	3,561,159	42,432
Decreases by 15%	(8,405,333)	(362,749)	(3,561,159)	(42,432)

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.

27. FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(i) Market risk (continued)

– Price risk (continued)

As mentioned in note 4(g) to the financial statements, the directors estimate the fair value of those available-for-sale equity instruments which are not traded in an active market by analysis of the respective investee's circumstances. Majority of these investments' fair value have been estimated by the directors to be equal to their net asset value attributable to the Group or their recent transaction prices. 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.

The Group also exposes to interest rate risk arising from interest-bearing borrowings. As the Group has no or insignificant amount of borrowings, the directors consider that the exposure to interest rate risk from interest bearing borrowings is minimal.

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.

Notes to the Financial Statements

for the year ended 31st December, 2007

27. FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(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 normally 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 (2006: five) investees account for 80% (2006: 75%) of the total carrying amount of the loans and receivables as at 31st December, 2007. The Company's loan to one of its borrowers accounts for 71% (2006: 81%) 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 they should be able to meet their obligations to repay the debts. As the aforementioned borrowers are the Group's investees or potential investees, management are in a better position to assess the recoverability of the loans 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.

(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.

27. FINANCIAL RISK MANAGEMENT (continued)

(b) Fair value

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

28. 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) to the financial statements, 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 values of the Group's unlisted equity investments with aggregate carrying amount of HK$48,934,059 (2006: HK$31,020,474) as shown in note 16 are 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 another investment that is substantially the same or applicable price/ earning ratios for comparable listed companies adjusted to reflect the circumstances of the investee.

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

29. COMPARATIVE AMOUNTS

During the year, certain gains or losses from financial assets previously classified as other revenue or separately disclosed in the income statement are reclassified as other gains and losses in order to better reflect their nature and conform with current year's presentation.

Five Year Financial Summary

	Year ended 31st December,				
	2003 HK$ Note	2004 HK$ Note	2005 HK$	2006 HK$	2007 HK$
Results:					
Profit (loss) attributable to shareholders	(2,086,653)	8,119,191	21,561,356	10,685,282	50,907,356

	As at 31st December,				
	2003 HK$ Note	2004 HK$ Note	2005 HK$	2006 HK$	2007 HK$
Assets and liabilities:					
Current assets	65,530,928	71,689,900	82,999,060	82,862,358	182,709,708
Total assets	188,975,631	171,428,904	179,107,866	197,995,480	300,342,663
Current liabilities	48,286,214	22,616,450	9,448,460	7,550,961	12,295,568
Total liabilities	48,286,214	22,616,450	9,448,460	7,550,961	12,295,568
Shareholders' funds	140,689,417	148,812,454	169,659,406	190,444,519	288,047,095

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"). 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.