
Harmony Asset Limited – First Quarterly Report 2011
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 March 31, 2011

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NOTICE TO READER

The management of Harmony Asset Limited is responsible for the preparation of the accompanying 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 March 31, 2011

		Three months ended	
		March 31,	
		2011	2010
		(Unaudited)	(Unaudited)
	<i>Note</i>	HK\$	HK\$
Turnover	2	4,604,839	4,163,642
Other revenue	2	27,127	30,001
Other gains	2	5,557,203	23,213,425
		10,189,169	27,407,068
Employee benefits expenses		(544,450)	(630,149)
Depreciation of property, plant and equipment		(89,684)	(79,217)
Other operating expenses		(2,457,252)	(2,079,940)
Profit before income tax	3	7,097,783	24,617,762
Income tax credit	4	–	254,685
Profit for the period attributable to owners of the Company		7,097,783	24,872,447
Other comprehensive income:			
Gains on fair value changes on available-for-sale financial assets		666,105	5,412,181
Transfer to profit or loss upon disposal of available-for-sale financial assets		(1,670,172)	–
Other comprehensive income for the period		(1,004,067)	5,412,181
Total comprehensive income for the period attributable to Owners of the Company		6,093,716	30,284,628
Earnings per share	5		
Basic		HK\$0.18	HK\$0.64
Diluted		HK\$0.18	HK\$0.64

The notes on pages 9 to 16 form part of these interim financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at March 31, 2011 and December 31, 2010

		March 31, 2011 (Unaudited) HK\$	December 31, 2010 (Audited) HK\$
	<i>Note</i>		
Non-current assets			
Property, plant and equipment	6	2,174,817	1,160,398
Available-for-sale financial assets		57,450,364	60,201,831
Loans and receivables		23,322,896	24,796,040
Loans and receivables		4,002,372	4,002,372
		86,950,449	90,160,641
Current assets			
Accounts receivable and prepayments	7	41,081,523	25,089,549
Trading securities		65,150,602	65,956,302
Derivative financial instruments		758,330	758,330
Bank balances and cash		134,928,760	141,083,888
		241,919,215	232,888,069
Current liabilities			
Accounts payable and accruals	8	6,536,838	6,809,600
Amount due a related company		3,928,169	3,928,169
Tax payable		3,021,429	3,021,429
		13,486,436	13,759,198
Net Current assets		228,432,779	219,128,871
Net assets		315,383,228	309,289,512
Capital and reserves			
Share capital	9	39,058,615	39,058,615
Reserves		276,324,613	270,230,897
Total equity		315,383,228	309,289,512
Net asset value per share		HK\$8.07	HK\$7.92

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at March 31, 2011 and December 31, 2010

	Unaudited						
	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, 2011	39,058,615	162,768,326	18,730,736	313,040	5,858,792	82,560,003	309,289,512
Profit for the period	-	-	-	-	-	7,097,783	7,097,783
Other comprehensive income for the period	-	-	(1,004,067)	-	-	-	(1,004,067)
Total comprehensive income for the period	-	-	(1,004,067)	-	-	7,097,783	6,093,716
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, 2011	<u>39,058,615</u>	<u>162,768,326</u>	<u>17,726,669</u>	<u>313,040</u>	<u>5,858,792</u>	<u>89,657,786</u>	<u>315,383,228</u>
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>-</u>	<u>77,295,202</u>	<u>307,785,222</u>

The notes on pages 9 to 16 form part of these financial statements.

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CONDENSED CONSOLIDATED CASH FLOW STATEMENT

As at March 31, 2011 and December 31, 2010

	March 31, 2011 (Unaudited) HK\$	December 31, 2010 (Audited) HK\$
Operating activities		
Profit before taxation	7,097,783	33,449,229
Interest income	(2,156,331)	(7,176,790)
Dividend income from available-for-sale financial assets	(2,320,000)	(32,896,453)
Depreciation of property, plant and equipment	89,684	316,324
Fair value changes on financial assets at fair value through profit or loss	195,081	17,413,882
Impairment loss on available-for-sale financial assets		
– equity investments	–	11,571,164
– deposits on Investment written off	–	244,458
Gain on disposals of available-for-sale financial assets	(1,670,172)	(13,555,482)
Impairment loss on loans and receivable	–	1,922,160
Recovery of impairment loss on accounts receivable	–	(113,999)
	1,236,045	11,174,493
Profit (loss) before working capital changes		
Decrease (Increase) in trading securities	610,619	(23,576,825)
Decrease in derivative financial instruments	–	21,322,735
Increase in accounts receivable and prepayments	(16,772,452)	(7,279,084)
(Decrease) increase in accounts payable and accruals	(272,762)	5,518,956
Decrease in amount due to a related company	–	(2,100,779)
	(15,198,550)	5,059,496
Cash used in operations		
Interest paid	–	–
Hong Kong tax paid	–	(15,138,398)
	(15,198,550)	(10,078,902)
Net cash (used in) from operating activities		
Interest received	2,891,809	5,722,788
Dividend income from available-for-sale financial assets	2,320,000	32,896,453

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CONDENSED CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

As at March 31, 2011 and December 31, 2010

	March 31, 2011 (Unaudited) HK\$	December 31, 2010 (Audited) HK\$
Advances to investee companies	–	(6,788,000)
Repayment from investee companies	1,002,380	1,288,706
Purchase of property, plant and equipment	(1,104,103)	(11,560)
Purchase of available-for-sale financial assets	(2,600)	(5,244,458)
Proceeds from disposal of available-for-sale financial assets	3,935,936	29,098,678
	<hr/>	<hr/>
Net cash from investing activities	9,043,422	56,962,607
	<hr/>	<hr/>
Financing activities		
Dividend paid	–	(3,865,173)
	<hr/>	<hr/>
Net cash from financing activities	–	(3,865,173)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	(6,155,128)	43,018,532
Cash and cash equivalents at January 1	141,083,888	98,065,356
	<hr/>	<hr/>
Cash and cash equivalents at March 31	134,928,760	141,083,888
	<hr/> <hr/>	<hr/> <hr/>
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	134,928,760	141,083,888
	<hr/> <hr/>	<hr/> <hr/>

The notes on pages 9 to 16 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 December 31, 2010. 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 December 31, 2010.

2. Turnover, other revenue and gains

The Group principally invests in securities listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and unlisted securities, including equity securities, convertible notes, issued by corporate entities. Total revenue and other gains recognised during the period are as follows:

	Three months ended	
	March 31,	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Turnover:		
Interest income from		
– bank deposits	193,337	33,363
– loans receivable	1,962,994	341,207
Dividend income from		
– listed investments	128,508	–
– unlisted investments	2,320,000	3,789,072
	4,604,839	4,163,642
Other revenue:		
Sundry income	27,127	30,001
	27,127	30,001
Other gains and (losses):		
Exchange gain (loss)	255,290	(84,901)
Fair value changes on financial assets		
at fair value through profit or loss	(195,081)	16,524,160
Net realised gain on disposal of financial assets		
at fair value through profit or loss		
– trading securities	2,353,165	6,774,166
– derivative financial instruments	370,038	–
Gain on disposals of available-for-sale financial assets	1,670,172	–
Recovery of impairment loss on loans and receivable	1,103,619	–
	5,557,203	23,213,425
	10,189,169	27,407,068

For management purposes, the Group’s business activity is organized into one main operating segment, investment holding.

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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 March 31,	
	2011 (Unaudited) HK\$	2010 (Unaudited) HK\$
Management fees	1,105,954	1,054,093
Pension costs – contributions to defined contribution plan	27,037	28,875
Operating lease in respect of land and buildings	<u>460,845</u>	<u>527,340</u>

4. Income tax (credit) expenses

Hong Kong profits tax is calculated at 16.5% (2010: 16.5%) of the estimated assessable profits for the period.

	Three months ended 31st March,	
	2011 (Unaudited) HK\$	2010 (Unaudited) HK\$
Current tax		
Hong Kong profits tax		
Provision for the current period	–	345,997
Deferred tax	–	(600,682)
	<u>–</u>	<u>(254,685)</u>

5. Earnings per share

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

	Three months ended March 31,	
	2011 (Unaudited) HK\$	2010 (Unaudited) HK\$
Profit attributable to owners of the Company	<u>7,097,783</u>	<u>24,872,447</u>
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share and diluted earnings per share	<u>39,058,614</u>	<u>39,058,614</u>
	HK\$	HK\$
Basic earnings per share	0.18	0.64
Diluted earnings per share	0.18	0.64

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

Diluted earnings per share for the period is the same as the basic earnings per share as the effect of the assumed conversion of the outstanding share options is anti-dilutive.

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NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

6. Property, plant and equipment

	As at March 31, 2011 (Unaudited) HK\$	As at December 31, 2010 (Audited) HK\$
Furniture and fixture	507,447	423,022
Motor vehicle	1,444,000	1,444,000
Office equipment	487,256	465,556
Leasehold improvements	1,915,584	917,606
	<u>4,354,287</u>	<u>3,250,184</u>
Accumulated Depreciation	<u>2,179,470</u>	<u>2,089,786</u>
Carrying amount	<u><u>2,174,817</u></u>	<u><u>1,160,398</u></u>

7. Accounts receivable and prepayments

	As at March 31, 2011 (Unaudited) HK\$	As at December 31, 2010 (Audited) HK\$
Accounts receivable	1,907,250	1,907,250
Loans receivable, secured	7,000,000	16,666,666
Loans receivable, unsecured	25,000,000	–
Interests receivable	43,649	824,127
Other receivables	2,751,081	3,616,236
	<u>36,701,980</u>	<u>23,014,279</u>
Receivables after allowance for impairment losses	3,756,986	1,511,689
Deposits	622,557	563,581
Prepayments	<u>622,557</u>	<u>563,581</u>
	<u><u>41,081,523</u></u>	<u><u>25,089,549</u></u>

The secured loans receivable and unsecured loans receivable are 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 March 31, 2011 (Unaudited) HK\$	As at December 31, 2010 (Audited) HK\$
Balances neither past due nor impaired		
Current	29,701,980	5,575,928
Balance past due between 1 to 180 days but not impaired	7,000,000	17,438,351
Balance not impaired and receivables after allowance for impairment losses	<u>36,701,980</u>	<u>23,041,279</u>

8. Accounts payable and accruals

	As at March 31, 2011 (Unaudited) HK\$	As at December 31, 2010 (Audited) HK\$
Accruals and other payables	6,379,546	6,652,308
Unclaimed dividend payable	157,292	157,292
	<u>6,536,838</u>	<u>6,809,600</u>

The ageing analysis of the accounts payable is as follows:

	As at March 31, 2011 (Unaudited) HK\$	As at December 31, 2010 (Audited) HK\$
Current	6,462,308	6,735,070
Over 1 year	74,530	74,530
	<u>6,536,838</u>	<u>6,809,600</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 December 31, 2010 (audited), and March 31, 2011 (unaudited)	<u>100,000,000</u>	<u>100,000,000</u>
Issued and fully paid:		
Ordinary shares of HK\$1 each at December 31, 2010 (audited), and March 31, 2011 (unaudited)	<u>39,058,614</u>	<u>39,058,615</u>

10. Share Option Scheme

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

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NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

10. Share option scheme (Continued)

Detail of the share options granted under Share Option Scheme during the period ended March 31, 2011 are as follows:

	Date of grant	Exercise period	Number of options			Exercise price HK\$
			Outstanding as at January 1, 2011	Exercise during the period	Outstanding as at March 31, 2011	
Other employees in aggregate	18/8/2008	18/8/2008 – 17/8/2011	522,047	–	522,047	5.10

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

11. Related party transactions

The Company entered into an investment management agreement on June 1, 1998, as amended on April 5, 2000, 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 May 17, 2007, (the “Original Investment Management Agreement”), HAML agreed to assist the board of directors of Harmony with the day-to-day management of the Group until May 31, 2010.

On April 8, 2010, the Company entered into a new investment management agreement (the “New Investment Management Agreement”) with HAML as detailed in the circular dated April 29, 2010, whereby HAML has agreed to provide its management services for an additional three years until May 31, 2013. 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 for the preceding month and an incentive fee calculated at 10% of the audited net profit of the financial year (before accrual of the incentive fee) subject to an aggregate cap of HK\$16,919,971 for the year ending December 31, 2011.

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NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

11. Related party transactions (Continued)

Dr. Chow Pok Yu Augustine, being a beneficial shareholder of HAML, had an interest in the Original Investment Management Agreement and the New Investment Management Agreement during the period ended March 31, 2011 and 2010. The management fee paid to HAML is as follows:

	Three months ended	
	March 31,	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Management fees paid to:		
– Harmony Asset Management Limited (“HAML”)	1,105,954	1,054,093

12. Lease commitments

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.

As at March 31, 2011, the Group and the Company had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	As at	As at
	March 31,	December 31,
	2011	2010
	(Unaudited)	(Audited)
	HK\$	HK\$
Within one year	2,777,112	2,497,796
In the second to fifth years inclusive	4,859,946	5,554,224
	7,637,058	8,052,020

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.

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NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

13. Financial risk management (Continued)

(a) **Financial risk factors (Continued)**

(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 May 13, 2011.