
Harmony Asset Limited – First Quarterly Report 2008
at the requirement of Canadian Securities Law



Harmony Asset Limited

(Incorporated in the Cayman Islands with limited liability)

HKEX – Stock Code: 428
TSX – Trading Symbol: HAR

Unaudited condensed consolidated interim financial statements

For the three months ended 31st March, 2008

**Harmony Asset Limited – First Quarterly Report 2008
at the requirement of Canadian Securities Law**

NOTICE TO READER

The management of Harmony Asset Limited is responsible for the preparation of the accompanying 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 – First Quarterly Report 2008
at the requirement of Canadian Securities Law**

TABLE OF CONTENT

Unaudited condensed consolidated income statement	4
Unaudited condensed consolidated balance sheet	5
Unaudited condensed consolidated statement of changes in equity	6
Unaudited condensed consolidated cash flow statement	7
Notes to the unaudited condensed consolidated financial statements	
1. Basis of preparation	9
2. Turnover, other revenues and gains	9
3. Operating profit	10
4. Financial costs	10
5. Income tax expenses	10
6. Earnings per share	10
7. Property, plant and equipment	11
8. Accounts receivable and prepayments	11
9. Accounts payable	12
10. Share capital	12
11. Share option scheme	13
12. Related party transactions	15
13. Lease commitments	15
14. Financial risk management	16

Harmony Asset Limited – First Quarterly Report 2008
at the requirement of Canadian Securities Law

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months ended 31st March, 2008

		Three months ended	
		31st March,	
		2008	2007
		(Unaudited)	(Unaudited)
	<i>Note</i>	<i>HK\$</i>	<i>HK\$</i>
Turnover	2	1,737,970	1,863,829
Other revenue	2	230,434	256,880
Other gains	2	11,039,448	255,956
		<hr/>	<hr/>
		13,007,852	2,376,665
Operating expenses			
Employee benefit expenses		(610,502)	(443,296)
Depreciation of property, plant and equipment		(6,250)	(77,434)
Other operating expenses		(2,863,582)	(1,577,818)
Impairment loss on loans receivable		–	–
		<hr/>	<hr/>
Operating profit	3	9,527,518	278,117
Finance costs	4	(81)	–
		<hr/>	<hr/>
Operating profit before income tax		9,527,437	278,117
Income tax expenses	5	(874,554)	–
		<hr/>	<hr/>
Profit for the period attributable to shareholders of the Company		8,652,883	278,117
		<hr/> <hr/>	<hr/> <hr/>
Earnings per share	6		
Basic		22.19 cents	0.95 cents
Diluted		22.09 cents	0.94 cents
		<hr/> <hr/>	<hr/> <hr/>

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

Harmony Asset Limited – First Quarterly Report 2008
at the requirement of Canadian Securities Law

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

As at 31st March, 2008 and 31st December, 2007

		31st March, 2008 (Unaudited) HK\$	31st December, 2007 (Audited) HK\$
	<i>Note</i>		
Non-current assets			
Property, plant and equipment	7	208,497	213,780
Available-for-sale financial assets		58,321,923	58,321,923
Loans receivable		59,943,352	59,097,252
		<hr/> 118,473,772 <hr/>	<hr/> 117,632,955 <hr/>
Current assets			
Accounts receivable and prepayments	8	34,169,850	28,940,971
Financial assets at fair value through profit or loss		120,940,481	132,070,553
Bank balances and cash		35,866,671	21,698,184
		<hr/> 190,977,002 <hr/>	<hr/> 182,709,708 <hr/>
Current liabilities			
Accounts payable	9	1,994,128	2,246,637
Tax payable		10,756,668	10,048,931
		<hr/> 12,750,796 <hr/>	<hr/> 12,295,568 <hr/>
Net current assets		<hr/> 178,226,206 <hr/>	<hr/> 170,414,140 <hr/>
Net assets		<hr/> 296,699,978 <hr/>	<hr/> 288,047,095 <hr/>
Capital and reserves			
Share capital	10	39,002,615	39,002,615
Reserves		257,697,363	249,044,480
		<hr/> 296,699,978 <hr/>	<hr/> 288,047,095 <hr/>
Total equity		<hr/> 296,699,978 <hr/>	<hr/> 288,047,095 <hr/>

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

Harmony Asset Limited – First Quarterly Report 2008
at the requirement of Canadian Securities Law

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31st March, 2008 and 2007

	Unaudited						
	Share capital	Share premium	Fair value reserve	Share option reserve	Proposed dividend	Retained profits/ (accumulated losses)	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1st January, 2008	39,002,615	170,354,945	15,268,766	1,007,000	6,630,444	55,783,325	288,047,095
Profit for the period	-	-	-	-	-	8,652,883	8,652,883
Fair value changes on available-for-sale financial assets recognised in equity	-	-	-	-	-	-	-
Total recognised income for the period	-	-	-	-	-	8,652,883	8,652,883
Share option scheme							
– value of employee services	-	-	-	-	-	-	-
– placing agent services	-	-	-	-	-	-	-
Transfer of reserve upon exercise of share options	-	-	-	-	-	-	-
Issue of shares	-	-	-	-	-	-	-
Share issue expenses	-	-	-	-	-	-	-
Proposed dividend transferred to current liabilities upon approval of shareholders at annual general meeting	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
Balance at 31st March, 2008	39,002,615	170,354,945	15,268,766	1,007,000	6,630,444	64,436,208	296,699,978
At 1st January, 2007	29,220,475	143,516,834	7,540,170	908,000	4,383,071	4,875,969	190,444,519
Profit for the period	-	-	-	-	-	278,117	278,117
Fair value changes on available-for-sale financial assets recognised in equity	-	-	-	-	-	-	-
Total recognised income for the period	-	-	-	-	-	278,117	278,117
Share option scheme							
– value of employee services	-	-	-	-	-	-	-
Proposed dividend transferred to current liabilities upon approval of shareholders at annual general meeting	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
Balance at 31st March, 2007	29,220,475	143,516,834	7,540,170	908,000	4,383,071	5,154,086	190,722,636

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

Harmony Asset Limited – First Quarterly Report 2008
at the requirement of Canadian Securities Law

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Three months	
	ended 31st March,	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Operating activities		
Profit before taxation	9,527,437	278,118
Interest income	(1,437,970)	(733,829)
Financial costs	81	–
Dividend income from available-for-sale financial assets	(300,000)	(1,130,000)
Depreciation of property, plant and equipment	6,250	77,434
Fair value changes on financial assets at fair value through profit or loss	(5,300,329)	(255,956)
	<hr/>	<hr/>
Profit (loss) before working capital changes	2,495,469	(1,764,233)
Decrease in financial assets at fair value through profit or loss	16,430,401	–
Increase in accounts receivable and prepayments	(4,562,483)	(1,838,079)
Decrease in accounts payable and accruals	(252,509)	(925,785)
	<hr/>	<hr/>
Cash generated from (used in) operations	14,110,878	(4,528,097)
Interest paid	(81)	–
Hong Kong tax paid	(166,817)	–
	<hr/>	<hr/>
Net cash from (used in) operating activities	13,943,980	(4,528,097)
Interest received	771,574	135,256
Dividend income from available-for-sale financial assets	300,000	1,130,000
Advances to investee companies	(1,100,000)	(160,000)
Repayment from investee companies	253,900	11,504
Purchase of property, plant and equipment	(967)	–
Purchase of available-for-sale financial assets	–	(600,000)
	<hr/>	<hr/>
Net cash from investing activities	224,507	516,760

Harmony Asset Limited – First Quarterly Report 2008
at the requirement of Canadian Securities Law

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

	Three months	
	ended 31st March,	
	2008	2007
	(Unaudited)	(Unaudited)
	<i>HK\$</i>	<i>HK\$</i>
Financing activities		
Dividend paid	—	—
	<hr/>	<hr/>
Net cash from financing activities	224,507	516,760
	<hr/> <hr/>	<hr/> <hr/>
Net increase (decrease) in cash and cash equivalents	14,168,487	(4,011,337)
Cash and cash equivalents at 1st January	21,698,184	18,715,933
	<hr/>	<hr/>
Cash and cash equivalents at 31st March	35,866,671	14,704,596
	<hr/> <hr/>	<hr/> <hr/>
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	35,866,671	14,704,596
	<hr/> <hr/>	<hr/> <hr/>

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

Harmony Asset Limited – First Quarterly Report 2008 at the requirement of Canadian Securities Law

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, 2007. 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, 2007.

2. Turnover, other revenue and gains

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

	Three months ended 31st March,	
	2008 (Unaudited) HK\$	2007 (Unaudited) HK\$
Turnover:		
Interest income from		
– bank deposits	171,574	135,256
– loans receivable	1,266,396	598,573
Dividend income from		
– listed investments	–	–
– unlisted investments	300,000	1,130,000
	1,737,970	1,863,829
	1,737,970	1,863,829
Other revenue:		
Sundry income	230,434	256,880
	230,434	256,880
	230,434	256,880
Other gains:		
Fair value changes on financial assets		
at fair value through profit or loss	5,300,329	255,956
Net realised gain on disposal of financial assets		
at fair value through profit or loss	5,739,119	–
	11,039,448	255,956
	11,039,448	255,956
	13,007,852	2,376,665

No analysis of the Group’s turnover and contribution to operating profit for the period set out by principal activities and geographical markets is provided as the Group has only one single business segment, which is investment holding, and less than 10% of the consolidated turnover, results and assets of the Group are attributable to markets outside Hong Kong.

**Harmony Asset Limited – First Quarterly Report 2008
at the requirement of Canadian Securities Law**

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

3. Operating profit

Operating profit has been arrived at after charging the following:

	Three months ended 31st March,	
	2008 (Unaudited) HK\$	2007 (Unaudited) HK\$
Management fees	1,082,570	709,372
Pension costs – contributions to defined contribution plan	42,954	21,135
Operating lease in respect of land and buildings	<u>710,651</u>	<u>400,451</u>

4. Finance costs

Amount represents interest on bank overdraft and interest on interest-bearing borrowings.

5. Income tax expenses

Hong Kong profits tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the period.

	Three months ended 31st March,	
	2008 (Unaudited) HK\$	2007 (Unaudited) HK\$
Hong Kong profits tax	<u>874,554</u>	<u>–</u>

6. Earnings per share

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

	Three months ended 31st March,	
	2008 (Unaudited) HK\$	2007 (Unaudited) HK\$
Profit attributable to shareholders of the Company	<u>8,652,883</u>	<u>278,117</u>
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	<u>39,002,614</u>	29,220,474
Potential dilutive shares – share options	<u>167,530</u>	325,271
Weighted average number of ordinary shares for the purpose of diluted earnings per share calculation	<u>39,170,144</u>	<u>29,545,745</u>
	HK cents	HK cents
Basic earnings per share	<u>22.19</u>	0.95
Diluted earnings per share	<u>22.09</u>	0.94

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

Diluted earnings per share is calculated based on the profit attributable to shareholders, and the weighted average number of ordinary shares in issue during the period after adjusting for the number of diluted potential ordinary shares in respect of the share options granted under the Company's share option scheme.

Harmony Asset Limited – First Quarterly Report 2008
at the requirement of Canadian Securities Law

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

7. Property, plant and equipment

	As at 31st March, 2008 (Unaudited) HK\$	As at 31st December, 2007 (Audited) HK\$
Furniture and fixture	423,022	422,055
Motor vehicle	528,200	528,200
Office equipment	446,140	446,140
Leasehold improvements	1,292,429	1,292,429
	<u>2,689,791</u>	<u>2,688,824</u>
Accumulated Depreciation	<u>(2,481,294)</u>	<u>(2,475,044)</u>
Carrying amount	<u><u>208,497</u></u>	<u><u>213,780</u></u>

8. Accounts receivable and prepayments

	As at 31st March, 2008 (Unaudited) HK\$	As at 31st December, 2007 (Audited) HK\$
Accounts receivable	8,988,688	4,134,412
Loan receivable, secured	8,000,000	8,000,000
Loan receivable, unsecured	10,000,000	10,000,000
Interests receivable	5,990,557	5,324,161
Other receivables	135	135
	<u>32,979,380</u>	<u>27,458,708</u>
Deposits	796,994	796,994
Prepayments	393,476	685,269
	<u><u>34,169,850</u></u>	<u><u>28,940,971</u></u>

The loan receivable is interest-bearing.

The ageing analysis of the receivables is as follows:

	As at 31st March, 2008 (Unaudited) HK\$	As at 31st December, 2007 (Audited) HK\$
Current	30,824,775	25,541,181
Balances overdue between:		
1 – 180 days	759,076	715,997
180 – 365 days	581,749	581,603
Over 1 year but less than 2 years	716,498	522,645
Over two years	97,282	97,282
	<u>2,154,605</u>	<u>1,917,527</u>
	<u><u>32,979,380</u></u>	<u><u>27,458,708</u></u>

Harmony Asset Limited – First Quarterly Report 2008
at the requirement of Canadian Securities Law

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

9. Accounts payable

	As at 31st March, 2008 (Unaudited) HK\$	As at 31st December, 2007 (Audited) HK\$
Accruals	1,992,361	2,244,870
Unclaimed dividend payable	1,767	1,767
	<u>1,994,128</u>	<u>2,246,637</u>

The ageing analysis of the accounts payable is as follows:

	As at 31st March, 2008 (Unaudited) HK\$	As at 31st December, 2007 (Audited) HK\$
Current	1,964,941	2,217,450
Over 1 year	29,187	29,187
	<u>1,994,128</u>	<u>2,246,637</u>

10. Share capital

	Number of shares HK\$	Amount
Authorised:		
Ordinary shares of HK\$0.2 each at 1st January, 2006	500,000,000	100,000,000
Share consolidation on 14th December, 2006 (<i>Note a</i>)	(400,000,000)	–
Ordinary shares of HK\$1 each at 1st January, 2008 and 31st March, 2008	<u>100,000,000</u>	<u>100,000,000</u>
	Number of shares HK\$	Amount
Issued and fully paid:		
Ordinary shares of HK\$0.2 each at 1st January, 2006	146,102,374	29,220,475
Share consolidation on 14th December, 2006 (<i>Note a</i>)	(116,881,900)	–
Ordinary shares of HK\$1 each at 31st December, 2006 and 1st January, 2007	29,220,474	29,220,475
Issue of shares of HK\$1 each (<i>Note b & c</i>)	9,782,140	9,782,140
Ordinary shares of HK\$1 each at 1st January, 2008 and at 31st March, 2008	<u>39,002,614</u>	<u>39,002,615</u>

Harmony Asset Limited – First Quarterly Report 2008 at the requirement of Canadian Securities Law

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

10. Share capital (Continued)

Note:

- (a) Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 13th December, 2006, 5 shares (issued and unissued) of the Company of HK\$0.2 each were consolidated into 1 new share of the Company of HK\$1 each with effect on 14th December, 2006.
- (b) Pursuant to an agency agreement with a placing agent dated 31st May, 2007, the Company agreed to place through the placing agent an aggregate of 8,766,140 placing shares, to five placees, at a price of CDN\$0.70 per share. On 18th June, 2007, such placing shares were issued and fully paid.
- (c) On 22nd June, 2007, the directors and employees exercised 1,016,000 share options granted at exercise price of HK\$2.75 per share which resulted in 1,016,000 new shares issued by the Company.

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.

Harmony Asset Limited – First Quarterly Report 2008
at the requirement of Canadian Securities Law

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

11. Share Option Scheme (Continued)

The terms and conditions of the unexpired and unexercised share options at 31st March, 2008 are as follows:

	Date of grant	Exercise period	Number of options			As at 31st March, 2008	Exercise price HK\$
			As at 1st January, 2008	Granted during the period	Exercise during the period		
Director							
Lee Fong Lit David	30/4/2007	30/4/2007 – 29/4/2010	28,000	–	–	28,000	4.29
Chow Pok Yu Augustine	30/4/2007	30/4/2007 – 29/4/2010	28,000	–	–	28,000	4.29
Lam Andy Siu Wing, JP	30/4/2007	30/4/2007 – 29/4/2010	292,000	–	–	292,000	4.29
Chan Shuen Chuen Joseph	30/4/2007	30/4/2007 – 29/4/2010	28,000	–	–	28,000	4.29
Tong Kim Weng Kelly	30/4/2007	30/4/2007 – 29/4/2010	28,000	–	–	28,000	4.29
Ho Man Kai Anthony	30/4/2007	30/4/2007 – 29/4/2010	28,000	–	–	28,000	4.29
Wong Yun Kuen	30/4/2007	30/4/2007 – 29/4/2010	28,000	–	–	28,000	4.29
Sub-total			460,000	–	–	460,000	
Contracted employees in aggregate	30/4/2007	30/4/2007 – 29/4/2010	584,000	–	–	584,000	4.29
Sub-total			1,044,000	–	–	1,044,000	
Maison Placements Canada Inc	18/6/2007	18/6/2007 – 17/6/2009	290,000	–	–	290,000	6.03
Grand-total			<u>1,334,000</u>	<u>–</u>	<u>–</u>	<u>1,334,000</u>	

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

Harmony Asset Limited – First Quarterly Report 2008
at the requirement of Canadian Securities Law

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

12. Related party transactions

	Three months ended 31st March,	
	2008	2007
	(Unaudited)	(Unaudited)
	<i>HK\$</i>	<i>HK\$</i>
Management fees paid to:		
– Harmony Asset Management Limited (“HAML”)	1,082,570	709,372

The Company has entered into an investment management agreement with HAML, a company which is wholly-owned by a director of the Company, Dr. Chow Pok Yu Augustine. Under the agreement, HAML has agreed to assist the Board with the day-to-day management of the Group until 31st May, 2010. In accordance with the investment management agreement, HAML is entitled to a monthly fee calculated at 1.5% per annum on the net asset value of the Company 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). Dr. Chow Pok Yu Augustine, being a beneficial shareholder of HAML, was interested in this agreement.

13. Lease commitments

As at 31st March, 2008, the Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	As at 31st March, 2008	As at 31st December, 2007
	(Unaudited)	(Audited)
	<i>HK\$</i>	<i>HK\$</i>
Within one year	2,304,391	2,419,232
In the second to fifth years inclusive	2,197,250	2,724,590
	4,501,641	5,143,822

The Group leases an office and an incubation centre 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. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

Harmony Asset Limited – First Quarterly Report 2008 at the requirement of Canadian Securities Law

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

14. Financial risk management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(i) *Market risk*

– Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the exchange rate of HK dollar against US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

– Since HK dollar is pegged to US dollar, the directors consider that the Group's foreign exchange risk is not significant.

– Price risk

The Group is exposed to price risk of equity securities and embedded derivatives which are classified on the consolidated balance sheet either as available-for-sale financial assets or as financial assets at fair value through profit or loss. Such investments are susceptible to market price risk arising from uncertainties about their future prices. Such risk is managed through diversification of investment portfolio.

(ii) *Credit risk*

The Group has no significant concentration of credit risk. Derivative counter parties and cash transactions are limited to those debtors and borrowers considered by directors having a good credit standing. The Group has policies that limit the amount of credit exposure to any debtors and borrowers. The Group regards the maximum credit risk exposure limited to available-for-sale financial assets, financial assets at fair value through profit or loss, loans and receivables and accounts receivable.

(iii) *Liquidity risk*

Management of the Group aims to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its investment commitments.