

Interim Report
2014



Harmony Asset Limited

Incorporated in the Cayman Islands with limited liability

Stock Code : 428

This interim report 2014, in both English and Chinese versions, is available on the Company's website at www.harmonyasset.com.hk (the "Company Website").

Shareholders who have chosen or have been deemed consented to receive the corporate communications of the Company (the "Corporate Communications") via the Company Website and who for any reason have difficulty in receiving or gaining access to the interim report 2014 posted on the Company Website will promptly upon request be sent the interim report 2014 in printed form free of charge.

Shareholders may at any time change their choice of the means of receipt (either in printed form or via the Company Website) and/or language(s) (either English only or Chinese only or both languages) of Corporate Communications.

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Shareholders who have chosen to receive printed copy of the Corporate Communications in either English or Chinese version will receive both English and Chinese versions of this interim report 2014 since both languages are bound together into one booklet.

INTERIM RESULTS FOR 2014**FINANCIAL HIGHLIGHTS**

The financial highlights of Harmony Asset Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30th June, 2014 are summarised as follows:

- Turnover of the Group for the six months ended 30th June, 2014 was HK\$2,128,429 as compared to HK\$2,552,868 in the same period last year.
- Loss attributable to owners of the Company for the six months ended 30th June, 2014 was HK\$26,824,646 as compared to HK\$25,789,082 in the same period last year.
- Basic loss per share of the Group was HK cents 68.68 for the six months ended 30th June, 2014 as compared to HK cents 66.03 in the same period last year.

INTERIM RESULTS

The Board of Directors (the “Board”) of the Company presents the interim report and the unaudited condensed consolidated interim financial statements (“Interim Financial Statements”) of the Group for the six months ended 30th June, 2014. The consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group for the six months ended 30th June, 2014, and the consolidated statement of financial position of the Group as at 30th June, 2014, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 11 to 31 of this interim report.

INTERIM DIVIDEND

The Board resolved not to declare an interim dividend for the six months ended 30th June, 2014 (six months ended 30th June, 2013: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Caution Regarding Forward-Looking Statements

This Management Discussion and Analysis (“MD&A”) contains forward-looking statements which are subject to risks and uncertainties and other factors that may cause the Company’s results to differ materially from expectations. Actual results may differ materially from those expressed or implied by such forward-looking statements. When reviewing the Company’s forward-looking statements, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. These include risks relating to market fluctuations, investee performance, foreign exchange fluctuations and other risks. These forward-looking statements contained in this MD&A speak only as of the date hereof. Unless otherwise required by applicable securities laws, the Company disclaims any intention or obligation to update the forward-looking statements and cautions investors from placing undue reliance on forward-looking statements. The Company does not have an ongoing obligation to disclose material information as it becomes available.

Business review

For the six months ended 30th June, 2014, the Group recorded a turnover of HK\$2,128,429 as compared to HK\$2,552,868 in the same period last year.

For the six months ended 30th June, 2014, the Group recorded other gains and losses in a net loss of HK\$21,512,620 as compared to HK\$20,871,021 in the same period last year.

For the six months ended 30th June, 2014, the loss before income tax expense was HK\$26,824,646 as compared to HK\$25,789,082 in the same period last year. The loss attributable to owners of the Company was HK\$26,824,646 as compared to HK\$25,789,082 in the same period last year. The loss for the six months ended 30th June, 2014 was mainly due to fair value losses on trading securities and derivative financial instruments.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Prospects and future plan

During the last six months, the headlines remained in focus on Wall Street's all time highs. Dow Jones Industrial Index crossed 16,000 in February and breached 17,000 not long afterwards. Headwinds for emerging markets have generally faded as market sentiment improved and capital flows have returned. Fear of a hard landing in China also receded somewhat with the latest improvement in its Purchasing Managers Index. Moreover, United States ("U.S.") 10-year treasury yields have been trending down, suggesting that investors believe interest rates are unlikely to rise in the near future.

The record breaking run by Wall Street, now into its six years after the Lehman crisis is most unusual and has confounded many skeptics who warn that U.S. stock prices have been in a bubble territory for months and must surely be headed for a serious correction. Our Board is cognizant that such prolonged monetary expansion essentially spreads complacency and will lead to irrational exuberance in the financial markets. In this sense, every effort will be made to trim our unproductive investments and redirect our assets to other core projects which remain to be in natural resources, technologies, healthcare industries and property development.

Financial review

Liquidity and financial resources

The Group had available bank balances and cash of HK\$21,617,466 (31st December, 2013: HK\$30,878,872) which were mainly placed with banks as time deposits. Bank balances and cash held by the Group are mainly denominated in Hong Kong dollars.

The Group had shareholders' funds of HK\$216,925,829 as at 30th June, 2014 compared to HK\$241,681,687 at 31st December, 2013, representing a 10% decrease.

At present, the Group has unutilised banking facilities of HK\$10,000,000 and the Group requires no borrowings for investment and capital expenditures. The interest rate charged on the banking facilities is 3% per annum over the applicable Hong Kong Interbank Offered Rate.

As at 30th June, 2014, the Group had no borrowing.

The Group did not have any capital expenditure commitment as at 30th June, 2014.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)**Financial review (Continued)***Capital Structure*

There was no significant change in the Group's capital structure for the six months ended 30th June, 2014.

During the period, no share options were granted, exercised, lapsed or cancelled under the share option scheme adopted by the Company at the annual general meeting held on 28th June, 2005.

Significant investments held and their performance

For the six months ended 30th June, 2014, the Group received interest income in the aggregate amount of HK\$2,051,115 as compared to HK\$1,040,440 in the same period last year, representing a 97% increase. The interest income comprises HK\$26,826 earned from bank deposits and HK\$2,024,289 earned from loans receivable and convertible bonds. Dividend income only generated from listed securities was HK\$77,314 (six months ended 30th June, 2013: HK\$1,512,428 from listed and unlisted securities). Turnover was HK\$2,128,429 as compared to HK\$2,552,868 in the same period last year, representing a 17% decrease.

For the six months ended 30th June, 2014, the Group disposed of certain of its publicly traded securities and realised net gain of HK\$1,884,592 as compared to HK\$2,250,912 in the same period last year, representing a 16% decrease. With the impact of continuously unfavorable performance of certain listed trading securities in the second quarter of 2014, the Group continuously recorded a significant unrealised loss of HK\$19,311,555 (six months ended 30th June, 2013: HK\$23,024,265) on its publicly trading securities and the derivative financial instruments.

Gain on disposals of available-for-sale financial assets ("AFS") was HK\$2,248,073 (six months ended 30th June, 2013: HK\$45,000). No recovery of impairment loss on loans and receivables was recognised (six months ended 30th June, 2013: HK\$124,381). Net exchange gain was HK\$80,468 (six months ended 30th June, 2013: net loss of HK\$267,049). The impairment losses on loans and receivables were HK\$6,414,198 (six months ended 30th June, 2013: nil).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)**Significant investments held and their performance (Continued)**

As at 30th June, 2014, the Group's unlisted investments (comprised of AFS and loans and receivables) were HK\$132,924,947 as compared to HK\$114,229,014 as at 31st December, 2013, representing a 16% increase. Such increase was mainly due to: (1) increase in fair value of AFS of HK\$4,316,861; (2) increase in value of AFS by further investment in a private equity in the amount of HK\$7,772,464; (3) decrease in value of AFS by disposal of partial interest in a private equity in the amount of HK\$4,000,000; (4) increase in loans and receivables by subscriptions for four convertible bonds in an aggregate amount of HK\$22,600,000; (5) redemption of convertible bond of HK\$3,900,000; (6) accrual of interest of HK\$820,806 from convertible bonds held by the Group; (7) repayment of HK\$2,500,000 from an investee; and (8) impairment losses on loans and receivables of HK\$6,414,198.

As at 30th June, 2014, accounts receivable and prepayments was HK\$10,154,826 as compared to HK\$30,910,631 as at 31st December, 2013, representing a 67% decrease. Such decrease was primarily the result of (1) repayment of outstanding balance of HK\$18,352,739 which was brought forward from last year; (2) net decrease of HK\$1,577,080 from other receivable; (3) net increase of interest receivable of HK\$500,986; and (4) net decrease of deposits and prepayments of HK\$1,326,972.

As at 30th June, 2014, the Group held trading securities and convertible bonds designated as at fair value through profit or loss in an aggregate amount of HK\$46,309,206 as compared to HK\$54,235,622 as at 31st December, 2013, representing a 15% decrease. The decrease was primarily due to: (1) purchases of securities during the six months ended 30th June, 2014 for an aggregate amount of HK\$11,000,662; (2) the disposals of certain securities which had a cost of HK\$6,153,678; and (3) net decrease in market value in the amount of HK\$12,773,400 of the listed securities.

Employees and remuneration policies

As at 30th June, 2014, the Group employed a total of 8 full-time employees, including the directors of the Group. Employees' remuneration are fixed and determined with reference to the market remuneration.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Segment information

The directors consider that the Group has only one operating segment, i.e. investment holding. Accordingly, the Group's turnover, other revenue, other gains and losses, loss for the period, and total assets are attributable to the segment of investment holding.

Seasonality/cyclicality of interim operation

The directors are not aware of any significant seasonal and cyclical factors which affect the Group's operations and interim results.

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 use any financial instruments to hedge such exposures.

Contingent liabilities

As at 30th June, 2014, the Group had no significant contingent liabilities.

Risk Factors

This MD&A contains forward-looking statements that involve risks and uncertainties (see Caution Regarding Forward-Looking Statements at the beginning of the MD&A). There are also various risks associated with the Company's activities, which could affect its business. Certain of those risks are described below but they are not the only ones facing the Company. Additional risks not currently known to us or that we currently deem immaterial may also impair the Company's business. Economic conditions and market factors such as volatility in the Chinese, Hong Kong and international markets, foreign exchange rates, interest rates, market prices, trading volumes and liquidity can have a significant impact on the Company's business, financial condition, and profitability. Additionally, the Company's business can experience considerable variations in revenue and net income from quarter to quarter, and year to year, due to the risk factors discussed above. These factors are beyond the Company's control and, as a result, revenue and net income will fluctuate, as they have historically.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company did not redeem any of its shares during the six months ended 30th June, 2014. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

SHARE OPTIONS

The Company has adopted a share option scheme (the "Share Option Scheme") at its annual general meeting held on 28th June, 2005. The Board may, at its discretion, offer any employee (including any director) of the Company or its subsidiaries options to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated therein.

The Share Option Scheme will remain in force for a period of ten years from 28th June, 2005. Summary of the terms of the Share Option Scheme are set out in the 2013 Annual Report.

No share option is outstanding, granted, lapsed, exercised or cancelled under the Share Option Scheme during the six months ended 30th June, 2014.

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors or chief executives of the Company (including their spouse and children under 18 years of age) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or its associated corporations.

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

At 30th June, 2014, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Ordinary shares of HK\$1 each in the Company

Name of directors	Number of ordinary shares				Percentage of issued share capital as at
	Personal interests	Family interests	Corporate interests	Other interests	30th June, 2014
Lee Fong Lit David	-	-	7,200,315* (Note)	-	18.43%
Ho Man Kai Anthony	60,000#	-	-	-	0.15%

Beneficial owner

* Interest of controlled corporation

Note: These 7,200,315 shares are held by Sino Path Consultants Limited, 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 the executive directors of the Company and directors of Sino Path Consultants Limited.

Save as disclosed above, as at 30th June, 2014, none of the directors and chief executives of the Company had, nor were they taken to or deemed to have under such provisions of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation or any interests which are required to be entered into the register kept by the Company pursuant to Section 352 of the SFO.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

Other than the interests disclosed under the section "Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation", at 30th June, 2014, the Company had not been notified of any other substantial shareholders' interests and short position, being 5% or more of the Company's shares and underlying shares which are required to be recorded in the register of interests in shares and short positions maintained under Section 336 of the SFO.

CORPORATE GOVERNANCE

The Company adopted all code provisions set out in the Corporate Governance Code (the "Code") contained in Appendix 14 of the Listing Rules as its own corporate governance practices.

The Company has complied with the code provisions as set out the Code during the six months ended 30th June, 2014.

CHANGES IN DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

As at the date of this interim report, the Company is not aware of any changes in Directors' information since the date of the 2013 annual report of the Company which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to 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 six months ended 30th June, 2014, all Directors have complied with the required standard set out in the Model Code.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed financial reporting matters including a review of the Interim Financial Statements for the six months ended 30th June, 2014 with the directors.

MEMBERS OF THE BOARD

As at the date hereof, the Board comprises 4 executive directors, namely, Mr. Lee Fong Lit David (Chairman), Dr. Chow Pok Yu Augustine (Chief Executive Officer), Mr. Chan Shuen Chuen Joseph and Mr. Cheng Ming Shun; and 3 independent non-executive directors, namely, Mr. Tong Kim Weng Kelly, Dr. Wong Yun Kuen and Mr. Ho Man Kai Anthony.

By Order of the Board

Harmony Asset Limited

Lee Fong Lit David

Chairman

Hong Kong, 15th August, 2014

The management of Harmony Asset Limited (the "Company") is responsible for the preparation of the accompanying condensed consolidated interim financial statements. The interim financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" and are considered by management to present fairly the financial position, operating results and cash flows of the Company and its subsidiaries (collectively referred to as the "Group"). These interim financial statements have not been audited, reviewed or otherwise verified for accuracy and completeness of information by the auditor of the Company.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30TH JUNE, 2014

	Note	Three months ended 30th June,		Six months ended 30th June,	
		2014 (Unaudited) HK\$	2013 (Unaudited) HK\$	2014 (Unaudited) HK\$	2013 (Unaudited) HK\$
Turnover	2	1,241,386	600,630	2,128,429	2,552,868
Other revenue	2	5,068	123	5,242	3,123
Other gains and (losses)	2	(18,019,375)	(11,618,642)	(21,512,620)	(20,871,021)
		(16,772,921)	(11,017,889)	(19,378,949)	(18,315,030)
Employee benefits expenses		(912,284)	(931,129)	(1,603,013)	(1,827,084)
Depreciation of property, plant and equipment		(111,574)	(173,190)	(222,592)	(346,379)
Other operating expenses		(3,205,980)	(3,067,740)	(5,620,092)	(5,300,589)
Loss before income tax expense	3	(21,002,759)	(15,189,948)	(26,824,646)	(25,789,082)
Income tax expense	4	-	-	-	-
Loss for the period attributable to owners of the Company		(21,002,759)	(15,189,948)	(26,824,646)	(25,789,082)
Other comprehensive income: Items that may be reclassified subsequently to profit or loss: Gains (losses) on fair value changes on available-for-sale financial assets		5,146,078	43,926	4,316,861	(176,000)
Items reclassified to profit or loss: Transfer of fair value gains to profit or loss upon disposal of available-for-sale financial assets		(2,248,073)	-	(2,248,073)	(45,000)
Other comprehensive income for the period		2,898,005	43,926	2,068,788	(221,000)
Total comprehensive income for the period attributable to owners of the Company		(18,104,754)	(15,146,022)	(24,755,858)	(26,010,082)
		HK cents	HK cents	HK cents	HK cents
Loss per share	6				
Basic		(53.77)	(38.89)	(68.68)	(66.03)
Diluted		(53.77)	(38.89)	(68.68)	(66.03)

The notes on pages 17 to 31 form part of these interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30TH JUNE, 2014

	Note	As at 30th June, 2014 (Unaudited) HK\$	As at 31st December 2013 (Audited) HK\$
Non-current assets			
Property, plant and equipment	7	483,484	689,397
Available-for-sale financial assets	8	79,239,628	71,150,303
Loans and receivables		16,627,715	25,181,913
Deposits for investments		3,883,515	3,883,515
		100,234,342	100,905,128
Current assets			
Loans and receivables		37,057,604	17,896,798
Accounts receivable and prepayments	9	10,154,826	30,910,631
Financial assets at fair value through profit or loss	10	46,309,206	54,235,622
Derivative financial instruments	11	7,845,677	14,383,832
Bank balances and cash		21,617,466	30,878,872
		122,984,779	148,305,755
Current liabilities			
Accounts payable and accruals	12	6,293,292	7,529,196
Net current assets		116,691,487	140,776,559
Total assets less current liabilities/Net assets		216,925,829	241,681,687
Capital and reserves			
Share capital	13	39,058,615	39,058,615
Reserves		177,867,214	202,623,072
Total equity		216,925,829	241,681,687
Net asset value per share		HK\$5.55	HK\$6.19

The notes on pages 17 to 31 form part of these interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE, 2014

For the six months ended 30th June, 2014 (unaudited)	Share capital <i>HK\$</i>	Share premium <i>HK\$</i>	Fair value reserve <i>HK\$</i>	Retained profits <i>HK\$</i>	Total <i>HK\$</i>
At 1st January, 2014	39,058,615	162,768,326	34,458,047	5,396,699	241,681,687
Loss for the period	-	-	-	(26,824,646)	(26,824,646)
Gains on fair value changes on available-for-sale financial assets	-	-	4,316,861	-	4,316,861
Transfer of fair value gains to profit or loss upon disposal of available-for-sale financial assets	-	-	(2,248,073)	-	(2,248,073)
Other comprehensive income for the period	-	-	2,068,788	-	2,068,788
Total comprehensive income for the period	-	-	2,068,788	(26,824,646)	(24,755,858)
At 30th June, 2014	39,058,615	162,768,326	36,526,835	(21,427,947)	216,925,829

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2014

For the six months ended 30th June, 2013 (unaudited)	Share capital HK\$	Share premium HK\$	Fair value reserve HK\$	Retained profits HK\$	Total HK\$
At 1st January, 2013	39,058,615	162,768,326	36,598,241	44,358,549	282,783,731
Loss for the period	-	-	-	(25,789,082)	(25,789,082)
Losses on fair value changes on available-for-sale financial assets	-	-	(176,000)	-	(176,000)
Transfer of fair value gains to profit or loss upon disposal of available-for-sale financial assets	-	-	(45,000)	-	(45,000)
Other comprehensive income for the period	-	-	(221,000)	-	(221,000)
Total comprehensive income for the period	-	-	(221,000)	(25,789,082)	(26,010,082)
At 30th June, 2013	<u>39,058,615</u>	<u>162,768,326</u>	<u>36,377,241</u>	<u>18,569,467</u>	<u>256,773,649</u>

The notes on pages 17 to 31 form part of these interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2014

	Six months ended 30th June,	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Cash flows from operating activities		
Loss before income tax expense	(26,824,646)	(25,789,082)
Interest income	(2,051,115)	(1,040,440)
Dividend income from available-for-sale financial assets	–	(1,500,000)
Depreciation of property, plant and equipment	222,592	346,379
Fair value losses on trading securities	12,773,400	18,495,776
Fair value losses on derivative financial instruments	6,538,155	4,528,489
Gains on disposal of available-for-sale financial assets	(2,248,073)	(45,000)
Impairment losses on loans and receivables	6,414,198	–
Recovery of impairment loss on loans and receivables previously recognised	–	(124,381)
	(5,175,489)	(5,128,259)
Loss before working capital changes	(5,175,489)	(5,128,259)
(Increase) decrease in trading securities	(4,846,984)	3,879,248
Decrease in accounts receivable and prepayments	21,256,791	7,481,202
Decrease in accounts payable and accruals	(1,235,904)	(757,981)
Decrease in amount due to a related company	–	(1,058,997)
	9,998,414	4,415,213
Cash generated from operations	9,998,414	4,415,213
Hong Kong Profits Tax refunded	–	2,661,127
	9,998,414	7,076,340
Net cash from operating activities	9,998,414	7,076,340

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2014

	Six months ended 30th June,	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Cash flows from investing activities		
Interest received	729,323	1,284,002
Dividend received from available-for-sale financial assets	–	1,500,000
Repayments from investees	2,500,000	124,381
Investment deposit	–	(600,000)
Purchase of property, plant and equipment	(16,679)	–
Purchase of convertible bonds	(22,600,000)	(13,014,999)
Redemption of convertible bond	3,900,000	2,000,000
Purchase of available-for-sale financial assets	(7,772,464)	(17,593,282)
Proceeds from disposal of available-for-sale financial assets	4,000,000	45,000
Net cash used in investing activities	(19,259,820)	(26,254,898)
Net decrease in cash and cash equivalents	(9,261,406)	(19,178,558)
Cash and cash equivalents at 1st January	30,878,872	34,096,412
Cash and cash equivalents at 30th June	21,617,466	14,917,854
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	21,617,466	14,917,854

The notes on pages 17 to 31 form part of these interim financial statements.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation

The unaudited condensed consolidated interim financial statements of the Group (“interim financial statements”) are prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” issued by the International Accounting Standards Board. In addition, the interim financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The interim financial statements do not include all the information and disclosures required in the annual financial statements of the Group and should be read in conjunction with the annual financial statements of the Group for the year ended 31st December, 2013. Except as described below, the accounting policies and methods of computation used in the preparation of these interim financial statements are consistent with those used in the annual financial statements of the Group for the year ended 31st December, 2013.

Adoption of new or revised International Financial Reporting Standards (“IFRSs”) – effective 1st January, 2014:

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

The adoption of these new or revised IFRSs has no significant impact on the Group’s interim financial statements.

The Group has not early adopted any new or revised IFRSs that have been issued but are not yet effective.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS (CONTINUED)

2. Turnover, other revenue and other gains and (losses)

The Group principally invests in securities listed on recognised stock exchanges and unlisted securities, including equity securities and convertible bonds issued by corporate entities. Turnover, other revenue and other gains and losses recognised during the period are as follows:

	Six months ended 30th June,	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Turnover:		
Interest income from		
– bank deposits	26,826	15,754
– loans receivable & convertible bond	2,024,289	1,024,686
Dividend income from		
– listed investments	77,314	12,428
– unlisted investments	–	1,500,000
	2,128,429	2,552,868
Other revenue:		
Sundry income	5,242	3,123
Other gains and (losses):		
Exchange gain (loss), net	80,468	(267,049)
Fair value losses on financial assets at fair value through profit or loss		
– trading securities	(12,773,400)	(18,495,776)
– derivative financial instruments	(6,538,155)	(4,528,489)
Net realised gain on disposals of financial assets at fair value through profit or loss		
– trading securities	1,884,592	2,250,912
Gains on disposal of available-for-sale financial assets	2,248,073	45,000
Impairment losses on loans and receivables	(6,414,198)	–
Recovery of impairment loss on loans and receivables previously recognised	–	124,381
	(21,512,620)	(20,871,021)
	(19,378,949)	(18,315,030)

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS (CONTINUED)

2. Turnover, other revenue and other gains and (losses) (continued)

Management considered the Group has only one operating segment i.e. investment holding. Accordingly, the Group's turnover, other revenue, other gains and losses, loss for the period, and total assets are attributable to the segment of investment holding.

3. Loss before income tax expense

Loss before income tax expense has been arrived at after charging the following:

	Six months ended 30th June,	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Management fees	1,745,329	2,014,437
Pension costs – contributions to defined contribution plan	55,692	66,427
Operating lease in respect of land and buildings	977,400	1,388,556

4. Income tax expense

No provision for Hong Kong Profits Tax has been made as the Group has no estimated assessable profit for the period.

5. Dividend

The board does not declare any interim dividend for the six months ended 30th June, 2014 (six months ended 30th June, 2013: nil).

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS (CONTINUED)

6. Loss per share

The calculation of loss per share is as follows:

	Six months ended 30th June,	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Loss attributable to owners of the Company	(26,824,646)	(25,789,082)
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic loss per share and diluted loss per share	39,058,614	39,058,614
	HK cents	HK cents
Basic loss per share	(68.68)	(66.03)
Diluted loss per share	(68.68)	(66.03)

The calculation of basic loss per share is based on the Group's loss attributable to owners of the Company by the weighted average number of the ordinary shares in issue during the period.

Diluted loss per share is the same as the basic loss per share as there is no potential dilutive share in issue during the period.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS (CONTINUED)

7. Property, plant and equipment

	As at 30th June, 2014 (Unaudited) HK\$	As at 31st December, 2013 (Audited) HK\$
Cost:		
Furniture and fixtures	562,780	562,780
Motor vehicle	1,444,000	1,444,000
Office equipment	541,116	524,437
Leasehold improvements	346,778	346,778
	2,894,674	2,877,995
Accumulated depreciation	2,411,190	2,188,598
Carrying amount	483,484	689,397

During the six months ended 30th June, 2014, the Group acquired items of property, plant and equipment with total cost of HK\$16,679 (six months ended 30th June, 2013: nil).

8. Available-for-sale financial assets

	As at 30th June, 2014 (Unaudited) HK\$	As at 31st December, 2013 (Audited) HK\$
Unlisted equity securities	76,089,628	68,000,303
Club debentures	3,150,000	3,150,000
Total available-for-sale financial assets, at fair value	79,239,628	71,150,303

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS (CONTINUED)

9. Accounts receivable and prepayments

	As at 30th June, 2014 (Unaudited) HK\$	As at 31st December, 2013 (Audited) HK\$
Accounts receivable	7,164,025	25,516,764
Interest receivable	958,218	457,232
Other receivables	489,602	2,095,300
	<hr/>	<hr/>
Receivables after allowance for impairment losses	8,611,845	28,069,296
Deposits	1,465,781	2,091,649
Prepayments	77,200	749,686
	<hr/>	<hr/>
	<u>10,154,826</u>	<u>30,910,631</u>

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

	As at 30th June, 2014 (Unaudited) HK\$	As at 31st December, 2013 (Audited) HK\$
Balances neither past due nor impaired	8,611,845	28,069,296
	<hr/>	<hr/>

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS (CONTINUED)

10. Financial assets at fair value through profit or loss

	As at 30th June, 2014 (Unaudited) HK\$	As at 31st December, 2013 (Audited) HK\$
Trading securities		
– Equity securities held for trading at market value listed in Hong Kong	18,941,970	15,788,250
– Equity securities held for trading at market value listed outside Hong Kong	22,830,487	33,910,623
	41,772,457	49,698,873
Convertible bonds designated at fair value through profit or loss	4,536,749	4,536,749
	46,309,206	54,235,622

11. Derivative financial instruments

	As at 30th June, 2014 (Unaudited) HK\$	As at 31st December, 2013 (Audited) HK\$
Warrants	6,037,494	11,907,529
Embedded derivatives in convertible bonds	1,808,183	2,476,303
	7,845,677	14,383,832

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS (CONTINUED)

12. Accounts payable and accruals

	As at 30th June, 2014 (Unaudited) HK\$	As at 31st December, 2013 (Audited) HK\$
Accruals and other payables	6,134,001	7,369,905
Unclaimed dividend payable	159,291	159,291
	<u>6,293,292</u>	<u>7,529,196</u>

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

	As at 30th June, 2014 (Unaudited) HK\$	As at 31st December, 2013 (Audited) HK\$
Current	6,134,001	7,369,905
Over 1 year	159,291	159,291
	<u>6,293,292</u>	<u>7,529,196</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS (CONTINUED)

13. Share capital

	Number of shares	Amount HK\$
Authorised:		
Ordinary shares of HK\$1 each at 31st December, 2013 (audited) and 30th June, 2014 (unaudited)	<u>100,000,000</u>	<u>100,000,000</u>
Issued and fully paid:		
Ordinary shares of HK\$1 each at 31st December, 2013 (audited) and 30th June, 2014 (unaudited)	<u>39,058,614</u>	<u>39,058,615</u>

14. Related party transactions

	Six months ended 30th June,	
	2014 (Unaudited) HK\$	2013 (Unaudited) HK\$
Harmony Asset Management Limited ("HAML") – Management fees	<u>1,745,329</u>	<u>2,014,437</u>

On 11th April, 2013, the Company entered into a new investment management agreement with HAML, a company which is wholly-owned by a director of the Company, Dr. Chow Pok Yu Augustine. Under the new investment management agreement, HAML has agreed to provide investment management services to the Group for three additional years until 31st May, 2016. In accordance with the new investment management 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 the Group in a financial year (before accrual of the incentive fee) subject to annual caps of HK\$5,690,073 and HK\$4,827,726 for management fees and incentive fee respectively for the year ending 31st December, 2014.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS (CONTINUED)

14. Related party transactions (continued)

On 24th April, 2013, the Company and HAML entered into the supplemental agreement to amend the calculation method of the incentive fee under the new investment management Agreement. After entering of the supplemental agreement, the incentive fee payable by the Company to HAML under the new investment management agreement (as amended by the supplemental agreement) in respect of each financial year shall be 10% of the audited net profit of the Group in the financial year and for the purpose of the calculating the audited net profit of the Group in the financial year (i) any audited net loss of the Group in any financial year commencing 1st January, 2013 shall be carried forward and set off against the audited net profit of the Group in subsequent financial years, and (ii) the audited net profit of the Group in the financial year shall be calculated before accrual of any incentive fee that will be payable. The new investment management agreement and the supplemental agreement were approved by the independent shareholders of the Company on the extraordinary general meeting of the Company which was held on 31st May, 2013.

15. Operating leases

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

As at 30th June, 2014, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	As at 30th June, 2014 (Unaudited) HK\$	As at 31st December, 2013 (Audited) HK\$
Within one year	1,954,800	1,954,800
In the second to fifth years inclusive	2,586,038	3,563,438

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS (CONTINUED)

16. Fair value estimation

For financial instruments that are measured in the condensed consolidated statement of financial position at fair value, IFRS 7 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

For financial instruments that are recognised in the interim financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The following tables present the Group's financial assets that are measured at fair value at 30th June, 2014 and 31st December, 2013.

	As at 30th June, 2014 (unaudited)			
	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
Available-for-sale financial assets				
Unlisted equity securities at fair value	-	57,277,211	18,812,417	76,089,628
Club debentures	-	3,150,000	-	3,150,000
	-	60,427,211	18,812,417	79,239,628
Financial assets at fair value through profit or loss				
Equity securities held for trading at market value listed in Hong Kong	18,941,970	-	-	18,941,970
Equity securities held for trading at market value listed outside Hong Kong	19,840,112	2,990,375	-	22,830,487
Convertible bonds designated at fair value through profit or loss	-	-	4,536,749	4,536,749
Derivative financial instruments	-	-	7,845,677	7,845,677
	38,782,082	2,990,375	12,382,426	54,154,883
Total financial assets at fair value	38,782,082	63,417,586	31,194,843	133,394,511

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS (CONTINUED)

16. Fair value estimation (continued)

	As at 31st December, 2013 (audited)			
	Level 1	Level 2	Level 3	Total
	HK\$	HK\$	HK\$	HK\$
Available-for-sale financial assets				
Unlisted equity securities at fair value	–	49,187,886	18,812,417	68,000,303
Club debentures	–	3,150,000	–	3,150,000
	–	52,337,886	18,812,417	71,150,303
Financial assets at fair value through profit or loss				
Equity securities held for trading at market value listed in Hong Kong	15,788,250	–	–	15,788,250
Equity securities held for trading at market value listed outside Hong Kong	30,920,248	2,990,375	–	33,910,623
Convertible bonds designated as at fair value through profit or loss	–	–	4,536,749	4,536,749
Derivative financial instruments	–	–	14,383,832	14,383,832
	46,708,498	2,990,375	18,920,581	68,619,454
Total financial assets at fair value	46,708,498	55,328,261	37,732,998	139,769,757

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS (CONTINUED)

16. Fair value estimation (continued)

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of the reporting period. The following table gives information about how the fair value of these financial assets are determined including their fair value hierarchy, valuation technique(s) and key input(s) used.

Financial assets	Fair value as at 30th June 2014 (unaudited) HK\$	Fair value as at 31st December, 2013 (audited) HK\$	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable input(s) to fair value
1) Available for sale financial assets	79,239,628	71,150,303				
a) Unlisted	76,089,628	68,000,303	Level 3	Discounted cash flow with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level	Expected future cash flow	The higher the future cash flow, the higher the fair value.
- Unlisted equity investment	980,000	980,000				
- Unlisted equity investment	11,500,000	11,500,000	Level 3	Discounted and adjusted net asset value based on the fair value of the properties held	Fair value of properties held	The higher the fair value of properties held, the higher the fair value.
					Discount on net asset value	The lower the discount on net asset value, the higher the fair value.
- Unlisted fund	8,237,201	8,965,969	Level 2	Adjusted net asset value based on quoted price of listed securities held by the fund	N/A	N/A
- Unlisted equity investment	6,195,742	6,195,742	Level 3	Valuation multiple (Enterprise value ("EV")/Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA")) derived from most recent transaction price of the investment in December 2012	EBITDA	The higher the EBITDA, the higher the fair value.
- Unlisted equity investment	49,040,010	40,221,917	Level 2	Recent transaction price of the investment near year end date	N/A	N/A
- Unlisted equity investment	136,675	136,675	Level 3	Adjusted net asset value of the investees	N/A	N/A
b) Club debenture	3,150,000	3,150,000	Level 2	Fair value was determined by reference to second hand market value	N/A	N/A

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS (CONTINUED)

16. Fair value estimation (continued)

Fair value of the Group's financial assets that are measured at fair value on a recurring basis (continued)

Financial assets	Fair value as at	Fair value as at	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable input(s) to fair value
	30th June 2014 (unaudited) HK\$	31st December 2013 (audited) HK\$				
2) Financial assets at fair value through profit or loss	54,154,883	68,619,454				
a) Listed equity securities held for trading	38,782,082	46,708,498	Level 1	Quoted market price	N/A	N/A
b) Listed equity securities held for trading	2,990,375	2,990,375	Level 2	Latest market price before suspension	N/A	N/A
c) Convertible bond in unlisted company designated at fair value	4,536,749	4,536,749	Level 3	Binomial option pricing model is used.	Risk-free rates that are specific to the market Volatility rates that are in line with those of similar products	The lower the risk-free rate, the higher the fair value. The higher the volatility rate, the higher the fair value.
d) Warrants in listed companies	5,251,907	9,655,547	Level 3	Binomial option pricing model is used.	Future price of the underlying equity investment Risk-free rates that are specific to the market Volatility rates that are in line with those of similar products	The higher the future price, the higher the fair value. The lower the risk-free rate, the higher the fair value. The higher the volatility rate, the higher the fair value.
e) Warrants in listed companies	785,587	2,251,982	Level 3	Monte-Carlo simulation model is used.	Future price of the underlying equity investment Risk-free rates that are specific to the market Volatility rates that are in line with those of similar products	The higher the future price, the higher the fair value. The lower the risk-free rate, the higher the fair value. The higher the volatility rate, the higher the fair value.
f) Conversion option embedded in convertible bond in a listed company	1,808,183	2,476,303	Level 3	Binomial option pricing model is used.	Future price of the underlying equity investment Risk-free rates that are specific to the market Volatility rates that are in line with those of similar products	The higher the future price, the higher the fair value. The lower the risk-free rate, the higher the fair value. The higher the volatility rate, the higher the fair value.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS (CONTINUED)

16. Fair value estimation (continued)

The following table presents the changes in Level 3 instruments of the Group during the period.

	Six months ended 30th June,	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$	HK\$
At 1st January	37,732,998	85,681,769
Total gains or losses:		
– in profit or loss (included in other gains and losses)	(6,538,155)	(4,483,489)
– in other comprehensive income	–	(206,498)
Purchases	–	3,221,500
Disposals	–	(45,000)
At 30th June	<u>31,194,843</u>	<u>84,168,282</u>

All gains and losses included in other comprehensive income relate to available-for-sale financial assets and are reported as changes in “fair value reserve”.

The amount of total gains or losses for the period included in profit or loss that are attributable to the change in unrealised gains or losses relating to those Level 3 financial assets held at the end of reporting period are as follows:

	Six months ended 30th June,	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Net unrealised loss for the period on Level 3 financial assets held at the end of reporting period recognised in profit or loss (included in other gains and losses)	<u>6,538,155</u>	<u>4,528,489</u>

The directors consider all the financial instruments carried at cost or amortised cost are carried at amounts in the statements of financial position not materially different from their fair values.

17. Approval of the unaudited interim financial statements

The unaudited interim financial statements were approved and authorised for issue by the Board on 15th August, 2014.