
Harmony Asset Limited – Third Quarterly Report 2012
prepared in accordance with the Canadian Securities Law



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

Nine-month periods ended 30th September, 2012

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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 nine months ended 30th September, 2012

	<i>Note</i>	Three months ended		Nine months ended	
		30th September,		30th September,	
		2012	2011	2012	2011
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Turnover	2	3,588,886	1,984,302	6,777,777	8,857,410
Other revenue	2	4,421	203	11,566	27,402
Other gains and (losses)	2	(413,056)	(20,715,105)	(8,739,451)	(39,778,689)
		3,180,251	(18,730,600)	(1,950,108)	(30,893,877)
Employee benefits expenses		(806,090)	(740,274)	(2,391,744)	(1,988,184)
Depreciation of property, plant and equipment		(167,646)	(93,131)	(505,454)	(274,787)
Other operating expenses		(2,588,038)	(3,132,106)	(8,352,761)	(8,824,055)
Loss before income tax	3	(381,523)	(22,696,111)	(13,200,067)	(41,980,903)
Income tax expense	4	–	–	–	–
Loss for the period attributable to owners of the Company		(381,523)	(22,696,111)	(13,200,067)	(41,980,903)
Other comprehensive income:					
(Losses) gains on fair value changes on available-for-sale financial assets		(6,486)	26,197	(2,326,365)	4,227,062
Transfer to profit or loss upon disposals of available-for-sale financial assets		–	–	–	(3,420,171)
		(6,486)	26,197	(2,326,365)	806,891
Total comprehensive income for the period attributable to owners of the Company		(388,009)	(22,669,914)	(15,526,432)	(41,174,012)
		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Loss per share	6				
Basic		(0.98)	(58.11)	(33.80)	(107.48)
Diluted		(0.98)	(58.11)	(33.80)	(107.48)

The notes on pages 9 to 14 form part of these interim financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30th September, 2012 and 31st December, 2011

	<i>Note</i>	30th September, 2012 (Unaudited) <i>HK\$</i>	31st December 2011 (Audited) <i>HK\$</i>
Non-current assets			
Property, plant and equipment	7	1,238,017	1,706,494
Interest in an associate		–	6,681,887
Available-for-sale financial assets		89,319,700	81,497,676
Loans and receivables		49,956,186	32,208,444
		140,513,903	122,094,501
Current assets			
Accounts receivable and prepayments	9	16,719,040	6,414,293
Trading securities		63,886,729	65,365,498
Derivative financial instruments		3,581,809	3,581,809
Tax recoverable		2,661,127	2,661,127
Bank balances and cash		31,939,989	75,404,609
		118,788,694	153,427,336
Current liabilities			
Accounts payable and accruals	10	6,131,680	6,824,488
Net current assets		112,657,014	146,602,848
Total assets less current liabilities/Net assets		253,170,917	268,697,349
Capital and reserves			
Share capital	11	39,058,615	39,058,615
Reserves		214,112,302	229,638,734
Total equity		253,170,917	268,697,349
Net asset value per share		HK\$6.48	HK\$6.88

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 30th September, 2012 and 2011

	Share capital <i>HK\$</i>	Share premium <i>HK\$</i>	Fair value reserve <i>HK\$</i>	Share option reserve <i>HK\$</i>	Proposed dividend <i>HK\$</i>	Retained profits (accumulated losses) <i>HK\$</i>	Total <i>HK\$</i>
As 1st January, 2012 (audited)	39,058,615	162,768,326	32,042,831	–	–	34,827,577	268,697,349
Loss for the period	–	–	–	–	–	(13,200,067)	(13,200,067)
Other comprehensive income for the period:							
Loss on fair value changes on available-for-sale financial assets	–	–	(2,326,365)	–	–	–	(2,326,365)
Total comprehensive income for the period	–	–	(2,326,365)	–	–	(13,200,067)	(15,526,432)
At 30th September, 2012 (unaudited)	<u>39,058,615</u>	<u>162,768,326</u>	<u>29,716,466</u>	<u>–</u>	<u>–</u>	<u>21,627,510</u>	<u>253,170,917</u>
As 1st January, 2011 (audited)	39,058,615	162,768,326	18,730,736	313,040	5,858,792	82,560,003	309,289,512
Loss for the period	–	–	–	–	–	(41,980,903)	(41,980,903)
Other comprehensive income for the period:							
Gain on fair value changes on available-for-sale financial assets	–	–	4,227,062	–	–	–	4,227,062
Transfer to profit or loss upon disposal of available-for-sale financial assets	–	–	(3,420,171)	–	–	–	(3,420,171)
Total comprehensive income for the period	–	–	806,891	–	–	(41,980,903)	(41,174,012)
Transfer to retained profits upon lapse of share options	–	–	–	(313,040)	–	313,040	–
Proposed dividend transferred to current liabilities upon approval of shareholders at annual general meeting	–	–	–	–	(5,858,792)	–	(5,858,792)
At 30th September, 2011 (unaudited)	<u>39,058,615</u>	<u>162,768,326</u>	<u>19,537,627</u>	<u>–</u>	<u>–</u>	<u>40,892,140</u>	<u>262,256,708</u>

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine months ended 30th September, 2012 and 2011

	Nine months ended	
	30th September,	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Cash flows from operating activities		
Loss before income tax	(13,200,067)	(41,980,903)
Interest income	(4,550,482)	(5,787,620)
Dividend income from available-for-sale financial assets	(1,502,986)	(2,320,000)
Depreciation of property, plant and equipment	505,454	274,787
Fair value losses on trading securities	14,396,401	28,288,912
Gain on disposals of available-for-sale financial assets	–	(3,420,171)
Recovery of impairment loss on loans and receivables previously recognised	(282,245)	(1,103,620)
Recovery of impairment loss on accounts receivable previously recognised	(1,487,971)	–
	<hr/>	<hr/>
Loss before working capital changes	(6,121,896)	(26,048,615)
Increase in trading securities	(12,917,632)	(29,212,127)
Increase in accounts receivable and prepayments	(8,052,771)	(3,733,970)
Decrease in accounts payable and accruals	(692,808)	(428,054)
Decrease in amount due to a related company	–	(3,928,169)
	<hr/>	<hr/>
Net cash used in operating activities	(27,785,107)	(63,350,935)
Cash flows from investing activities		
Interest received	3,786,478	6,391,173
Dividend received from available-for-sale financial assets	1,502,986	2,320,000

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW (CONTINUED)

For the nine months ended 30th September, 2012 and 2011

	Nine months ended	
	30th September,	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Advances to investee companies	(14,450,000)	(14,202,480)
Repayment from investee companies	1,315,000	2,621,764
Purchase of property, plant and equipment	(36,977)	(1,234,306)
Purchase of available-for-sale financial assets	(7,797,000)	(11,904,352)
Proceeds from disposal of available-for-sale financial assets	–	3,420,171
	<hr/>	<hr/>
Net cash used in investing activities	(15,679,513)	(12,588,030)
	<hr/>	<hr/>
Cash used in financing activities		
Dividend paid	–	(5,858,792)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(43,464,620)	(81,797,757)
	<hr/>	<hr/>
Cash and cash equivalents at 1st January	75,404,609	141,083,888
	<hr/>	<hr/>
Cash and cash equivalents at 30th September	31,939,989	59,286,131
	<hr/> <hr/>	<hr/> <hr/>
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	31,939,989	59,286,131
	<hr/> <hr/>	<hr/> <hr/>

The notes on pages 9 to 14 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, 2011. 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, 2011.

2. Turnover, other revenue and gains and losses

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

	Nine months ended 30th September,	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Turnover:		
Interest income from		
– bank deposits	161,584	566,650
– loans receivable and convertible bonds	4,388,898	5,220,970
Dividend income from		
– listed investments	724,309	749,790
– unlisted investments	1,502,986	2,320,000
	6,777,777	8,857,410
Other revenue:		
Sundry income	11,566	27,402
	11,566	27,402
Other gains and (losses):		
Exchange gain, net	(62,739)	(50,064)
Fair value loss on financial assets at fair value through profit or loss		
– trading securities	(14,396,401)	(50,498,151)
Net realised gain on disposals of financial assets		
at fair value through profit or loss		
– trading securities	3,949,473	5,875,464
– derivative financial instruments	–	370,271
Net realised gain on disposals of available-for-sale financial assets	–	3,420,171
Recovery of impairment loss on accounts receivable	1,487,971	–
previously recognised		
Recovery of impairment loss on loans and receivables previously recognised	282,245	1,103,620
	(8,739,451)	(39,778,689)
	(1,950,108)	(30,893,877)

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

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NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

3. Loss before income tax

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

	Nine months ended 30th September,	
	2012	2011
	(Unaudited)	(Unaudited)
	<i>HK\$</i>	<i>HK\$</i>
Management fees	2,944,352	3,339,798
Incentive fee	–	–
Pension costs – contributions to defined contribution plan	86,821	92,420
Operating lease in respect of land and buildings	<u>2,082,834</u>	<u>1,849,401</u>

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 recommend payment of any interim dividend for the nine months ended 30th September, 2012 (2011: nil).

6. Loss per share

The calculation of loss per share is as follows:

	Nine months ended 30th September,	
	2012	2011
	(Unaudited)	(Unaudited)
	<i>HK\$</i>	<i>HK\$</i>
Loss attributable to owners of the Company	<u>(13,200,067)</u>	<u>(41,980,903)</u>
	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	<u>39,058,614</u>	<u>39,058,614</u>
	<i>HK cents</i>	<i>HK cents</i>
Basic loss per share	(33.80)	(107.48)
Diluted loss per share	(33.80)	(107.48)

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 for the nine months ended 30th September, 2012 is the same as the basic loss per share as there is no share option outstanding during the period.

Diluted loss per share for the nine months ended 30th September, 2011 was the same as the basic loss per share as the effect of the assumed conversion of the outstanding share options was anti-dilutive.

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NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

7. Property, plant and equipment

	As at 30th September 2012 (Unaudited) HK\$	As at 31st December 2011 (Audited) HK\$
Cost:		
Furniture and fixture	544,725	538,808
Motor vehicle	1,444,000	1,444,000
Office equipment	524,437	493,377
Leasehold improvements	1,090,699	1,090,699
	<u>3,603,861</u>	<u>3,566,884</u>
Accumulated depreciation	2,365,844	1,860,390
Carrying amount	<u><u>1,238,017</u></u>	<u><u>1,706,494</u></u>

8. Interest in an associate

During the nine months ended 30th September, 2012, the Group reclassified the investment in an associate and loan to an associate into available-for-sale financial assets and loans and receivables respectively as the Group ceased to have significant influence in this investee company.

9. Accounts receivable and prepayments

	As at 30th September 2012 (Unaudited) HK\$	As at 31st December 2011 (Audited) HK\$
Accounts receivable	1,906,250	1,906,250
Loans receivable, unsecured	6,400,000	–
Interests receivable	927,711	163,706
Other receivables	6,668,437	3,404,295
	<u>15,902,398</u>	<u>5,474,251</u>
Receivables after allowance for impairment losses	15,902,398	5,474,251
Deposits	743,166	741,994
Prepayments	73,476	198,048
	<u><u>16,719,040</u></u>	<u><u>6,414,293</u></u>

As at 30th September, 2012, the unsecured loans receivable are interest-bearing at annual fixed rate of 6% to 30%.

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

	As at 30th September 2012 (Unaudited) HK\$	As at 31st December 2011 (Audited) HK\$
Balances neither past due nor impaired	<u><u>15,902,398</u></u>	<u><u>5,474,251</u></u>

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NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

10. Accounts payable and accruals

	As at 30th September 2012 (Unaudited) HK\$	As at 31st December 2011 (Audited) HK\$
Accruals and other payables	5,972,250	6,664,918
Unclaimed dividend payable	159,430	159,570
	<u>6,131,680</u>	<u>6,824,488</u>

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

	As at 30th September 2012 (Unaudited) HK\$	As at 31st December 2011 (Audited) HK\$
Current	5,972,250	6,749,958
Over 1 year	159,430	74,530
	<u>6,131,680</u>	<u>6,824,488</u>

11. Share capital

	Number of shares	Amount HK\$
Authorised:		
Ordinary shares of HK\$1 each at 31st December, 2011 (audited) and 30th September, 2012 (unaudited)	<u>100,000,000</u>	<u>100,000,000</u>
Issued and fully paid:		
Ordinary shares of HK\$1 each at 31st December, 2011 (audited) and 30th September, 2012 (unaudited)	<u>39,058,614</u>	<u>39,058,615</u>

The nominal amount of the ordinary shares amounting to HK\$39,058,615 is HK\$1 more than the amount calculated based on the 39,058,614 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.

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NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

12. 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.

During the nine months ended 30th September, 2012, there was no share options outstanding, granted, lapsed, exercised or cancelled under the Share Option Scheme.

Details of the share options granted, lapsed and exercised under the Share Option Scheme during the nine months ended 30th September, 2011 are as follows:

	Date of grant	Exercise period	Number of options Outstanding as at 1st January, 2011 and 30th September, 2011	Exercise price HK\$
Other employees	18/8/2008	18/8/2008 – 17/8/2011	<u>522,047</u>	5.10

13. Management contracts

	Nine months ended 30th September, 2012 (Unaudited) HK\$	2011 (Unaudited) HK\$
Harmony Asset Management Limited (“HAML”):		
– Management fees	<u>2,944,352</u>	<u>3,339,798</u>

On 8th April, 2010, 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 agreement, HAML has agreed to assist the Board with the day-to-day management of the Group for additional three years until 31st May, 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 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 an annual cap of HK\$18,391,986 for the year ending 31st December, 2012.

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NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

14. Lease commitments

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 September, 2012, the Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	As at 30th September 2012 (Unaudited) HK\$	As at 31st December 2011 (Audited) HK\$
Within one year	2,777,112	2,777,112
In the second to fifth years inclusive	<u>694,278</u>	<u>2,777,112</u>
	<u><u>3,471,390</u></u>	<u><u>5,554,224</u></u>

15. 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.

16. Approval of the unaudited interim financial statements

The unaudited interim financial statements were approved and authorised for issue by the Board on 14th November, 2012.