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HARMONY ASSET LIMITED

亨亞有限公司*

(Incorporated in the Cayman Islands with limited liability)

(HKEX Stock Code: 428)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 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.

* *for identification purpose only*

The Board of Directors (the “Board”) of the Company presents the unaudited condensed consolidated interim results of the Group for the six months ended 30th June, 2014 with comparative figures for the corresponding period in 2013 as follows:

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)
		<u>(16,772,921)</u>	<u>(11,017,889)</u>	<u>(19,378,949)</u>	<u>(18,315,030)</u>
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		<u>(3,205,980)</u>	<u>(3,067,740)</u>	<u>(5,620,092)</u>	<u>(5,300,589)</u>
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		<u>(21,002,759)</u>	<u>(15,189,948)</u>	<u>(26,824,646)</u>	<u>(25,789,082)</u>
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		<u>(2,248,073)</u>	—	<u>(2,248,073)</u>	<u>(45,000)</u>
Other comprehensive income for the period		<u>2,898,005</u>	<u>43,926</u>	<u>2,068,788</u>	<u>(221,000)</u>
Total comprehensive income for the period attributable to owners of the Company		<u>(18,104,754)</u>	<u>(15,146,022)</u>	<u>(24,755,858)</u>	<u>(26,010,082)</u>
		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Loss per share	6				
Basic		(53.77)	(38.89)	(68.68)	(66.03)
Diluted		<u>(53.77)</u>	<u>(38.89)</u>	<u>(68.68)</u>	<u>(66.03)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30th June, 2014

	<i>Note</i>	As at 30th June, 2014 (Unaudited) <i>HK\$</i>	As at 31st December 2013 (Audited) <i>HK\$</i>
Non-current assets			
Property, plant and equipment		483,484	689,397
Available-for-sale financial assets		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	7	10,154,826	30,910,631
Financial assets at fair value through profit or loss		46,309,206	54,235,622
Derivative financial instruments		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	8	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		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

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.

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
	<u>2,128,429</u>	<u>2,552,868</u>
Other revenue:		
Sundry income	<u>5,242</u>	<u>3,123</u>
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
	<u>(21,512,620)</u>	<u>(20,871,021)</u>
	<u>(19,378,949)</u>	<u>(18,315,030)</u>

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 (Unaudited) HK\$	2013 (Unaudited) 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	<u>977,400</u>	<u>1,388,556</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 declare any interim dividend for the six months ended 30th June, 2014 (six months ended 30th June, 2013: nil).

6. LOSS PER SHARE

The calculation of loss per share is as follows:

	Six months ended 30th June,	
	2014 (Unaudited) HK\$	2013 (Unaudited) HK\$
Loss attributable to owners of the Company	<u>(26,824,646)</u>	<u>(25,789,082)</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	<u>(68.68)</u>	(66.03)
Diluted loss per share	<u>(68.68)</u>	(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.

7. 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/>
	10,154,826	30,910,631
	<u><u> </u></u>	<u><u> </u></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
	<u><u> </u></u>	<u><u> </u></u>

8. ACCOUNTS PAYABLE AND ACCRUALS

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

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

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

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.

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).

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.

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.

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).

CORPORATE GOVERNANCE

The Company adopted all code provisions set out in the Corporate Governance Code (the “Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited 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.

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.

By Order of the Board
Harmony Asset Limited
Lee Fong Lit David
Chairman

Hong Kong, 15th August, 2014

As at the date of this announcement, the Board comprises four executive directors, namely Mr. Lee Fong Lit David, Dr. Chow Pok Yu Augustine, Mr. Chan Shuen Chuen Joseph and Mr. Cheng Ming Shun; and three independent non-executive directors, namely Mr. Tong Kim Weng Kelly, Dr. Wong Yun Kuen and Mr. Ho Man Kai Anthony.