HARMONY ASSET LIMITED

亨亞有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 428)

(TSX Stock Symbol: HAR)

MANAGEMENT DISCUSSION AND ANALYSIS PREPARED IN ACCORDANCE WITH CANADIAN SECURITIES LAW

For the Year Ended: December 31, 2009

Date of Report: March 29, 2010

Nature of the Business

Harmony Asset Limited ("**Harmony**" or the "**Company**") was incorporated in the Cayman Islands on September 28, 1993. The Company's ordinary shares are dual listed on The Stock Exchange of Hong Kong Limited (the "**HKEX**") and the Toronto Stock Exchange (the "**TSX**").

Harmony is an investment company that principally invests in securities listed on the HKEX with an emphasis on companies with undervalued and discounted shares. The Company also invests in private companies which have potential for earnings growth and capital appreciation. The Company takes an active role in building its investee companies and often retains a long-term strategic interest in the companies it invested in. Harmony also takes on a consulting role and provides specialist advice to debt-stricken companies and medium-sized companies looking for financial and strategic partners for future growth.

Reporting Currency

All monetary amounts contained in this Management's Discussion and Analysis ("**MD&A**") are reported in Hong Kong dollars unless otherwise indicated.

Caution Regarding Forward-Looking Statements

This MD&A contains forward-looking statements which reflect the Company's current beliefs with respect to future events and are based on information currently available to the Company. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. When reviewing the Company's forward-looking statements, investors and others should not place undue reliance on these forward-looking statements and should carefully consider uncertainties and potential events. Unless otherwise required by applicable securities laws, the Company disclaims any intention or obligation to update the forward-looking statements. The Company has an ongoing obligation to disclose material information as it becomes available.

OVERALL PERFORMANCE AND SIGNIFICANT EVENTS

Overall Performance

Financial Highlights for the year ending December 31, 2009 with comparatives:

Operating Results (in HK$)	For the year ended December 31, (audited) 2009	2008
Turnover, other revenue and other gains and (losses)	**118,953,480**	(74,822,392)
Net profit (loss) before tax	**99,507,864**	(93,662,234)
Profit (loss) attributable to shareholders	**84,954,963**	(88,590,514)
Basic earnings (loss) per ordinary share	**2.18**	(2.27)

- The Group maintained its debt-free status.
- The Group's core business remained focused on investment holding and less than 10% of the turnover and other revenue, results and assets of the Group are attributable to markets outside Hong Kong.

The Group recorded total revenue and other gains and loss of HK$118,953,480 for the year ended December 31, 2009. When compared to the revenue and other gains and loss of HK$74,822,392 (loss) in the same period in the prior year, this results in a 259% increase in revenue.

The increase is mainly due to disposal of the Group's certain publicly traded securities which had realised a substantial gain of HK$110,724,365 (2008: HK$5,839,602) and appreciation in value of the Group's investments in listed securities, particularly in Hong Kong stock markets and overseas stock markets. Gain on fair value changes on trading securities was HK$21,695,001 (2008: loss of HK$44,044,129). The profit before income tax was HK$99,507,864 when compared to the loss of HK$93,662,234_ in the prior year. The profit attributable to owners of the Company was HK$84,954,963 when compared to the loss of HK$88,590,514 in the prior year.

The Group had available funds of HK$98,065,356 which were mainly placed with banks as time deposits. Cash and bank balances held by the Group are mainly denominated in Hong Kong dollars and Canadian dollars.

The Group had shareholders' fund of HK$277,500,594 at December 31, 2009 compared to HK$183,541,764 at December 31, 2008, a 51% increase.

Investments

For the year ended December 31, 2009, due to appreciation in value of the Group investments in listed securities, particularly in Hong Kong and overseas stock markets, the Group disposed of certain of its publicly traded securities to obtain a substantial realised gain of HK$110,724,365 as compared to HK$5,839,602, a 1796% increase. Gain on fair value changes on trading securities and derivative financial instruments was HK$27,070,318 (2008: loss of HK$44,044,129).

For the year ended December 31, 2009, the Group paid HK$50,000,000 to acquire convertible bonds with a total principal of HK$18,200,000 and 50,000,000 common shares of a Hong Kong listed company engaged in the business of energy and resources development. The purchase consideration of HK$50,000,000 to the extent of HK$28,441,278 has been allocated to the convertible bonds with the residual amount of HK$21,558,722 allocated to the 50,000,000 common shares. Thereafter, the Group also paid CAD$500,000 (which amount is equal to HK$3,601,350) to subscribe for 2,000,000 common shares and 2,000,000 warrants of a Canadian listed mining company.

As at December 31, 2009, the Group's unlisted investments, which comprised available-for-sale financial assets ("**AFS**"), and loans and receivables, amounted to HK$117,168,628 as compared to HK$88,136,439 as at December 31, 2008, representing a 32.9% increase. The increase is comprised primarily of (1) new investment deposits of HK$18,190,000 on estate development projects in the PRC, (2) the acquisition of convertible bonds of which the debt component (equivalent to HK$13,314,073) is recognised as an AFS (3) a net increase in fair value of HK$12,891,490 of the Company's AFS, (4) grant a loan of HK$3,120,000 to three investee companies (5) recognition of net impairment losses of HK$15,275,472 on loans and receivables and investment deposit, (6) the repayment of HK$2,207,900 from three investee companies of the Group. The Group recorded these impairment losses during the year ended December 31, 2009, after taking into consideration the financial condition of its investee companies, including, but not limited to, the significant accumulated losses of each particular investee company as well the ability of the investee company to repay its debts obligations by considering the investee company's net asset position. Please refer note 4(g) and 29(d) to the financial statements the year ended December 31, 2009.

As at December 31, 2009, the accounts receivable and prepayments were HK$17,810,465 as compared to HK$19,383,342 as at December 31, 2008, an 8% decrease. This increase was primarily the result of (1) participation of HK$15,000,000 in a short term loan to a third party, (2) an uncollected balance of HK$1,186,454 upon the disposal of a listed security, (3) assignment of a secured loan of HK$8,000,000 and (4) the recognition of net impairment loss of HK$10,807,483 for the year.

Outlook

Despite the economic and market uncertainty in 2009, the Group was able to generate a total shareholder return of HK$84,954,963 for the year when compared to the loss of HK$88,590,514 in the prior year. The Company has achieved a substantial profit in a difficult year when some of its competitors have reported substantial losses.

Despite the continual uncertainties in worldwide financial markets, and, in particular the financial conditions in Dubai and Greece, the Board of Directors continues to look for advantageous investment opportunities. However, the Group will exercise its investment decisions in a prudent and cautious manner.

The Group will still continue to focus on its core investment pursuits in the fields of resources and real estate developments in Asia and the greater China region. With a profitable year, the Board of Directors will continue to seek under value investments with a view that they will increase in value as the economy picks up. Clearly, our investment strategy is to prudently pick and collect a quality portfolio that will create value and profits for our shareholders.

SELECTED ANNUAL INFORMATION

	As at December 31,		
All figures in HK$	**2009 (audited)**	**2008 (audited)**	**2007 (audited)**
Net investment gains (loss) (operating profit (loss))	**99,507,864**	(93,662,234)	61,989,732
Income (total revenue and other gains and	**118,953,480**	(74,822,392)	80,048,650

losses)			
Net income (loss) for the year (profit (loss) attributable to shareholders)	**84,954,963**	(88,590,514)	50,907,356
Basic earnings (loss) per ordinary share	**2.18**	(2.27)	1.48
Diluted earnings (loss) per ordinary share	**2.17**	(2.27)	1.46
Total assets	**300,762,649**	190,806,081	300,342,663
Total long-term financial liabilities	**2,413,948**	2,651,742	-
Shareholder's equity	**277,500,594**	183,541,764	288,047,095
Cash dividends declared per ordinary share	**0.2**	0	0.17

- Variation in the annual results is mainly as a result of substantial gain on disposal of certain listed securities and fair value changes in the increase in market values of the publicly traded investments held after the provision of impairment loss made by Harmony, which are recognised in income statement. Positive valuations have resulted from the market value of the Group's investments in listed securities which have an appreciation in correspondence to the increase in the Hong Kong stock markets.

RESULTS OF OPERATIONS

The Group's selected financial highlights for the three months and the year ended December 31, 2009 with comparatives are as follows:

Operating Results (all figures in HK$)	**Three months ended December 31, (unaudited)**		**Year ended December 31, (audited)**	
	2009	**2008**	**2009**	**2008**
Turnover (total investment income)*	**527,450**	3,238,223	**6,089,942**	12,916,300
Interest income	**388,318**	1,018,967	**1,314,810**	4,391,728
Dividends received	**139,132**	2,219,256	**4,775,132**	8,524,572
Gain (loss) on disposal of listed investments	**5,305,769**	(167,004)	**110,724,365**	5,839,602
Net income (loss) before tax	**6,888,156**	(73,308,517)	**99,507,864**	(93,662,234)
Profit (loss) attributable to shareholders	**7,442,150**	(69,342,143)	**84,954,963**	(88,590,514)

* Turnover comprises interest income (bank deposits and loans receivable) and dividends received (public and private companies).

Other income, other gains and (losses) (all figures in HK$)	**Three months ended December 31, (unaudited)**		**Year ended December 31, (audited)**	
	2009	**2008**	**2009**	**2008**
Other income:				
Service fee income	**(2,859,318)***	68,381	**273,134**	599,451
Total other income	**(2,859,318)***	68,381	**273,134**	599,451
Other gains and (losses):				
Exchange gain, net	**37,389**	(1,586,462)	**546,674**	(1,610,946)
Fair value changes on financial assets at fair value through profit and loss	**7,287,437**	(21,968,091)	**27,070,318**	(44,044,129)
Net realized gain on disposal of financial assets at fair value through profit and loss	**5,305,769**	(167,004)	**110,724,365**	5,839,602
Net unrealized gain on disposal of available-for-sale financial assets	**222,002**	-	**222,002**	-

Gain on disposal of property, plant and equipment	**10,000**		**10,000**	-
Gain on disposal of an associate	-	-	**100,000**	-
Recovery of impairment loss on loans and receivables previous recognised	-	-	**54,000**	-
Recovery of impairment loss on accounts and receivable previous recognised	**8,000,000**	-	**8,000,000**	-
Impairment loss on accounts receivable	**(4,896,909)**	(4,703,792)	**(18,807,483)**	(4,703,792)
Impairment loss on loans and receivables	**(1,957,903)**	(38,219,864)	**(14,729,472)**	(38,219,864)
Impairment loss on available-for-sale financial assets				
-equity investments	-	(5,399,014)	-	(5,399,014)
- deposits on investments written off	**(32,349)**	(200,000)	**(600,000)**	(200,000)
Total other gains and (losses)	**13,975,436**	(72,244,227)	**112,590,404**	(88,338,143)
Total	**11,116,118**	(72,175,846)	**112,863,538**	(87,738,692)

* During the three months ended December 31, 2009, HK$2,925,319 is reclassified from other income to fair value changes on financial assets at fair value through profit or loss included in other gains and losses.

For the year ended December 31, 2009, the Group recorded a turnover of HK$6,089,942 as compared to HK$12,916,300 in the prior year, representing a 53% decrease. The interest income was HK$1,314,810 (2008: HK$4,391,728). Dividends generated from the listed and unlisted securities was HK$4,775,132 (2008:HK$8,524,572).

The market value of the Group's investments in listed securities have had a corresponding increase to the increase in the Hong Kong and overseas stock markets. During the year ended December 31, 2009, the Group disposed of certain of its publicly traded securities to obtain a substantial realised gain of HK$110,724,365 as compared to HK$5,839,602, a 1,796% increase. Gain on fair value changes on listed securities and derivative financial instruments was HK$27,070,318 (2008: loss of HK$44,044,129).

A recognition of net impairment losses of HK$15,275,472 was made on loans and receivables and investment deposit. The Group recorded these impairment losses during the year ended December 31, 2009, after taking into consideration the financial condition of its investee companies, including, but not limited to, the significant accumulated losses of each particular investee company as well the ability of the investee company to repay its debts obligations considering the investee company's net asset position.

As at December 31, 2009, a recognition of net impairment loss was HK$10,807,483 after an assignment of a secured loan of HK$8,000,000.

The profit before income tax for the year was HK$99,507,864 as compared to the loss of HK$93,662,234 in the prior year. The profit attributable to owners of the Company was HK$84,954,963 as compared to the loss of HK$88,590,514 in the prior year. The profit has substantially increased due to appreciation in value of the Group's investments in listed securities, particularly in Hong Kong and overseas stock markets, the Group disposed of certain of its publicly traded securities to obtain a substantial realised gain.

For the year ended December 31, 2009, there were no significant changes in the Group's operations as compared to the prior year. The major sources of income were bank deposits, interest on loans receivable, dividends from investments held, fair value gain, and gain on disposal of publicly traded securities.

For the year ended December 31, 2009, employee benefits expenses were HK$2,842,510 as compared to HK$5,570,840 in the prior year, representing a 49% decrease. The decrease was primarily due to payment of staff and management bonuses for the year ended December 31, 2007 made in the first six months of 2008. Such bonuses were not paid in the first six months of 2009 due to the losses incurred by the Group for the year ended December 31, 2008. Other operating expenses were HK$16,487,382 as compared to HK$13,139,975 in the prior year, representing a 25% increase. The increase was mainly due to an accrual of incentive fee of HK$6,028,948 due to the profit result of HK$84,954,963 for the year ended December 31, 2009 as compared to a loss of HK$88,590,514 for the year ended December 31, 2008. The operating lease expense in respect of land and buildings was HK$2,109,360 (2008: HK$2,438,110) representing a 13% decrease. The decrease was due to the expiration of one of the Group's operating leases on June 30, 2008.

SUMMARY OF QUARTERLY RESULTS

A summary of the Group's quarterly results for the eight most recently completed quarters is as follows:

	Reviewed and Unaudited Financial Information for the Quarter ended			
	December 31, 2009	**September 30, 2009**	**June 30, 2009**	**March 31, 2009**
Net investment gains (loss)	6,888,156	(16,888,067)	102,939,751	6,568,024
Net income (loss) for the period	7,442,150	(15,816,991)	85,903,780	7,426,024
Earnings (loss) per ordinary share – basic	0.19	(0.41)	2.20	0.19
Earnings per ordinary share – diluted	0.19	(0.41)	2.20	0.19
	December 31, 2008	**September 30, 2008**	**June 30, 2008**	**March 31, 2008**
Net investment gains (loss)	(73,308,517)	(37,661,963)	7,780,809	9,527,437
Net income (loss) for the period	(69,342,143)	(34,243,991)	6,342,737	8,652,883
Earnings (loss) per ordinary share – basic	(1.78)	(0.88)	0.16	0.22
Earnings per ordinary share – diluted	(1.78)	(0.88)	0.16	0.22

Significant variations arise in the quarterly results due to unrealized gains on investments recognized in the income statement which results from the Group revaluing its investments. The value at which publicly traded investments are carried are subject to fluctuations in the public markets from quarter to quarter. The private investments are re-valued when management adjusts its estimates of the fair value of the investments, which is completed on a quarterly or monthly basis. Management is not aware of any significant seasonal and cyclical factors that would contribute to the quarter-to-quarter variations of the Group's performance.

FOURTH QUARTER

For the three months ended December 31, 2009, the Group received interest income in the aggregate amount of HK$388,318 (2008: HK$1,018,967). Dividend income generated from the listed and unlisted securities was HK$139,132 (2008: HK$2,100,000). Turnover, or interest and dividend income, for the three months ended December 31, 2009 was HK$527,450 as compared to HK$3,238,223 in the same period in the prior year, representing an 84% decrease. Net realised gain on disposal of listed securities was HK$5,305,769 (2007: loss of HK$167,004). The fair value gain on listed securities and derivative financial instruments was HK$7,287,437 (2008: loss of HK$21,968,091).

For the three months ended December 31, 2009, the profit before income tax was HK$6,888,156 as compared to the loss of HK$73,308,517 in the same period in the prior year. The profit attributable to owners of the Company was HK$7,442,150 as compared to the loss of HK$69,342,143 in the same period in the prior year.

For the three months ended December 31, 2009, there were no significant changes in the Group's operations as compared to the same period in the prior year. The major sources of income were bank deposits, interest on loans receivable, dividends from investments held, fair value gain, and gain on disposal of publicly traded investments. Due to appreciation in value of the Group investments in listed securities, particularly in Hong Kong stock markets, the Group recorded a substantial gain of HK$5,305,769 on the disposal of certain of its publicly traded securities as compared to a loss result of HK$167,004 in the same period in 2008.

For the three months ended December 31, 2009, the other operating expenses were HK$3,732,212 (2008: HK$3,531,782). The operating lease expense in respect of land and buildings was HK$527,340 (2008: HK$527,340). Due to an increase in net asset value of the Group for the three months ended December 31, 2009, the payment of investment management fees increased to HK$968,839 as compared to HK$885,687 for the same period in the prior year, representing a 9% increase. The incentive fee was provided up to the maximum amount of HK$6,028,948 (2008: Nil) due to a substantial increase in the profit for the year ended December 31, 2009.

CASH FLOW

The Group's selected cash flow information for the three months and the year ended December 31, 2009 and 2008 are as follows:

(Unaudited: reviewed by management)	**Three months ended**		**Year ended**	
	December 31, 2009	**December 31, 2008**	**December 31, 2009**	**December 31, 2008**
Net cash from operating activities	40,216,290	471,997	119,325,256	6,973,567
Net cash (used in) from investing activities	(23,538,573)	2,693,995	(27,889,138)	(11,861,285)
Net cash from (used in) financing activities	42,074	72,763	(3,623,547)	(6,557,681)
Net increase (decrease) in cash and cash equivalents	17,829,793	3,238,755	87,812,571	(11,445,399)
Cash and cash equivalents at October 1 or January 1	80,235,563	7,014,030	10,252,785	21,698,184
Cash and cash equivalents at December 31	98,065,356	10,252,785	98,065,356	10,252,785
Analysis of the balance of cash and cash equivalents:				
Bank balances and cash	98,065,356	10,252,785	98,065,356	10,252,785

For the three months ended December 31, 2009 versus the three months ended December 31, 2008

For the three months ended December 31, 2009, net cash from operations was HK$40,216,290 as compared to HK$471,997 in the same period in the prior year. This consisted primarily of net cash proceeds of HK$43,629,162 from disposal of publicly traded securities as compared to cash used to purchase

HK$1,781,086 of listed securities. Derivative financial instruments increased in the amount of HK$15,947,418 due to the acquisition of derivative financial instruments. Net cash from the decrease in accounts receivable was HK$19,768,833 (2008: HK$6,651,348). Net cash from decrease in accounts payable was HK$855,584 as compared to HK$837,081 used in the same period in the prior year. Cash paid for Hong Kong income tax was HK$4,047,413 as compared to tax refund of HK$667,268 in the same period in the prior year.

Net cash used in investing activities was HK$23,538,573 as compared to HK$2,693,995 cash received from the same period in the prior year. There was no cash received in 2009 from dividends declared by private investments (2008: HK$2,100,000). Net cash received from repayment of loans and receivables was HK$2,054,000 (2008: HK$580,000). Net cash advanced to investee companies was HK$3,120,000 (2008: HK$372,000). Net cash used to increase unlisted investments was HK$20,504,073 (2008: HK$175,872) of which HK$14,190,000 was invested in real estate projects in PRC. Cash used to acquire a-motor vehicle for use by the Company was HK$1,444,000 (2008: nil)_. Total proceeds from disposal of fixed assets, associate and unlisted investments was HK$1,110,002 (2008: nil).

Net cash from financing activities for the three months ended December 31, 2009 was HK$42,074 (2008: HK$72,763). This was primarily due to outsanding dividend payments declared in the interim period as well as in the prior year.

For the year ended December 31, 2009 versus the year ended December 31, 2008

In the normal course of business for the Group, significant fluctuations in cash flows can occur. Generally, this category includes such items as share transactions, accounts receivable, operating loans to investees and listing expenses. For the year ended December 31, 2009, net cash flow generated from operations of HK$119,325,256 included:

- HK$92.35 million in profit before working capital changes (a non-cash item);
- HK$49.66 million in share disposal of publicly traded companies;
- (HK$15.95) million increase in derivative financial instruments;
- (HK$8.14) million increase in accounts receivable and prepayments;
- (HK$0.58) million decrease in accounts payable and accruals; and
- HK$6.03 million in increase in amount due to a related company;
- (HK$4.05) million in income tax paid.

In contrast, for the year ended December 31, 2008, net cash flow generated from operations of HK$6,973,567 included:

- (HK$13.42) million in loss before working capital changes (a non-cash item);
- HK$15.13 million in share disposal of publicly traded companies;
- HK$6.06 million decrease in accounts receivable and prepayments;
- (HK$1.30) million increase in accounts payable and accruals; and
- HK$0.50 million in income taxes refunded.

For the year ended December 31, 2009, net cash used in investing activities was HK$27,889,138 as compared to HK$11,861,285 in the prior year. The Group received cash dividends from private investments in the aggregate amount of HK$4,636,000 (2008: HK$3,400,000). Cash advanced to investee companies was HK$3,120,000 as compared to HK$1,472,000 in the prior year. Repayment from investee companies was HK$2,207,900 (2008: HK$2,641,700). Purchase of AFS Financial Assets was HK$31,504,073 (2008: HK$18,256,891). The Group purchased fixed assets of HK$1,444,000 in 2009 (2008: HK$52,133). Total proceeds from disposal of fixed assets, an associate and unlisted investments were HK$1,110,002 (2008: nil). Interest received by the Group was HK$225,033 as compared to HK$1,878,039 in the prior year.

For the year ended December 31, 2009, net cash used in financing activities was HK$3,623,547 (2008: HK$6,557,681). The use of funds was mainly due to the payment of a dividend of HK$3,863,787 declared for the six month ended June 30, 2009 after deduction of proceeds of HK$240,240 received from issue of shares upon exercise of share options.

LIQUIDITY

Debt, contractual obligation and contingent liabilities

As at the date of this MD&A, the Group had no debt outstanding and no contingent liabilities.

The Group had available funds of HK$98,065,356 which were mainly placed with banks as time deposits. Cash and bank balances held by the Group are mainly denominated in Hong Kong dollars and Canadian dollars.

As at December 31, 2009, the Group had no borrowing (2008: nil). The gearing ratio for the Group was 0% (2008: 0%) which represents the ratio of the Group's borrowings to the net asset value of the Group.

Management believes that the Group's current cash position is sufficient to meet the ongoing needs of its business. However, the Group may choose to access capital markets and/or bank financing for funding of future expansion and other opportunities.

CAPITAL RESOURCES

As at the date of this MD&A, the Group has unutilised banking facilities of HK$3,000,000 and requires no significant funding for investment and capital expenditure commitments. The interest rate charged on the banking facilities is 2% per annum over the Prime Lending Rate or 2% per annum over the prevailing overnight Hong Kong Interbank Offered Rate, whichever is higher.

As at the date of this MD&A, the Group does not have any capital expenditure commitment and is not aware of any expected fluctuations in its capital resources.

FINANCIAL INSTRUMENTS

The Group has minor exposure to fluctuations in foreign exchange rates. This exposure is managed by careful attention to trends in money markets rather than relying on any financial instruments to hedge such exposure.

Financial assets and financial liabilities are recognised on the statement of financial position when a group entity becomes a party to the contractual provisions of the financial instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The Group's financial assets are classified into one of the three categories, comprising financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of a group entity after deducting all of its liabilities.

The Group's financial instruments as at December 31, 2009and 2008 are categorised as follows:

	Group	
	2009	2008
	HK$	HK$
Available-for-sale financial assets	110,854,493	68,058,932
Loans and receivables		
Amounts due from subsidiaries	-	-
Loans and receivables	6,314,135	20,077,507
Accounts receivable	17,046,476	18,623,289
Bank balances and cash	98,065,356	10,252,785
	121,425,967	48,953,581
Financial assets at fair value through profit or loss		
Trading securities	44,930,302	72,896,629
Derivative financial instruments	21,322,735	-
	66,253,037	72,896,629
Total financial assets	298,533,497	189,909,142
Other financial liabilities		
Accounts payable and accruals	1,249,956	1,786,655
Amount due to a related company	6,028,948	-
Total financial liabilities	7,278,904	1,786,655

As at and for the year ended December 31, 2009, the significant changes in financial instruments as compared to the statement of financial position as at December 31, 2008 consisted primarily of:

(1) The Group's AFS increased primarily due to (1) the payment of new investment deposits of HK$18,190,000 on estate development projects in PRC, (2) acquisition of convertible bonds in which the debt component in the amount of HK$13,314,073 was recognised as AFS (3) the write off of an investment deposit of HK$600,000 and a (4) net increase in fair value of HK$12,891,490;

(2) The Group's loans and receivables had decreased primarily due to (1) recognition of net impairment loss of HK$14,675,472 (2) repayment of HK$2,207,900 from investee companies and the (3) payment of 3,120,000 to investee companies;

(3) The decrease of trading securities was due to disposal of certain listed securities;

(4) Increase in derivative financial instruments which comprise the acquisition of conversion option embedded in the convertible bonds (which entitle the holders to convert the convertible notes into the shares) amounting to HK$15,127,205 and investment in warrants amounting to HK$820,213 and increase in fair value of HK$5,375,317.

Further detailed information with respect to the financial instruments and significant assumptions made by the Group in estimation of fair value with respect to its financial instruments has been disclosed in notes (4)(g) and 28 (b) of the audited financial statements for the year ended December 31, 2009 under summary of significant accounting policies.

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2009, there are no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

On May 17, 2007, the Company entered into a supplemental agreement (the "**Supplemental Agreement**") with Harmony Asset Management Limited (the "**Management Company**"), a company wholly owned by Dr. Chow Pok Yu, Augustine, the Chief Executive Officer and an executive director of the Company, amending the terms of a management agreement (the "**Management Agreement**") between the Company and the Management Company dated June 1, 1998, as amended on April 5, 2000. Under the Management Agreement, the Management Company has agreed to assist the board of directors of the Company with the day-to-day management of the Company and to provide the Company with investment management services, including identifying and analyzing investment opportunities and structuring and monitoring investments. The Supplemental Agreement was entered into by the parties to extend the term of the Management Agreement from June 1, 2007 to May 31, 2010 and to amend the remuneration term of the Management Agreement in order to reflect market standards. In accordance with the Management Agreement, as amended by the Supplemental Agreement, the Management Company 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 the preceding financial year (before accrual of the incentive fee) subject to an annual cap of HK$7,430,782 and HK$6,028,948, respectively for the year ended December 31, 2009.

PROPOSED TRANSACTIONS

The Company is not a party to any proposed asset or business acquisition or disposition or any proposed transaction that may have an effect on the financial condition, results of operations, or cash flows of the Company.

OUTSTANDING SHARE DATA

The authorized share capital of the Company is HK$100,000,000 divided into 100,000,000 ordinary shares with a nominal value of HK$1.00 per ordinary share.

As at March 29, 2010, the number of ordinary shares of the Company outstanding and the number of ordinary shares issuable pursuant to the outstanding options of the Company are as follows:

Ordinary Shares	Number
Outstanding	39,058,614
Issuable under options	1,510,047
Total diluted ordinary shares	**40,568,661**

During the financial year ended December 31, 2009, 290,000 options with an exercise price at HK$6.03 per ordinary share and 50,000 with an exercise price at HK$5.10 per ordinary share expired. On August 14, 2009, two of the Company's directors exercised a total of 56,000 share options at an exercise price of HK$4.29 per ordinary share. Other than the foregoing, no share options were granted, exercised, expired or cancelled pursuant to the Share Option Scheme of the Company.

PRINCIPAL ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES:

1. Basis of preparation

This MD&A should be read in conjunction with the audited financial statements of the Company for the financial year ended December 31, 2009 and December 31, 2008 (collectively, the "**Financial Statements**"), which were prepared in accordance with the International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the HKEX.

The Financial Statements have been prepared under the historical cost convention, except that, as disclosed in the accounting policies shown in the Financial Statements, available-for-sale financial assets and financial assets at fair value through profit or loss are stated at fair value. An extract of the accounting policies that the Company believes to be critical to the Financial Statements is set out below. For a summary of all significant accounting policies, refer to note 4 to the financial statements for the year ended December 31, 2009.

This MD&A includes the Financial Statements of Harmony and its wholly owned subsidiaries (together, the "**Group**"). All significant inter-company balances and transactions have been eliminated on consolidation.

2. Financial instruments

Financial assets and financial liabilities are recognized on the statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in the profit or loss..

3. **Fair value**

The Group considers that all of the financial instruments carried at cost or amortised cost are carried at amounts not materially different from their fair values. The Group has valued its financial instruments carried at fair value in the following manner :

(a) *Publicly traded investments:*

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is current bid price.

(b) *Privately held investments:*

Fair value of financial assets which are not traded in an active market is estimated based on the following:

- financial position and results of the investee,
- risk profile of the investee,
- nature of business of the investee,
- prospects of the investee,
- other factors and assumptions not supported by observable market prices or rates,
- reference to recent market valuations for similar entities quoted in an active market, and
- current fair value of another investment that has substantially the same or applicable price/earning ratios for similar listed companies adjusted to reflect the circumstances of the investee.

Based on the directors' conservative analysis of each of the privately held investments, the directors consider that it is appropriate to estimate the fair values of majority of these investments based on their net asset value.

4. **Financial assets**

The Group's financial assets are classified into one of the following three categories:

- financial assets at fair value through profit or loss,
- loans and receivables, and
- available-for-sale financial assets.

All regular-way purchases or sales of financial assets are recognized and derecognized on a trade-date basis. Regular-way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by either regulation or convention in the marketplace.

5. **Revenue recognition**

Interest income is recognized as it accrues using the effective interest method. Income from provision of other services is recognized when the related services are rendered.

Dividend income is recognized when the shareholder's right to receive payment is established.

Income taxes for the year comprise current tax and movements in deferred tax assets and liabilities. Income taxes are recognized in the income statement except to the extent that they relate to items recognized directly in equity, in which case they are recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

6. Use of estimates

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

The Group adopts two principal methodologies to determine the fair value of its financial assets carried at fair value:

(a) *Market price:*

The Group adopts the market price of financial assets through profit and loss for the calculation of their fair value. The surplus or deficit of the fair value will be recognized as unrealized gain or loss respectively through profit and loss.

(b) *Net asset value:*

The calculation of fair value of unlisted available-for-sale financial assets is principally based on the net asset value of those assets. The net change in fair value of available-for-sale financial assets is recognized in the fair value reserve account.

CHANGES IN ACCOUNTING POLICY

The Group has not adopted any new accounting policies or is expecting to adopt any new accounting policies subsequent to the date of this MD&A.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Canadian Securities Administrators have issued National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings* which requires public companies in Canada to submit annual and interim certificates relating to the design and effectiveness of the disclosure controls and procedures that are in use at the company. Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, including the Company's Chairman and Chief Executive Officer and Chief Financial Officer, to enable this information to be reviewed and discussed so that appropriate decisions can be made regarding the timely public disclosure of the information.

As of December 31, 2009, management has evaluated the effectiveness of the design and the operating effectiveness of the disclosure controls and procedures as defined by National Instrument 52-109. This evaluation was performed under the supervision of and with the participation of the Company's Chairman and Chief Executive Officer and Chief Financial Officer. Based on this evaluation, the Company's Chairman and Chief Executive Officer and Chief Financial Officer concluded that the design and operation of the disclosure controls and procedures were effective as of December 31, 2009.

INTERNAL CONTROL OVER FINANCIAL REPORTING

National Instrument 52-109 also requires public companies in Canada to submit an annual certificate relating to the design and operating effectiveness of internal control over financial reporting ("**ICFR**"). ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. Management is responsible for establishing and maintaining ICFR and management, including the Company's Chairman and Chief Executive Officer and Chief Financial Officer, has evaluated the design and tested the effectiveness of the ICFR at December 31, 2009. Based on this evaluation, management, with the participation of the Company's Chairman and Chief Executive Officer and Chief Financial Officer, has concluded that the design and operating effectiveness of ICFR was effective as of December 31, 2009. The Company has continued to use the basic frame work for international control and risk management internal control framework issued by the Hong Kong Institute of Certified Public Accountants to design its ICFR. Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis as such systems can only be designed to provide reasonable as opposed to absolute assurance. Also projections of any evaluation of the effectiveness of ICFR to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

National Instrument 52-109 also requires public companies in Canada to disclose in their MD&A any change in ICFR during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting. There were no changes in ICFR during the quarter ended December 31, 2009 that materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Risk Factors

The following are certain risk factors inherent in the Company's businesses and an investment in the ordinary shares of the Company. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing in the Company's Annual Information Form for the financial year ended December 31, 2009 (the "**AIF**"). These risks and uncertainties are not the only ones facing the Company. Additional risks and uncertainties not currently known to the Company, or that the Company currently considers immaterial, may also impair the business of the Company. If any such risks actually occur, the business, financial condition, liquidity and results of operations of the Company could be materially adversely affected.

1. Risks of doing business in the People's Republic of China

Some of the Group's investments have operations located in the People's Republic of China ("**PRC**"). The PRC's economy and legal system differ from those of most developed countries in many respects, including the level of development and transparency. The Group will be affected by any political or economic instability in the PRC. Changes in investment policies or shifts in political attitude in the PRC may adversely affect the Group's businesses. Operations will also be adversely affected in varying degrees by government regulations including but not limited to restrictions on production, price controls, income taxes, and expropriation of property. The introduction of new policies, legislation or amendments to existing policies or legislation by various levels of government in the PRC or the interpretation of those laws in the PRC or elsewhere could impact adversely on the assets, operations and financial performance of the Group.

2. Risk of Limited Number of Investments

The Company intends to participate in a limited number of investments and, as a consequence, the aggregate return of the Company may be substantially adversely affected by the unfavourable performance of even a single investment. In addition, as the Company's investments are concentrated in certain sectors, the Company's performance will be disproportionately subject to adverse developments in those sectors.

3. Marketability of the Company's Investments

The Company often makes direct investments in publicly-traded securities. The value of these investments may be affected by factors such as investor demand, resale restrictions, general market trends and regulatory restrictions. Fluctuation in the market value of such investments may occur for a number of reasons beyond the control of the board of directors of the Company, and there is no assurance that an adequate market will exist for investments made by the Company. Many of the investments made by the Company may be relatively illiquid and may decline in price if a significant number of such investments are offered for sale by the Company or other investors.

The Company also invests in securities of privately held companies. Investments in privately held companies cannot be resold without a prospectus, an available exemption or an appropriate ruling under relevant securities legislation and there may not be any market for such securities. These limitations may impair the Company's ability to react quickly to market conditions or negotiate the most favourable terms for exiting such investments. Investments in privately held companies may offer relatively high potential returns, but will also be subject to a relatively high degree of risk. There can be no assurance that a public market will develop for any of the Company's private company investments or that the Company will otherwise be able to realize a return on such investments.

The value attributed to securities of privately held companies will be the cost or net asset value thereof, subject to adjustment in limited circumstances, and therefore may not reflect the amount for which they can actually be sold. Because valuations, and in particular valuations of investments for which market quotations are not readily available, are inherently uncertain, may fluctuate within short periods of time and may be based on estimates, determinations of fair value may differ materially from the values that would have resulted if a ready market had existed for the investments.

4. Due Diligence

The due diligence process that the Company undertakes in connection with investments may not reveal all facts that may be relevant in connection with an investment. Before making investments, the Company conducts due diligence that it deems reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence, the Company may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants and investment banks may be involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, the Company relies on the resources available to us, including information provided by the target of the investment and, in some circumstances, third-party investigations. The due diligence investigation that is carried out with respect to any investment opportunity may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. Moreover, such an investigation will not necessarily result in the investment being successful.

5. *Reliance upon the Directors and Management*

Shareholders must rely upon the expertise and discretion of the board of directors and management of the Company in selecting and investing in securities, the composition of the portfolio of such securities owned or acquired by the Company and in determining whether to dispose of any securities held by the Company. The success of the Company will be dependent upon the board of directors and management of the Company successfully identifying and managing the Company's investments. Accordingly, the Company's continued success will depend upon the continued services of these individuals who are not obligated to remain employed with us. The loss of the services of any of these individuals could have a material adverse effect on the Company's revenues, net income and cash flows and could harm the Company's ability to maintain or grow its existing assets and raise additional funds in the future.

6. *Currency and Foreign Exchange Rate Risks*

A substantial proportion of the Company's investments are made in Hong Kong dollars and the Company may also invest in securities denominated or quoted in other foreign currencies. Therefore, changes in currency exchange rates as well as associated transaction costs could adversely affect the value of the ordinary shares during any period. In addition, the Company could also make investments in jurisdictions which may place restrictions on the repatriation of funds. The Company does not enter into hedging or derivative arrangements to manage its foreign exchange risk.

7. *Liquidity Risk*

Should the Company be unable to dispose of any portion of the Company's portfolio, the Company may experience delays in receiving the proceeds of disposition of any security within the portfolio until such time as the Company is able to dispose of such securities. Further, should the Company wish to acquire particular securities for the Company's portfolio, the Company may be unable to acquire the desired quantity of such securities at a price acceptable to the Company should the market for such security prove illiquid.

Further, investments in small capitalization companies or privately held companies tend to be less liquid than other types of investments. Due to the Company's investment in particular small or unlisted companies that can be affected by political and economic events, the securities within the Company's portfolio may be difficult to value or sell. As a result, these securities may trade at values significantly lower than their true value. This may result in the Company's difficulty in converting these securities into cash in a timely and cost effective manner.

8. *Interest Rate Risk*

Due to the Company's investment strategy and portfolio composition, the value of the securities within the Company's portfolio may fluctuate with changes in interest rates. These changes mean that the market price for the securities held in the Company's portfolio will be affected by prevailing interest rates.

9. *Speculative Nature of Ordinary Shares*

The investment in the ordinary shares of the Company is speculative in nature and suitable only for investors able to sustain a total loss of their investment. Shareholders should not rely upon realizing any significant returns from the ordinary shares and should be aware that the value of the ordinary shares and the income from them could, in common with other shares and bonds, fluctuate. There is no assurance that the investment objectives of the Company will actually be achieved.

10. *Trading Price of Shares relative to Net Asset Value*

The Company is neither a mutual fund nor an investment fund and due to the nature of the Company's business and investment strategy and the composition of its investment portfolio, the market price of the ordinary shares, at any time, may vary significantly from its net asset value per share. This risk is separate and distinct from the risk that the market price of the ordinary shares may decrease.

FINANCIAL RISK MANAGEMENT

The Company has implemented policies to manage its exposure to certain financial risks. Refer to Note28 of the Notes to the Company's 2009 Financial Statements for a discussion regarding the Company's financial risk management.

ADDITIONAL INFORMATION

Additional information relating to Harmony may be found on SEDAR at www.sedar.com, the HKSE website at www.hkex.com.hk or the Company's website at www.harmonyasset.com.hk. Additional financial information is provided in the Company's AIF and Annual Report for the financial year ended December 31, 2009. The Annual Report includes the audited consolidated financial statements as at December 31, 2009, the notes thereto and the report of the Company's auditors thereon. Copies of these documents, together with copies of this MD&A and copies of any documents or the pertinent pages of any documents incorporated by reference in this MD&A, are available upon request to the Company, provided that the Company may require payment of a reasonable charge if the request is made by a person who is not a security holder of the Company.

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