
Harmony Asset Limited – Third Quarterly Report 2014
prepared in accordance with the Canadian Securities Law



Harmony Asset Limited

(Incorporated in the Cayman Islands with limited liability)

HKEX – Stock Code: 428

Unaudited condensed consolidated interim financial statements

Nine-month periods ended 30th September, 2014

Harmony Asset Limited – Third Quarterly Report 2014
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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.

Harmony Asset Limited – Third Quarterly Report 2014
prepared in accordance with the Canadian Securities Law

TABLE OF CONTENT

| | |
|------------------------------------------------------------------------------------------------------------------------------|----|
| Unaudited Condensed Consolidated Statement of Comprehensive Income for the nine months ended 30th September, 2014 | 4 |
| Unaudited Condensed Consolidated Statement of Financial Position for the nine months ended 30th September, 2014 | 5 |
| Unaudited condensed consolidated statement of changes in equity for the nine months ended 30th September, 2014 | 6 |
| Unaudited condensed consolidated statement of cash flows for the nine months ended 30th September, 2014 | 7 |
| Notes to the unaudited condensed consolidated financial statements for the nine months ended 30th September, 2014 | |
| 1. Basic of preparation | 9 |
| 2. Turnover, other revenues and other gains and (losses) | 9 |
| 3. Loss before income tax expense | 10 |
| 4. Income tax expense | 10 |
| 5. Dividend | 10 |
| 6. Loss per share | 10 |
| 7. Property, plant and equipment | 11 |
| 8. Accounts receivable and prepayments | 11 |
| 9. Accounts payable and accruals | 12 |
| 10. Share capital | 12 |
| 11. Share option scheme | 13 |
| 12. Related party transactions | 13 |
| 13. Operating leases | 14 |
| 14. Approval of the unaudited interim financial statements | 14 |

Harmony Asset Limited – Third Quarterly Report 2014
prepared in accordance with the Canadian Securities Law

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED 30TH SEPTEMBER, 2014

| | | Three months ended 30th September, | | Nine months ended 30th September, | |
|------------------------------------------------------------------------------------------------------------|------|---------------------------------------|-----------------|--------------------------------------|-----------------|
| | | 2014 | 2013 | 2014 | 2013 |
| | | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| | Note | HK\$ | HK\$ | HK\$ | HK\$ |
| Turnover | 2 | 986,157 | 2,033,863 | 3,114,586 | 4,586,731 |
| Other revenue | 2 | 1 | 117 | 5,243 | 3,240 |
| Other gains and (losses) | 2 | (2,586,574) | (4,886,704) | (24,099,194) | (25,757,725) |
| | | (1,600,416) | (2,852,724) | (20,979,365) | (21,167,754) |
| Employee benefits expenses | | (911,853) | (851,165) | (2,514,866) | (2,678,249) |
| Depreciation of property, plant and equipment | | (111,574) | (172,796) | (334,166) | (519,175) |
| Other operating expenses | | (3,305,719) | (2,944,529) | (8,925,811) | (8,245,118) |
| Loss before income tax | 3 | (5,929,562) | (6,821,214) | (32,754,208) | (32,610,296) |
| Income tax expense | 4 | – | – | – | – |
| Loss for the period attributable to owners of the Company | | (5,929,562) | (6,821,214) | (32,754,208) | (32,610,296) |
| 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 | | 243,639 | (2,447,337) | 4,560,500 | (2,623,337) |
| Items reclassified to profit or loss: | | | | | |
| Transfer of fair value gains to profit or loss upon disposals of available-for-sale financial assets | | – | (3,657,105) | (2,248,073) | (3,702,105) |
| Other comprehensive income for the period | | 243,639 | (6,104,442) | 2,312,427 | (6,325,442) |
| Total comprehensive income for the period attributable to owners of the Company | | (5,685,923) | (12,925,656) | (30,441,781) | (38,935,738) |
| | | HK cents | HK cents | HK cents | HK cents |
| Loss per share | 6 | | | | |
| Basic | | (15.18) | (17.46) | (83.86) | (83.49) |
| Diluted | | (15.18) | (17.46) | (83.86) | (83.49) |

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

Harmony Asset Limited – Third Quarterly Report 2014
prepared in accordance with the Canadian Securities Law

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30TH SEPTEMBER, 2014 AND 31ST DECEMBER, 2013

| | <i>Note</i> | 30th September, 2014 (Unaudited) HK\$ | 31st December 2013 (Audited) HK\$ |
|---------------------------------------------------------|-------------|----------------------------------------------------------|--------------------------------------------|
| Non-current assets | | | |
| Property, plant and equipment | 7 | 371,910 | 689,397 |
| Available-for-sale financial assets | | 79,483,267 | 71,150,303 |
| Loans and receivables | | 16,267,715 | 25,181,913 |
| Deposit for investments | | 5,822,265 | 3,883,515 |
| | | <hr/> 101,945,157 <hr/> | <hr/> 100,905,128 <hr/> |
| Current assets | | | |
| Loans and receivables | | 26,020,286 | 17,896,798 |
| Accounts receivable and prepayments | 8 | 9,689,636 | 30,910,631 |
| Financial assets at fair value through profit or loss | | 37,397,924 | 54,235,622 |
| Derivative financial instruments | | 7,845,677 | 14,383,832 |
| Tax recoverable | | – | – |
| Bank balances and cash | | 34,594,183 | 30,878,872 |
| | | <hr/> 115,547,706 <hr/> | <hr/> 148,305,755 <hr/> |
| Current liabilities | | | |
| Accounts payable and accruals | 9 | 6,252,957 | 7,529,196 |
| Amount due to a related company | | – | – |
| | | <hr/> 6,252,957 <hr/> | <hr/> 7,529,196 <hr/> |
| Net Current assets | | <hr/> 109,294,749 <hr/> | <hr/> 140,776,559 <hr/> |
| Total assets less current liabilities/Net assets | | <hr/> 211,239,906 <hr/> <hr/> | <hr/> 241,681,687 <hr/> <hr/> |
| Capital and reserves | | | |
| Share capital | 10 | 39,058,615 | 39,058,615 |
| Reserves | | 172,181,291 | 202,623,072 |
| | | <hr/> 211,239,906 <hr/> | <hr/> 241,681,687 <hr/> |
| Total equity | | <hr/> 211,239,906 <hr/> <hr/> | <hr/> 241,681,687 <hr/> <hr/> |
| Net asset value per share | | <hr/> HK\$5.41 <hr/> <hr/> | <hr/> HK\$6.19 <hr/> <hr/> |

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Harmony Asset Limited – Third Quarterly Report 2014
prepared in accordance with the Canadian Securities Law

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

AS AT 30TH SEPTEMBER, 2014 AND 2013

| | Share capital <i>HK\$</i> | Share premium <i>HK\$</i> | Fair value reserve <i>HK\$</i> | Retained profits (accumulated losses) <i>HK\$</i> | Total <i>HK\$</i> |
|------------------------------------------------------------------------------------------------------------|---------------------------------|---------------------------------|--------------------------------------|---------------------------------------------------------------|----------------------|
| As 1st January, 2014 (audited) | 39,058,615 | 162,768,326 | 34,458,047 | 5,396,699 | 241,681,687 |
| Loss for the period | – | – | – | (32,754,208) | (32,754,208) |
| Gains on fair value changes on available-for-sale financial assets | – | – | 4,560,500 | – | 4,560,500 |
| Transfer of fair value gains to profit or loss upon disposals of available-for-sale financial assets | – | – | (2,248,073) | – | (2,248,073) |
| Other comprehensive income for the period | – | – | 2,312,427 | – | 2,312,427 |
| Total comprehensive income for the period | – | – | 2,312,427 | (32,754,208) | (30,441,781) |
| At 30th September, 2014 (unaudited) | <u>39,058,615</u> | <u>162,768,326</u> | <u>36,770,474</u> | <u>(27,357,509)</u> | <u>211,239,906</u> |
| As 1st January, 2013 (audited) | 39,058,615 | 162,768,326 | 36,598,241 | 44,358,549 | 282,783,731 |
| Loss for the period | – | – | – | (32,610,296) | (32,610,296) |
| Losses on fair value changes on available-for-sale financial assets | – | – | (2,623,337) | – | (2,623,337) |
| Transfer of fair value gains to profit or loss upon disposals of available-for-sale financial assets | – | – | (3,702,105) | – | (3,702,105) |
| Other comprehensive income for the period | – | – | (6,325,442) | – | (6,325,442) |
| Total comprehensive income for the period | – | – | (6,325,442) | (32,610,296) | (38,935,738) |
| At 30th September, 2013 (unaudited) | <u>39,058,615</u> | <u>162,768,326</u> | <u>30,272,799</u> | <u>11,748,253</u> | <u>243,847,993</u> |

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

Harmony Asset Limited – Third Quarterly Report 2014
prepared in accordance with the Canadian Securities Law

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED 30TH SEPTEMBER, 2014 AND 2013

| | Nine months ended | |
|-------------------------------------------------------------------------------|--------------------------|--------------------|
| | 30th September, | |
| | 2014 | 2013 |
| | (Unaudited) | (Unaudited) |
| | <i>HK\$</i> | <i>HK\$</i> |
| Cash flows from operating activities | | |
| Loss before income tax | (32,754,208) | (32,610,296) |
| Interest income | (2,845,649) | (1,572,843) |
| Dividend income from available-for-sale financial assets | – | (3,000,000) |
| Depreciation of property, plant and equipment | 334,166 | 519,175 |
| Fair value losses on trading securities | 12,773,400 | 26,211,625 |
| Fair value losses on derivative financial instruments | 6,538,155 | 4,528,489 |
| Impairment loss on loans and receivables | 6,414,198 | 8,593,872 |
| Gain on disposals of available-for-sale financial assets | (2,248,073) | (3,702,105) |
| Recovery of impairment loss on loans and receivables previously recognised | – | (884,381) |
| Recovery of impairment loss on accounts receivable previously recognised | – | – |
| | <hr/> | <hr/> |
| Loss before working capital changes | (11,788,011) | (1,916,464) |
| (Decrease) increase in trading securities | 4,064,298 | 2,566,726 |
| Increase in accounts receivable and prepayments | 21,721,981 | (3,777,654) |
| Decrease in accounts payable and accruals | (1,276,239) | (1,137,501) |
| Decrease in amount due to a related company | – | (1,058,997) |
| | <hr/> | <hr/> |
| Net cash used in operatings | 12,722,029 | (5,323,890) |
| Hong Kong Profits Tax refunded | – | 2,661,127 |
| | <hr/> | <hr/> |
| Net cash used in operating activities | 12,722,029 | (2,662,763) |
| Cash flows from investing activities | | |
| Interest received | 1,221,175 | 1,623,668 |
| Dividend received from available-for-sale financial assets | – | 3,000,000 |

Harmony Asset Limited – Third Quarterly Report 2014
prepared in accordance with the Canadian Securities Law

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW (CONTINUED)
FOR THE NINE MONTHS ENDED 30TH SEPTEMBER, 2014 AND 2013

| | Nine months ended | |
|---------------------------------------------------------------|--------------------------|--------------|
| | 30th September, | |
| | 2014 | 2013 |
| | (Unaudited) | (Unaudited) |
| | <i>HK\$</i> | <i>HK\$</i> |
| Advances to investee companies | – | (165,000) |
| Repayment from investee companies | 2,500,000 | 2,345,349 |
| Purchase of property, plant and equipment | (16,679) | – |
| Investment deposit | (1,938,750) | – |
| Purchase of convertible bonds | (22,600,000) | (13,284,999) |
| Redemption of convertible bonds | 15,600,000 | 5,000,000 |
| Purchase of available-for-sale financial assets | (7,772,464) | (19,127,965) |
| Proceeds from disposal of available-for-sale financial assets | 4,000,000 | 7,614,105 |
| | <hr/> | <hr/> |
| Net cash used in investing activities | (9,006,718) | (12,994,842) |
| | <hr/> | <hr/> |
| Cash used in financing activities | | |
| Dividend paid | – | – |
| | <hr/> | <hr/> |
| Net decrease in cash and cash equivalents | 3,715,311 | (15,657,605) |
| | <hr/> | <hr/> |
| Cash and cash equivalents at 1st January | 30,878,872 | 34,096,412 |
| | <hr/> | <hr/> |
| Cash and cash equivalents at 30th September | 34,594,183 | 18,438,807 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Analysis of the balances of cash and cash equivalents: | | |
| Bank balances and cash | 34,594,183 | 18,438,807 |
| | <hr/> <hr/> | <hr/> <hr/> |

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

Harmony Asset Limited – Third Quarterly Report 2014

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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, 2013. 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, 2013.

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, | |
| | 2014 | 2013 |
| | (Unaudited) | (Unaudited) |
| | HK\$ | HK\$ |
| Turnover: | | |
| Interest income from | | |
| – bank deposits | 58,471 | 21,365 |
| – loans receivable and convertible bonds | 2,787,178 | 1,551,478 |
| Dividend income from | | |
| – listed investments | 268,937 | 13,888 |
| – unlisted investments | – | 3,000,000 |
| | 3,114,586 | 4,586,731 |
| Other revenue: | | |
| Sundry income | 5,243 | 3,240 |
| | 5,243 | 3,240 |
| Other gains and (losses): | | |
| Exchange gain, net | 102,218 | (190,423) |
| Fair value changes on financial assets at fair value through profit or loss | | |
| – trading securities | (15,852,303) | (26,211,625) |
| – 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 | 2,355,171 | 9,180,198 |
| Net realised gain on disposal of available-for-sale financial assets | 2,248,073 | 3,702,105 |
| Impairment loss on loans and receivable | (6,414,198) | (8,593,872) |
| Recovery of impairment loss on accounts receivable previously recognised | – | – |
| Recovery of impairment loss on loans and receivable previously recognised | – | 884,381 |
| | (24,099,194) | (25,757,725) |
| | (20,979,365) | (21,167,754) |

Management considers 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.

Harmony Asset Limited – Third Quarterly Report 2014
prepared in accordance with the Canadian Securities Law

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

3. Loss before income tax expense

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

| | Nine months ended 30th September, 2014 (Unaudited) HK\$ | 2013 (Unaudited) HK\$ |
|------------------------------------------------------------|--------------------------------------------------------------------------------|--------------------------------------|
| Management fees | 2,564,488 | 2,984,868 |
| Incentive fee | – | – |
| Pension costs – contributions to defined contribution plan | 83,037 | 99,067 |
| Operating lease in respect of land and buildings | 1,466,100 | 2,082,834 |

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, 2014 (2013: nil)

6. Loss per share

The calculation of loss per share is as follows:

| | Nine months ended 30th September, 2014 (Unaudited) HK\$ | 2013 (Unaudited) HK\$ |
|---------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------|--------------------------------------|
| Loss attributable to owners of the Company | (32,754,208) | (32,610,296) |
| | 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 |
| | <i>HK cents</i> | <i>HK cents</i> |
| Basic loss per share | (83.86) | (83.49) |
| Diluted loss per share | (83.86) | (83.49) |

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.

Harmony Asset Limited – Third Quarterly Report 2014
prepared in accordance with the Canadian Securities Law

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

7. Property, plant and equipment

| | As at 30th September 2014 (Unaudited) HK\$ | As at 31st December 2013 (Audited) HK\$ |
|--------------------------|--------------------------------------------------------|-----------------------------------------------------|
| Cost: | | |
| Furniture and fixture | 562,780 | 562,780 |
| Motor vehicle | 1,444,000 | 1,444,000 |
| Office equipment | 541,116 | 524,437 |
| Leasehold improvements | 346,778 | 346,778 |
| | <u>2,894,674</u> | <u>2,877,995</u> |
| Accumulated depreciation | 2,522,764 | 2,188,598 |
| Carrying amount | <u><u>371,910</u></u> | <u><u>689,397</u></u> |

8. Accounts receivable and prepayments

| | As at 30th September 2014 (Unaudited) HK\$ | As at 31st December 2013 (Audited) HK\$ |
|---------------------------------------------------|--------------------------------------------------------|-----------------------------------------------------|
| Accounts receivable | 6,094,025 | 25,516,764 |
| Interests receivable | 1,064,063 | 457,232 |
| Other receivables | 1,962,654 | 2,095,300 |
| | <u>9,120,742</u> | <u>28,069,296</u> |
| Receivables after allowance for impairment losses | 9,120,742 | 28,069,296 |
| Deposits | 365,044 | 2,091,649 |
| Prepayments | 203,850 | 749,686 |
| | <u><u>9,689,636</u></u> | <u><u>30,910,631</u></u> |

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

| | As at 30th September 2014 (Unaudited) HK\$ | As at 31st December 2013 (Audited) HK\$ |
|----------------------------------------|--------------------------------------------------------|-----------------------------------------------------|
| Balances neither past due nor impaired | <u>9,120,742</u> | <u>28,069,296</u> |
| | <u><u>9,120,742</u></u> | <u><u>28,069,296</u></u> |

Harmony Asset Limited – Third Quarterly Report 2014
prepared in accordance with the Canadian Securities Law

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

9. Accounts payable and accruals

| | As at 30th September 2014 (Unaudited) HK\$ | As at 31st December 2013 (Audited) HK\$ |
|-----------------------------|-------------------------------------------------------------------|----------------------------------------------------------------|
| Accruals and other payables | 6,096,366 | 7,369,905 |
| Unclaimed dividend payable | 156,591 | 159,291 |
| | 6,252,957 | 7,529,196 |

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

| | As at 30th September 2014 (Unaudited) HK\$ | As at 31st December 2013 (Audited) HK\$ |
|-------------|-------------------------------------------------------------------|----------------------------------------------------------------|
| Current | 6,096,366 | 7,369,905 |
| Over 1 year | 156,591 | 159,291 |
| | 6,252,957 | 7,529,196 |

10. Share capital

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

Harmony Asset Limited – Third Quarterly Report 2014 prepared in accordance with the Canadian Securities Law

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

11. 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.

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

12. Related party transactions

| | Nine months ended 30th September, | |
|--------------------------------------------|--------------------------------------|-------------|
| | 2014 | 2013 |
| | (Unaudited) | (Unaudited) |
| | <i>HK\$</i> | <i>HK\$</i> |
| Harmony Asset Management Limited (“HAML”): | | |
| – Management fees | 2,564,488 | 2,984,868 |

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 assist the Board with the day-to-day management of the Group for additional three 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 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\$5,690,073 and HK\$4,827,726 for management fees and incentive fee respectively for the year ending 31st December, 2014.

On April 24, 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 Company in the financial year and for the purpose of the calculating the audited net profit of the financial year (i) any audited net loss of the Company in any financial year commencing 1st January, 2013 shall be carried forward and set off against the audited net profit of the Company in subsequent financial years, and (ii) the audited net profit of 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 which was held on 31st May, 2013.

Harmony Asset Limited – Third Quarterly Report 2014
prepared in accordance with the Canadian Securities Law

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

13. 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 September, 2014, 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 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 | 2,097,338 | 3,563,438 |
| | <u>4,052,138</u> | <u>5,518,238</u> |

14. Approval of the unaudited interim financial statements

The unaudited interim financial statements were approved and authorised for issue by the Board on 14th November, 2014