
Harmony Asset Limited – First Quarterly Report 2010
prepared in accordance with the Canadian Securities Law

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HARMONY ASSET LIMITED
(Incorporated in the Cayman Islands with limited liability)

HKEX – Stock Code: 428
TSX – Trading Symbol: HAR

Unaudited condensed consolidated interim financial statements

Three-month periods ended 31st March, 2010

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NOTICE TO READER

The management of Harmony Asset Limited 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 Standards 34 “Interim Financial Reporting” and are considered by management to present fairly the financial position, operation results and cash flows of the Company and its subsidiaries. These interim financial statements have not been audited, reviewed or otherwise verified for accuracy and completeness of information by the auditor of the Company.

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CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31st March, 2010

		Three months ended	
		31st March,	
		2010	2009
		(Unaudited)	(Unaudited)
	<i>Note</i>	HK\$	HK\$
Turnover	2	4,163,642	3,246,795
Other revenue	2	30,001	67,119
Other gains	2	23,213,425	5,622,184
		<hr/> 27,407,068	<hr/> 8,936,098
Employee benefits expenses		(630,149)	(557,995)
Depreciation of property, plant and equipment		(79,217)	(10,792)
Other operating expenses		(2,079,940)	(1,799,287)
		<hr/> 24,617,762	<hr/> 6,568,024
Profit before income tax	3	24,617,762	6,568,024
Income tax credit	4	254,685	858,000
		<hr/> 24,872,447	<hr/> 7,426,024
Profit for the period attributable to owners of the Company		<hr/> 24,872,447	<hr/> 7,426,024
Other comprehensive income:			
Gains on fair value changes on available-for-sale financial assets		5,412,181	777,343
		<hr/> 5,412,181	<hr/> 777,343
Other comprehensive income for the period		5,412,181	777,343
		<hr/> 5,412,181	<hr/> 777,343
Total comprehensive income for the period attributable to Owners of the Company		<hr/> 30,284,628	<hr/> 8,203,367
		<hr/> 30,284,628	<hr/> 8,203,367
Earnings per share	5		
Basic		63.68 cents	19.04 cents
Diluted		N/A	19.00 cents

The notes on pages 9 to 15 form part of these interim financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31st March, 2010 and 31st December, 2009

	<i>Note</i>	31st March, 2010 (Unaudited) <i>HK\$</i>	31st December 2009 (Audited) <i>HK\$</i>
Non-current assets			
Property, plant and equipment	6	1,385,945	1,465,162
Available-for-sale financial assets		116,266,674	110,854,493
Loans and receivables		6,424,429	6,314,135
		124,077,048	118,633,790
Current assets			
Accounts receivable and prepayments	7	30,529,534	17,810,465
Trading securities		75,407,706	44,930,302
Derivative financial instruments		18,137,014	21,322,735
Bank balances and cash		82,100,764	98,065,356
		206,175,018	182,128,858
Current liabilities			
Accounts payable and accruals	8	709,432	1,249,956
Amount due a related company		6,028,948	6,028,948
Tax payable		13,915,198	13,569,202
		20,653,578	20,848,106
Net Current assets		185,521,440	161,280,752
Total assets less current liabilities		309,598,488	279,914,542
Non-current liabilities			
Deferred tax liabilities		1,813,266	2,413,948
Net assets		307,785,222	277,500,594
Capital and reserves			
Share capital	9	39,058,615	39,058,615
Reserves		268,726,607	238,441,979
		307,785,222	277,500,594

The notes on pages 9 to 15 form part of these interim financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31st March, 2010 and 2009

	Unaudited						Total HK\$
	Share capital HK\$	Share premium HK\$	Fair value reserve HK\$	Share option reserve HK\$	Proposed dividend HK\$	Retained profits/ (accumulated losses) HK\$	
At 1st January, 2010	39,058,615	162,768,326	18,310,881	1,034,156	3,905,861	52,422,755	277,500,594
Profit for the period	-	-	-	-	-	24,872,447	24,872,447
Fair value changes on available-for-sale financial assets recognised in equity	-	-	5,412,181	-	-	-	5,412,181
Total recognised income for the period	-	-	5,412,181	-	-	24,872,447	30,284,628
Share option scheme							
– value of employee services	-	-	-	-	-	-	-
– placing agent services	-	-	-	-	-	-	-
Transfer of reserve upon exercise of share options	-	-	-	-	-	-	-
Issue of shares	-	-	-	-	-	-	-
Share issue expenses	-	-	-	-	-	-	-
Proposed dividend transferred to current liabilities upon approval of shareholders at annual general meeting	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
Balance at 31st March, 2010	<u>39,058,615</u>	<u>162,768,326</u>	<u>23,723,062</u>	<u>1,034,156</u>	<u>3,905,861</u>	<u>77,295,202</u>	<u>307,785,222</u>
At 1st January, 2009	39,002,615	170,354,945	5,641,393	1,350,000	-	(32,807,189)	183,541,764
Profit for the period	-	-	-	-	-	7,426,024	7,426,024
Fair value changes on available-for-sale financial assets recognised in equity	-	-	777,343	-	-	-	777,343
Total recognised income for the period	-	-	777,343	-	-	7,426,024	8,203,367
Share option scheme							
– value of employee services	-	-	-	-	-	-	-
– placing agent services	-	-	-	-	-	-	-
Transfer of reserve upon exercise of share options	-	-	-	-	-	-	-
Issue of shares	-	-	-	-	-	-	-
Share issue expenses	-	-	-	-	-	-	-
Proposed dividend transferred to current liabilities upon approval of shareholders at annual general meeting	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
Balance at 31st March, 2009	<u>39,002,615</u>	<u>170,354,945</u>	<u>6,418,736</u>	<u>1,350,000</u>	<u>-</u>	<u>(25,381,165)</u>	<u>191,745,131</u>

The notes on pages 9 to 15 form part of these financial statements.

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CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the three months ended 31st March, 2010

	Three months ended	
	31st March,	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Operating activities		
Profit before taxation	24,617,761	6,568,024
Interest income	(374,569)	(246,795)
Dividend income from available-for-sale financial assets	(3,789,072)	(3,000,000)
Depreciation of property, plant and equipment	79,217	10,792
Fair value changes on financial assets at fair value through profit or loss	(16,524,160)	(13,736,179)
Impairment loss on available-for-sale financial assets – deposits on Investment written off	–	507,145
Impairment loss on loans and receivable	–	7,610,238
	<hr/>	<hr/>
Profit (loss) before working capital changes	4,009,177	(2,286,775)
Increase in trading securities	(13,953,244)	–
Decrease in derivative financial instruments	3,185,721	–
(Increase) decrease in accounts receivable and prepayments	(13,379,878)	67,505
Decrease in accounts payable and accruals	(540,523)	(570,640)
	<hr/>	<hr/>
Cash used in operations	(20,678,747)	(2,789,910)
Interest paid	–	–
Hong Kong tax paid	–	–
	<hr/>	<hr/>
Net cash used in operating activities	(20,678,747)	(2,789,910)
	<hr/>	<hr/>
Interest received	1,035,377	69,836
Dividend income from available-for-sale financial assets	3,789,072	3,000,000

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CONDENSED CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

For the three months ended 31st March, 2010

	Three months ended	
	31st March,	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Advances to investee companies	(500,000)	–
Repayment from investee companies	389,706	–
Purchase of property, plant and equipment	–	–
Purchase of available-for-sale financial assets	–	–
	<hr/>	<hr/>
Net cash from investing activities	4,714,155	3,069,836
	<hr/>	<hr/>
Financing activities		
Dividend paid	–	–
	<hr/>	<hr/>
Net cash from financing activities	–	–
	<hr/>	<hr/>
Net increase in cash and cash equivalents	(15,964,592)	279,926
Cash and cash equivalents at 1st January	98,065,356	10,252,785
	<hr/>	<hr/>
Cash and cash equivalents at 31st March	82,100,764	10,532,711
	<hr/> <hr/>	<hr/> <hr/>
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	82,100,764	10,532,711
	<hr/> <hr/>	<hr/> <hr/>

The notes on pages 9 to 15 form part of these financial statements.

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NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

1. Basis of preparation

The unaudited condensed consolidated interim financial statements (“interim financial statements”) are prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” issued by the International Accounting Standards Board.

The interim financial statements should be read in conjunction with the annual financial statements for the year ended 31st December, 2009. The accounting policies and basis of preparation used in the preparation of these interim financial statements are consistent with those used in the annual financial statements for the year ended 31st December, 2009.

2. Turnover, other revenue and gains

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

	Three months ended	
	31st March,	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Turnover:		
Interest income from		
– bank deposits	33,363	6,795
– loans receivable	341,207	240,000
Dividend income from		
– listed investments	–	–
– unlisted investments	3,789,072	3,000,000
	4,163,642	3,246,795
Other revenue:		
Sundry income	30,001	67,119
	30,001	67,119
Other gains and (losses):		
Exchange gain	(84,901)	3,387
Fair value changes on financial assets		
at fair value through profit or loss	16,524,160	13,736,179
Net realised gain on disposal of financial assets		
at fair value through profit or loss	6,774,166	–
Impairment loss on loans and receivable	–	(7,610,238)
Impairment loss on available-for-sale financial assets		
– deposits on investment written off	–	(507,144)
	23,213,425	5,622,184
	27,407,068	8,936,098

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

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NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

3. Operating profit

Operating profit has been arrived at after charging the following:

	Three months ended 31st March,	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Management fees	1,054,093	849,428
Pension costs – contributions to defined contribution plan	28,875	25,856
Operating lease in respect of land and buildings	527,340	527,340
	<u>1,610,288</u>	<u>1,402,624</u>

4. Income tax expenses (credit)

Hong Kong profits tax is calculated at 16.5% (2008: 16.5%) of the estimated assessable profits for the period.

	Three months ended 31st March,	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Current tax		
Hong Kong profits tax		
Provision for the current period	345,997	–
Deferred tax	(600,682)	(858,000)
	<u>(254,685)</u>	<u>(858,000)</u>

5. Earnings per share

The calculation of basic and diluted earnings per share is as follows:

	Three months ended 31st March,	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Profit attributable to owners of the Company	24,872,447	7,426,024
	<u>24,872,447</u>	<u>7,426,024</u>
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	39,058,614	39,002,614
Potential dilutive shares – share options	–	84,951
	<u>39,058,614</u>	<u>39,087,565</u>
	HK cents	HK cents
Basic earnings per share	63.68	19.04
Diluted earnings per share	N/A	19.00

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NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

5. Earnings per share (Continued)

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of the ordinary shares in issue during the period.

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

6. Property, plant and equipment

	As at 31st March, 2010 (Unaudited) HK\$	As at 31st December, 2009 (Audited) HK\$
Furniture and fixture	423,022	423,022
Motor vehicle	1,444,000	1,444,000
Office equipment	453,996	453,996
Leasehold improvements	917,606	917,606
	3,238,624	3,238,624
Accumulated Depreciation	1,852,679	1,773,462
Carrying amount	1,385,945	1,465,162

7. Accounts receivable and prepayments

	As at 31st March, 2010 (Unaudited) HK\$	As at 31st December, 2009 (Audited) HK\$
Accounts receivable	1,000	1,000
Loan receivable, secured	20,000,000	15,000,000
Interests receivable	132,000	792,808
Other receivables	9,543,865	1,252,668
	29,676,865	17,046,476
Deposits	646,950	606,883
Prepayments	205,719	157,106
	30,529,534	17,810,465

The loan receivable is interest-bearing.

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NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

7. Accounts receivable and prepayments (Continued)

The ageing analysis of the receivables is as follows:

	As at 31st March, 2010 (Unaudited) HK\$	As at 31st December, 2009 (Audited) HK\$
Current	29,676,865	17,046,476
Balances overdue between:		
1 – 180 days	–	–
180 – 365 days	–	–
Over 1 year but less than 2 years	–	–
Over 2 years	–	–
	<u>29,676,865</u>	<u>17,046,476</u>

8. Accounts payable

	As at 31st March, 2010 (Unaudited) HK\$	As at 31st December, 2009 (Audited) HK\$
Accounts payable	–	–
Accruals	593,504	1,133,352
Unclaimed dividend payable	115,928	116,604
	<u>709,432</u>	<u>1,249,956</u>

The ageing analysis of the accounts payable is as follows:

	As at 31st March, 2010 (Unaudited) HK\$	As at 31st December, 2009 (Audited) HK\$
Current	634,902	1,175,426
Over 1 year	74,530	74,530
	<u>709,432</u>	<u>1,249,956</u>

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NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

9. Share capital

	Number of shares	Amount HK\$
Authorised:		
Ordinary shares of HK\$1 each at 31st December, 2009 (audited) and 31st March, 2010 (unaudited)	100,000,000	100,000,000
	Number of shares	Amount HK\$
Issued and fully paid:		
Ordinary shares of HK\$1 each at 31st December, 2008 (audited)	39,002,614	39,002,615
Issue of shares of HK\$1 each during the year ended 31st December, 2009	56,000	56,000
at 31st December, 2009 (audited) at 31st March, 2010 (unaudited)	39,058,614	39,058,614

- (1) The amount of the ordinary shares amounting to HK\$39,002,615 is HK\$1 more than the amount calculated based on the 39,002,614 ordinary shares of HK\$1 each in issue as the fractional shares arising from the Company's shares consolidation on 14th December, 2006 had not been issued to its then shareholders.
- (2) On 14th August, 2009, the directors exercised 56,000 share options granted at exercised price of HK\$4.29 per share which resulted in 56,000 new shares of HK\$1 each issued by the Company.

10. Share Option Scheme

The Company has adopted the Share Option Scheme at its extraordinary general meeting held on 28th June, 2005. 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.

Each option gives the holder the right to subscribe for one ordinary share in the Company. Upon acceptance of the options, the grantee shall pay HK\$1 to the Company by way of consideration for the grant.

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.

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

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NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

10. Share Option Scheme (Continued)

The terms and conditions of the unexpired and unexercised share options at 31st March, 2010 are as follows:

	Date of grant	Exercise period	Number of options		Exercise price HK\$	
			Outstanding as at 1st January, 2010	Granted during the period		Outstanding as at 31st March, 2010
Directors						
Lee Fong Lit David	30/4/2007	30/4/2007 – 29/4/2010	28,000	–	28,000	4.29
Chow Pok Yu Augustine	30/4/2007	30/4/2007 – 29/4/2010	28,000	–	28,000	4.29
Lam Andy Siu Wing, JP	30/4/2007	30/4/2007 – 29/4/2010	292,000	–	292,000	4.29
Chan Shuen Chuen Joseph	30/4/2007	30/4/2007 – 29/4/2010	28,000	–	28,000	4.29
Tong Kim Weng Kelly	30/4/2007	30/4/2007 – 29/4/2010	28,000	–	28,000	4.29
Sub-total			404,000	–	404,000	
Other employees						
in aggregate	30/4/2007	30/4/2007 – 29/4/2010	584,000	–	584,000	4.29
	18/8/2008	18/8/2008 – 17/8/2011	522,047	–	522,047	5.10
			1,106,047	–	1,106,047	
Grand-total			1,510,047	–	1,510,047	

During the period, no share options were granted, exercised, lapsed or cancelled under the Share Option Scheme.

11. Related party transactions

	Three months ended 31st March,	
	2010 (Unaudited) HK\$	2009 (Unaudited) HK\$
Management fees paid to:		
– Harmony Asset Management Limited (“HAML”)	1,054,093	849,428

The Company has entered into an investment management agreement with HAML, a company which is wholly-owned by a director of the Company, Dr. Chow Pok Yu Augustine. Under the agreement together with a supplemental agreement entered into between the Company and HAML on 17th May, 2008. HAML has agreed to assist the Board with the day-to-day management of the Group until 31st May, 2010. In accordance with the investment management agreement, HAML is entitled to a monthly fee calculated at 1.5% per annum on the net asset value of the Group of the preceding month and an incentive fee is calculated at 10% of the audited net profit of a financial year (before accrual of the incentive fee) subject to annual cap. of HK\$6,771,840 for the five months ended 31st May, 2010 (as amended on 22nd May, 2008) respectively. Dr. Chow Pok Yu Augustine, being a beneficial shareholder of HAML, is interested in this agreement.

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NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

12. Lease commitments

As at 31st March, 2010, the Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	As at 31st March, 2010 (Unaudited) HK\$	As at 31st December, 2009 (Audited) HK\$
Within one year	2,221,542	615,230
In the second to fifth years inclusive	92,768	–
	2,314,310	615,230

The Group leases an office under operating lease. 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. On 9th March, 2010, the Group renewed the lease of short term for one year.

13. Financial risk management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk, liquidity risk and interest rate 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.

(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 HK dollar against US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

– Since HK dollar is pegged to US dollar, the directors consider that the Group's foreign exchange risk is not significant.

– Price risk

The Group is exposed to price risk of equity securities and embedded derivatives which are classified on the consolidated balance sheet 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.

(ii) Credit risk

The Group has no significant concentration of credit risk. Derivative counter parties and cash transactions are limited to those debtors and borrowers considered by directors having a good credit standing. The Group has policies that limit the amount of credit exposure to any debtors and borrowers. The Group regards the maximum credit risk exposure limited to available-for-sale financial assets, financial assets at fair value through profit or loss, loans and receivables and accounts receivable.

(iii) Liquidity risk

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.

14. Approval of the unaudited interim financial statements

The unaudited interim financial statements were approved and authorised for issue by the Board on 14th May, 2010.