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 Quarter Ended: September 30, 2012

Date of Report: November 14, 2012

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 Hong Kong Stock Exchange (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 in which it invests. 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.

This Management's Discussion and Analysis ("**MD&A**") includes the Financial Statements of Harmony and its wholly owned subsidiaries (together, the "**Group**").

Reporting Currency

All monetary amounts contained in this 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 period ending September 30, 2012 with comparatives:

	Three months ended September 30 (unaudited)		Nine months ended September 30 (unaudited)	
Operating Results (in HK$)	**2012**	**2011**	**2012**	**2011**
Turnover, other revenue and gains and losses	3,180,251	(18,730,600)	(1,950,108)	(30,893,877)
Net income (loss) before tax	(381,523)	(22,696,111)	(13,200,067)	(41,980,903)
Profit (loss) attributable to equity holders	(381,523)	(22,696,111)	(13,200,067)	(41,980,903)
Basic earning (loss) per ordinary share	(0.01)	(0.58)	(0.34)	(1.075)

- For the six months ended September 30, 2012, the Group maintained its debt-free status.
- The Group's core business remained focused on investment holding.
- For the nine months ended September 30, 2012, the Group recorded a turnover of HK$6,777,777 as compared to HK$8,857,410 in the same period last year, representing a decrease of 23%. Such decrease was due to less interest income and less dividend income received during the period.
- The Group incurred a loss in its turnover, other revenue and other gains and (losses) account of HK$1,950,108 for the nine months ended September 30, 2012 as compared to HK$30,893,877 in the same period in the prior year. Such change has been discussed herein under the heading "Results of Operations".
- For the nine months ended September 30, 2012, the loss before income tax was HK$13,200,067 as compared to the loss of HK$41,980,903 in the same period in the prior year. The loss attributable to owners of the Company was HK$13,200,067 as compared to loss of HK$41,980,903 in the same period in the prior year. The loss for the nine months ended September 30, 2012 was mainly due to a decrease in the fair value of the Group's trading securities.
- For the nine months ended September 30, 2012, worldwide stock markets have been adversely affected by the state of financial markets in Europe and continue to have a negative impact on the economic environment and as a result, the Group suffered a significant unrealized loss on trading securities, which loss was primarily attributable to losses relating to trading securities in the resources sector. In light of the above, the Group will carefully monitor its investments to ensure that investment is conducted in a more diversified manner.

- As at September 30, 2012 the Group had available funds of HK$31,939,989 which were mainly placed with banks as time deposits. As at September 30, 2012, the Group had no borrowing and also did not have any capital expenditure commitments. Management believes that the Group's current cash position is sufficient to meet the ongoing needs of its business.

Investments

As at September 30, 2012, the Group's unlisted investments (comprised of available-for-sale financial assets ("**AFS**") and loans and receivables) were HK$139,275,886 as compared to HK$113,706,120 as at December 31, 2011, representing a 22.5% increase. The net increase was the result of: (1) net decreases in fair value of HK$2,326,365 which was due to decrease in net asset value of some unlisted investments; (2) increase in value of the Group's AFS by reallocation of investment in an associate of HK$2,351,389, and loans to an associate of HK$4,330,498 as well as investing of HK$7,797,000 in a private investment fund; (3) subscription of three convertible bonds in an aggregate amount of HK$8,700,000; (4) increases in loans and receivables in an aggregate amount of HK$5,750,000 due from three investee companies; and (5) repayment of HK$1,032,755 to the Group from three investee companies.

As at September 30, 2012, accounts receivable and prepayments was HK$16,719,040 as compared to HK$6,414,293 as at December 31, 2011, representing a 161% increase. The net increase was the result of (1) providing financing in the aggregate amount of HK$6,400,000 to two investee companies of the Group; (2) a net increase in cash held by brokerages of HK$1,237,911; and (3) a net increase in interest receivable and prepayment of HK$666,836; and (4) payment of investment deposit of HK$2,000,000.

As at September 30, 2012, the Group held trading securities in the amount of HK$63,886,729 as compared to HK$65,365,498 as at December 31, 2011, representing a 2% decrease. The net decrease was the result of: (1) purchases of securities during the nine months ended September 30, 2012 for an aggregate amount of HK$56,036,125; (2) the sale of certain securities which had been acquired at a cost of HK$43,118,493; and (3) the net decrease in market value during the nine months ended September 30, 2012 in the amount of HK$14,396,401 of the Group's listed securities. The net decrease of HK$14,396,401 was the primary contributing factor which resulted in the overall decrease in the value of the Group's held trading securities.

Outlook

The Group remains focused on investments in energy resources, real estate developments and manufacturing in Asia and the Greater China region. The Group plans to review its current investment strategy. The recent weakness in the price performance of the trading securities, particularly those in the resources sector, has a negative impact on the Group's overall results. In view of this situation, the Group plans to carefully monitor its investments and spread its investments in a more diversified manner to minimise the risk of uncertainty of global stock markets arising from the impact of the European financial crisis.

RESULTS OF OPERATIONS

The Group's selected financial highlights for the three months and the nine months ended September 30, 2012 with comparatives are as follows:

Operating Results (all figures in HK$)	Three months ended September 30 (unaudited)		Nine months ended September 30 (unaudited)	
	2012	2011	2012	2011
Turnover (total investment income)*	3,588,886	1,984,302	6,777,777	8,857,410
Interest income	1,429,157	1,470,279	4,550,482	5,787,620
Dividends received	2,159,729	514,023	2,227,295	3,069,790
Gain on disposal of listed investments	2,291,920	1,619,435	3,949,473	5,875,464
The reconciliation was derived in the results announcement and the Q3 report.]]				
Net (loss) income before tax	**(381,523)**	**(22,696,111)**	**(13,200,067)**	**(41,980,903)**
(Loss) profit attributable to equity holders	**(381,523)**	**(22,696,111)**	**(13,200,067)**	**(41,980,903)**

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

Other income, other gains and (losses) (all figures in HK$)	Three months ended September 30 (unaudited)		Nine months ended September 30 (unaudited)	
	2012	2011	2012	2011
Other income:				
Sundry Income	4,421	203	11,566	27,402
Total other income	**4,421**	**203**	**11,566**	**27,402**
Other gains and (losses):				
Exchange gain, net	(100,273)	(125,301)	(62,739)	(50,064)
Fair value changes on financial assets at fair value through profit or loss				
- trading securities	(2,854,703)	(22,209,239)	(14,396,401)	(50,498,151)
- derivative financial instruments			–	–
Net realized gain on disposals of financial assets at fair value through profit or loss				
- trading securities	2,291,920	1,619,435	3,949,473	5,875,464
- derivative financial instruments			–	370,271
Recovery of impairment loss on accounts receivable	–	–	1,487,971	–
Recovery of impairment loss on loans and receivables	250,000	–	282,245	1,103,620
Net realized gain on disposals of AFS	–	–	–	3,420,171
Impairment loss on AFS				
- equity investments	–	–	–	–
- deposits on investments written off	–	–	–	–

Total other gains and (losses)	**(413,056)**	**(20,715,105)**	**(8,739,451)**	**(39,778,689)**
Total	**(408,635)**	**(20,714,902)**	**(8,727,885)**	**(39,751,287)**

For the three months ended September 30, 2012 versus the three months ended September 30, 2011

For the three months ended September 30, 2012, the Group received interest income in the aggregate amount of HK$1,429,157 (2011: HK$1,470,279). The interest income comprises HK$5,180 earned from bank deposits and HK$1,423,977 earned from loans receivable and convertible bonds. Dividend income generated from the listed and unlisted securities was reduced to HK$2,159,729 (2011: HK$514,023). Turnover was HK$3,588,886 as compared to HK$1,984,302 in the same period last year, representing a 81% increase.

For the three months ended September 30, 2012, the Group disposed of certain of its publicly traded securities to record a net realised gain of HK$2,291,920 (2011: HK$1,619,435). It appeared a portion of the uncertainty in the European financial markets stabilised in the third quarter of 2012, which resulted in thet Group recording an unrealised loss on trading securities for the third quarter of 2012 reduced to HK$2,854,703 as compared to the loss of HK$22,209,239 in the same period last year. Details of the unrealised loss on the trading securities are as follows:

		Three Months ended September 30, (unaudited)	
		2012	2011
Listed securities:	**Stock code**		
American Oriental Bioengineering	AOB	187,130	(908,306)
Art Textile	565	–	(744,310)
Asia Standard	129	–	(658,200)
Augyva Mining Resources Inc.	AUV	–	–
Celsion Corp	CLSN	2,163,805	(1,617,347)
Centurion Minerals Ltd	CTN	168,438	–
Century Iron Mines Corp	FER	–	(1,652,097)
CH Nonferrous	8306	–	(1,269,784)
Colt Resources Inc.	GTP	345,742	–
CQRC Bank	3618	–	(1,188,000)
EntreMed Inc.	ENMD	1,887,988	–
Eloro Resources Ltd	ELO	–	1,482,750
Esprit	330	(134,340)	–
Hang Seng Bank	11	–	(294,635)
HSBC	5	–	(174,164)
Hutchison	13	–	(1,484,878)
Kaisun Energy Group Ltd	8203	(3,246,064)	(3,562,400)
Latin Amercian Minerals	LAT	–	25,705
MBMI Resources Inc	MBR	(300,808)	(6,403,992)
Medifocus Inc	MFS	(6,335,679)	(150,290)
New Heritage	95	(483,200)	(102,770)
Neo-Neon	1868	240,000	(920,000)
New World Development	17	–	(269,229)
Otis Gold Corp	OOO	–	(374,057)
PCCW	8	–	(451,197)

Prosperity Minerals Holdings Ltd	PMHL	(492,120)	(893,320)
Real Nutri	2010	1,504,117	(274,919)
Shougang Grand	730		(20,230)
Sino-Forest Corp	TRE	–	464,124
Standard Chartered Bank	2888	–	(191,285)
Tai Shing	8103	1,080,288	–
Upbest Group	335	560,000	(120,000)
Vodone	82	–	(456,408)
		(2,854,703)	(22,209,239)

For the three months ended September 30, 2012, recovery of impairment losses on loans and receivables previously recognised was HK$250,000 (2011: nil) for the three months ended September 30, 2012.

For the three months ended September 30, 2012, the Group recorded turnover, other revenue and other gains and losses in a gain of HK$3,180,251 as compared to a loss of HK$18,730,600 in the same period last year. Turnover, other revenue and other gains and losses improved for the three months ended September 30, 2012 due to a decreased loss as compared to the same period last year. The decreased loss was due to a decrease in the unrealised loss on the trading securities for the three months ended September 30, 2012, which amounted to HK$2,854,703 as compared to the unrealised loss of HK$22,209,239 in the same period last year. The reason for decrease in unrealised loss was mainly due to the value of certain securities held by the Group as of September 30, 2012 increased from the same period in the prior year.

For the three months ended September 30, 2012, employee benefits expenses were HK$806,090 (2011: HK$740,274). Other operating expenses were HK$2,588,038 (2011: HK$3,312,106), the net decrease in other operating expenses was primarily the result of (1) legal professional fees were reduced to HK$80,137 (2011: HK$471,420); and (2) the management payments was reduced to HK$950,938 (2011: HK$1,060,049) due to decrease in the net asset value of the Group.

The loss before income tax for the three months ended September 30, 2012 was HK$381,523 as compared to HK$22,696,111 in the same period in the prior year. The loss attributable to equity holders was HK$381,523 as compared to the loss of HK$22,696,111 in the same period in the prior year. The improvement of three months result was mainly due to the reduction of unrealised loss on trading securities for the three months ended September 30, 2012

For the nine months ended September 30, 2012 versus the nine months ended September 30, 2011

For the nine months ended September 30, 2012, the Group received interest income in the aggregate amount of HK$4,550,482 as compared to HK$5,787,620 in the same period last year, representing a 21% decrease. The interest income comprises HK$161,584 earned from bank deposits and HK$4,388,898 earned from loans receivable and convertible bonds. Dividend income generated from the listed and unlisted securities was reduced to HK$2,227,295 (2011: HK$3,069,790). Such decrease was mainly due to the dividend of HK$1,500,000 received from an investee company during this period, as compared to HK$2,100,000 in dividends paid by that investee company in the same period last year. Turnover was HK$6,777,777 as compared to HK$8,857,410 in the same period last year, representing a 23% decrease.

For the nine months ended September 30, 2012, the Group disposed of certain of its publicly traded securities to obtain a net realised gain of HK$3,949,473 (2011: HK$5,875,464). It appeared the uncertainty in the European financial markets stabilised to a certain extent in the second half of 2012 and the prices of certain securities held by the Group as of September 30, 2012 were increased. The Group recorded an reduced unrealised loss on trading securities of HK$14,396,401 (2011: HK$50,498,151). Details of the unrealised loss on the trading securities are as follows:

		Nine months ended September 30 (unaudited) 2012	2011
Listed securities:	**Stock code**		
American Oriental Bioengineering Inc.	AOB	(374,250)	(908,306)
Art Textile	565	–	(887,465)
Asia Standard	129	–	(658,200)
Celsion Corp	CLSN	3,414,613	(1,617,347)
Centurion Minerals Ltd	CTN	(1,154,875)	–
Century Iron Mines Corp	FER	–	(1,665,245)
CH Nonferrous	8306	(284,430)	(1,689,897)
CQRC Bank	3618	–	(1,669,864)
EntreMed Inc.	ENMD	1,887,988	–
Eloro Resources Ltd	ELO	–	593,250
Esprit	330	(134,340)	–
Hang Seng Bank	11	–	(294,635)
HSBC	5	–	(174,164)
Hutchison	13	–	(1,484,878)
Kaisun Energy Group Ltd	8203	(10,829,933)	(9,035,802)
Latin Amercian Minerals	LAT	–	(1,975)
MBMI Resources Inc	MBR	(4,212,368)	(23,967,884)
Medifocus Inc	MFS	(820,815)	300,485
New Heritage	95	(324,218)	(102,770)
New World Development	17	–	(269,229)
Neo-Neon	1868	–	(2,863,347)
Otis Gold Corp	OOO	–	(1,224,167)
PCCW	8	–	(451,197)
Prosperity Minerals Holdings Ltd	PMHL	(1,761,752)	(1,242,672)
Real Nutri	2010	272,563	(274,919)
Shougang Grand	730		(20,230)
Standard Chartered Bank	2888	–	(191,285)
Tai Shing	8103	45,416	–
Upbest Group	335	(120,000)	(240,000)
Vodone	82	–	(456,408)
		(14,396,401)	(50,498,151)

Recovery of impairment losses on accounts receivable previously recognised was HK$1,487,971 (2011: nil). Recovery of impairment losses on loans and receivables previously recognised was HK$282,245 (2011: HK$1,103,620). Net exchange loss was HK$62,739 (2011: HK$50,064). There was no disposal of unlisted investments in this period (2011: gain of HK$3,420,171).

For the nine months ended September 30, 2012, the Group recorded turnover, other revenue and other gains and losses in a loss position of HK$1,950,108 as compared to a loss position of HK$30,893,877 in the same period last year. This improvement was due to a reduction in the unrealised loss on the trading securities for the nine months ended September 30, 2012 which was HK$14,396,401 as compared to the unrealised loss of HK$50,498,151 in the same period last year.

For the nine months ended September 30, 2012, employee benefits expenses were HK$2,391,744 (2011: HK$1,988,184). Other operating expenses were HK$8,352,761 (2011: HK$8,824,055), the net decrease was primarily due to (1) legal professional fees were reduced to HK$532,362 (2011: HK$1,005,350); and (2) the management payments was reduced to HK$2,944,352 (2011: HK$3,339,798) due to decrease in the net asset value of the Group.

Loss before income tax was HK$13,200,067 for the nine months ended September 30, 2012 as compared to the loss of HK$41,980,903 in the same period last year. The loss attributable to owners was HK$13,200,067 as compared to the loss of HK$41,980,903 in the same period last year. The loss for the nine months ended September 30, 2012 was mainly due to a loss of fair value changes on trading securities. The improvement of nine months result was mainly due to the reduction of unrealized loss on trading securities for the nine months ended September 30, 2012.

SUMMARY OF QUARTERLY RESULTS

The following table sets out a summary of the Group's quarterly results for the eight most recently completed quarters. This information has been derived from the financial statements of the Company, which have been prepared in accordance with International Financial Reporting Standards.

	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011
Net investment gains (loss)	(381,523)	(17,572,372)	4,753,828	(3,725,538)
Net income (loss) for the period	(381,523)	(17,572,372)	4,753,828	(6,064,563)
Earnings (loss) per ordinary share – basic	(0.01)	(0.45)	0.12	(0.16)
Earnings (loss) per ordinary share – diluted	(0.01)	(0.45)	0.12	(0.16)

	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010
Net investment gains (loss)	(22,696,111)	(26,382,575)	7,097,783	(3,090,353)
Net income (loss) for the period	(22,696,111)	(26,382,575)	7,097,783	(3,800,097)
Earnings (loss) per ordinary share – basic	(0.58)	(0.68)	0.18	(0.10)
Earnings (loss) per ordinary share – diluted	(0.58)	(0.68)	0.18	(0.10)

Significant variations arise in the quarterly results due to unrealized gains on investments recognized in the income statement which resulted from the Group revaluing its investments. The values 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.

CASH FLOW

The Group's selected cash flow information for the three months and the nine months ended September 30, 2012 and 2011 are as follows:

(Unaudited)	**Three months ended**		**Nine months ended**	
	September 30, 2012	**September 30, 2011**	**September 30, 2012**	**September 30, 2011**
Net cash (used in) from operating activities	11,093,826	(38,160,050)	(27,785,107)	(63,350,935)
Net cash (used in) from investing activities	(5,283,032)	1,528,392	(15,679,513)	(12,588,030)
Net cash used in financing activities	–	–	–	(5,858,792)
Net (decrease) increase in cash and cash equivalents	5,810,794	(36,631,658)	(43,464,620)	(81,797,757)
Cash and cash equivalents at July 1 and January 1	26,129,195	95,917,789	75,404,609	141,083,888
Cash and cash equivalents at September 30	31,939,989	59,286,131	31,939,989	59,286,131
Analysis of the balance of cash and cash equivalents:				
Bank balances and cash	31,939,989	59,286,131	31,939,989	59,286,131

For the three months ended September 30, 2012 versus the three months ended September 30, 2011

In the normal course of business for Harmony, 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 three months ended September 30, 2012, net cash flow of HK$11,093,826 from operations included:

- (HK$0.54) million in loss before working capital changes (a non-cash item);
- (HK$3.05) million increase in financial assets at fair value through profit or loss;
- HK$14.66 million decrease in accounts receivable and prepayments; and
- HK$0.02 million increase in accounts payable and accruals.

In contrast, for the three months ended September 30, 2011, net cash flow of HK$38,160,050 used in operations included:

- (HK$24.07) million in loss before working capital changes (a non-cash item);
- (HK$13.43) million increase in financial assets at fair value through profit or loss;
- (HK$0.79) million increase in accounts receivable and prepayments; and
- HK$0.13 million increase in accounts payable and accruals

For the three months ended September 30, 2012, net cash used in investing activities was HK$5,283,032 as compared to cash of HK$1,528,392 from investing activities in the same period in the prior year. Cash dividends of HK$1,500,000 received from the Group's a private investment (2011: nil). Interest received from bank deposits, loans and receivables and convertible bonds was HK$1,491,145 (2011: HK$2,163,832).

During the three months ended September 30, 2012, the Group invested HK$7,797,000 (2011: HK$1,393,261) in a private investment fund. Other than subscription of a convertible bond of

HK$700,000, no cash was advanced to any one of the Group's investee company for this period (2011: HK$1,992,580). The Group received repayments of loans in the amount of HK$250,000 (2011: nil) from two investee companies, which was previously recognised as impairment loss. Cash used in purchase of fixed assets was HK$27,177 (2011: HK$36,121).

For the nine months ended September 30, 2012 versus the nine months ended September 30, 2011

For the nine months ended September 30, 2012, net cash flow of HK$27,785,107 used in operations included:

- (HK$6.12) million in loss before working capital changes (a non-cash item);
- (HK$12.92) million increase in financial assets at fair value through profit or loss;
- (HK$8.05) million increase in accounts receivable and prepayments;
- (HK$0.69) million decrease in accounts payable and accruals.

In contrast, for the nine months ended September 30, 2011, net cash flow of HK$63,350,935 used in operations included:

- (HK$26.05) million in loss before working capital changes (a non-cash item);
- (HK$29.21) million increase in financial assets at fair value through profit or loss;
- (HK$3.73) million increase in accounts receivable and prepayments;
- (HK$0.43) million decrease in accounts payable and accruals; and
- (HK$3.93) million decrease in an amount due to a related company.

For the nine months ended September 30, 2012, net cash used in investing activities was HK$15,679,513 as compared to HK$12,588,030 in the same period in the prior year. The cash dividend from a private investment was HK$1,502,986 only (2011: HK$2,320,000). Interest received from bank deposits, loans and receivables and convertible bonds was HK$3,786,478 (2011: HK$6,391,173).

During the nine months ended September 30, 2012, the Group invested HK$7,797,000 (2011: HK$11,904,352) in a private investment fund. The Group made payments for the subscription of three convertible bonds in the amount of HK$8,700,000 as well as advancing cash of HK$5,750,000 to three investee companies (2011: HK$14,202,480). The Group received repayments in the amount of HK$1,315,000 (2011: HK$2,621,764) from four investee companies of which HK$282,245 was previously recognised as impairment loss. The Group did not dispose of any private investments during the nine months period ended September 30, 2012 (2011: cash proceeds of HK$3,420,171). Cash used in purchase of fixed assets was HK$36,977 (2011: HK$1,234,306).

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$31,939,989, 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.

For the nine months ended September 30, 2012, the Group had no borrowing (2011: nil). The gearing ratio for the Group was 0% (2011: 0%). The gearing ratio 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 unutilized banking facilities of HK$10,000,000 and requires no significant funding for investment and capital expenditure commitments. The interest rate charged on the banking facilities is 3% per annum over the applicable Hong Kong Interbank Offered Rate.

As of the date of this MD&A, except the commitment of the operating leases, the Group does not have any capital expenditure commitments and management is not aware of any expected fluctuations in the Group's capital resources. As at September 30, 2012, the Group had future contractual obligations including aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings in the following table:

	Payments Due by Period				
Contractual Obligations	*Total*	*Less than 1 year*	*1 - 3 years*	*4 - 5 years*	*After 5 years*
Debt	–	–	–	–	–
Finance Lease Obligations	–	–	–	–	–
Operating Leases	3,471,390	2,777,112	694,278	–	–
Purchase Obligations[1]	–	–	–	–	–
Other Obligations[2]	–	–	–	–	–
Total Contractual Obligations	3,471,390	2,777,112	694,278	–	–

The Group has sufficient funds to meet the requirement of the commitment of the operating leases. As at September 30, 2012, the Group has no other contractual obligations for which funds are required to be reserved for such purpose.

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 September 30, 2012 and December 31, 2011 are categorised as follows:

	Group	
	September 30 2012 HK$	December 31 2011 HK$
Available-for-sale financial assets	89,319,700	81,497,676
Loans and receivables		
Loans and receivables	49,956,186	32,208,444
Accounts receivable	15,902,398	5,474,251
Bank balances and cash	31,939,989	75,404,609
	97,798,573	113,087,304
Financial assets at fair value through profit or loss		
Trading securities	63,886,729	65,365,498
Derivative financial instruments	3,581,809	3,581,809
	67,468,538	68,947,307
Total financial assets	254,586,811	263,532,287
Other financial liabilities		
Accounts payable and accruals	6,131,680	6,824,488
Amount due to a related company	-	-
Total financial liabilities	6,131,680	6,824,488

As at and for the period ended September 30, 2012, the significant changes in financial instruments as compared to the statement of financial position as at December 31, 2011 consisted primarily of:

(1) The change in the Group's AFS and loans and receivables were primarily due to: (1) net decreases in fair value of of HK$2,326,365 which was due to decrease in net asset value of some unlisted investments; (2) increase in value of the Group's AFS by reallocation of investmnt in an associate of HK$2,351,389 and loans to an associate of HK$4,330,498 as well as investing of HK$7,797,000 in a private fund; (3) subscription of three convertible bonds in an aggregate amount of HK$8,700,000; (4) increases in loans and receivables in an aggregate amount of HK$5,750,000 due from three investee companies; and (5) repayment of HK$1,032,755 to the Group from three investee companies.

(2) The movement in the Group's accounts receivable was primarily due to: (1) providing financing in the aggregate amount of HK$6,400,000 to two investee companies of the Group; (2) a net increase in cash held by the security firms of HK$1,237,911; and (3) a net increase in interest receivable and other receivables of HK$790,236; and (4) payment of investment deposit of HK$2,000,000.

(3) During the period, the Group had the following major trading transactions: (1) purchases of securities during the nine months ended September 30, 2012 for an aggregate amount of HK$56,036,125; (2) the sale of certain securities which had been acquired at a cost of HK$43,118,493; and (3) the net decrease in market value during the nine months ended September 30, 2012 in the amount of HK$14,396,401 of the Group's listed securities.

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 have been disclosed in notes (4)(e) and 29(b) of the audited financial statements of the Group for the year ended December 31, 2011.

OFF-BALANCE SHEET ARRANGEMENTS

As of the date of this MD&A, there are no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

In 2007, the Company entered into an investment management agreement with Harmony Asset Management Limited ("**HAML**"), a company which is wholly-owned by a director of the Company, Dr. Chow Pok Yu Augustine. Under the investment management agreement together with a supplemental agreement entered into between the Company and HAML on May 17, 2007 (the "**Original Investment Management Agreement**"). HAML agreed to assist the Board with the day-to-day management of the Group for three years until May 31, 2010.

On April 8, 2010, the Company entered into a new investment management agreement (the "**New Investment Management Agreement**") with HAML as detailed in the information circular of the Company dated April 29, 2010, whereby HAML has agreed to provide its management services for an additional three years until May 31, 2013. In accordance with the New Investment Management Agreement, HAML is entitled to a monthly management fee calculated at 1.5% per annum on the net asset value of the Group for the preceding month and an incentive fee calculated at 10% of the audited net profit of the financial year (before accrual of the incentive fee) subject to an aggregate cap of HK$18,391,986 for the year ended December 31, 2012.

Dr. Chow Pok Yu Augustine, being a beneficial shareholder of HAML, had an interest in the Original Investment Management Agreement and the New Investment Management Agreement during the nine months ended September 30, 2012 and 2011. The management fees paid to HAML are as follows:

	2012 HK$	2011 HK$
Management fees	2,944,352	3,339,798

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 November 14, 2012, the number of ordinary shares of the Company outstanding is as follows:

Ordinary Shares	Number
Outstanding	39,058,614
Total diluted ordinary shares	**39,058,614**

As of November 14, 2012, there are no options outstanding.

PRINCIPAL ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES:

Effective January 1, 2012, the Group adopted the following new or revised International Financial Reporting Standards ("**IFRSs**"):

Amendments to IAS 12	Deferred Tax: Recovery of Underlying Assets
Amendments to IFRS 7	Disclosures – Transfers of Financial Assets

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 IFRS that have been issued but are not yet effective.

1. Basis of preparation

This MD&A should be read in conjunction with the unaudited financial statements for the interim period ended September 30, 2012 and the audited financial statements of the Company for the financial year ended December 31, 2011 and December 31, 2010 (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 basis, 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.

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

2. Significant accounting polices

Summary of significant accounting policies are set out in the note 4 to the financial statements of the Company for the year ended December 31, 2011.

3. 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 estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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 or discounted cash flows:*

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

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Canadian Securities Administrators have published National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings* (**"National Instrument 52-109"**) 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 September 30, 2012, 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 in use at the Company were effective as of September 30, 2012.

INTERNAL CONTROL OVER FINANCIAL REPORTING

National Instrument 52-109 also requires public companies in Canada to submit an interim 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 as at September 30, 2012. 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 in place at the Company was effective as of September 30, 2012. The Company has continued to use the basic framework 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, ICFR 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 September 30, 2012 that materially affected or are reasonably likely to materially affect the Company's ICFR.

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, 2011 (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. *(a) 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.

(b) Lack of formal purchase agreements and/or shareholder/subscription agreements

The Company does not have formal purchase agreements and/or shareholder/subscription agreements in place for some of its investments in privately held companies. As at September 30, 2012, a total carrying value of all these investments is approximately HK$35.7 million, which is 14% of the net asset value of the Group. It is not entirely abnormal for the Company to make investments in privately held companies in the absence of formal purchase agreements and/or shareholder/subscription agreements. As mentioned in the preceding paragraph, due diligence process was undertaken by the Company in connection with its investments through internal resources or by hiring external consultancy and/or professional advisors and most of the investments in privately held companies made by the Company took the form of share equities. Under the laws of the jurisdictions of these privately held companies, the certificates specifying the shares held by the Company are prima facie evidence of the title of the Company to those share equities and the Board considers the risk of the Company having title to its investments challenged due to lack of formal purchase agreements and/or shareholder/subscription agreements is low.

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 the Company. 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 Note 29 of the Notes to the audited financial statements of the Company for the year ended December 31, 2011 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 HKEX 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, 2011. The Annual Report includes the audited consolidated financial statements as at December 31, 2011, 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.