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: March 31, 2008

Date of Report: May 15, 2008

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 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 are subject to risks and uncertainties and other factors that may cause Harmony's results to differ materially from expectations. Actual results may differ materially from those expressed or implied by such forward-looking statements. When reviewing the Company's forward-looking statements, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. These include risks relating to market fluctuations, investee performance, foreign exchange fluctuations and other risks. The

* *For identification purpose only*

forward-looking statements contained in this MD&A speak only as of the date hereof. Unless otherwise required by applicable securities laws, the Company disclaims any intention or obligation to update the forward-looking statements and cautions investors from placing undue reliance on forward-looking statements. The Company has an ongoing obligation to disclose material information as it becomes available.

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 years ended December 31, 2007 and 2006 (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, the Rules Governing the Listing of Securities on the Stock Exchange (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 summary of all significant accounting policies, refer to note 4 to the 2007 Financial Statements.

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 recognised on the balance sheet 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 recognised immediately in the income statement.

3. Fair value

The Group considers that all of the financial instruments are carried at amounts not materially different from their fair values.

(a) Publicly traded investments:

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. 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 these investments based on either their net asset value or recent transaction prices. The carrying amounts of these privately held investments may be materially different from their fair values as estimated by more complex valuation techniques.

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 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 either regulation or convention in the marketplace.

5. Revenue recognition

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

Dividend income is recognised 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 recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised 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:

(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 recognised as unrealised 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 recognised in the fair value reserve account.

CHANGE OF FINANCIAL REPORTING STANDARDS

Harmony's consolidated financial statements for the financial years prior to December 31, 2006 were prepared in accordance with Hong Kong Financial Reporting Standards. During the financial year ended December 31, 2006, the Company decided to prepare its consolidated financial statements in accordance with IFRS and convert the comparative financial information for the financial year ended December 31, 2005 to accord with IFRS. The Company has decided to adopt IFRS because it plans to expand its shareholder base internationally. The Company believes that the adoption of the internationally recognised accounting standards allows its financial statements to be better understood by the international capital markets, analysts and investors.

OVERALL PERFORMANCE AND SIGNIFICANT EVENTS

1. Overview

Financial Highlights for the period ending March 31, 2008 with comparatives:

	Three months ended March 31, (unaudited)	
Operating Results (in HK$)	**2008**	**2007**
Turnover, other revenue and gains	13,007,852	2,376,665
Net gains income before tax	9,527,437	278,117
Profit attributable to shareholders	8,652,883	278,117
Basic earning per share	0.22	0.01

- For the three month ended March 31, 2008, the profit before income tax was HK$9,527,437 as compared to HK$278,117 in the same period last year, representing a 3,326% increase. The profit attributable to shareholders (equivalent to net profit after tax) was HK$8,652,883 as compared to HK$278,117 in the same period last year, representing a 3,011% increase.

- The Group has increased its net assets by 3% (approximately HK$8.7 million).

- The Group maintained its debt-free status.

2. Investments

As at March 31, 2008, the Group disposed of certain publicly traded securities with the aggregate value of HK$22,249,500, resulting in a net realised gain of HK$5,739,119. The Group also recorded an unrealised gain of HK$5,300,329 on fair value changes on the publicly traded securities.

As at March 31, 2008, the Group's the unlisted investments, which comprise available-for-sale financial assets and loans and receivables, amounted to HK$118,265,275 as compared to HK$117,419,175 as at December 31, 2007, representing a 1% increase.

As at March 31, 2008, the accounts receivable and prepayments was HK$34,169,850 as compared to HK$28,940,971 as at December 31, 2007, representing a 18% increase, which comprise the payment of HK$3.3 million to a new project of property development in Nannin, Guangxi province of PRC, further investment of HK$0.9 million in a new Japanese restaurant and other prepayment of HK$0.8 million.

3. Outlook

The core business of the Group for the financial year ending December 31, 2008 remains in investment with an emphasis on undervalued, high-quality private companies in China. The Company will continue to focus on investing in resources, technology-enabled manufacturing and food and retail, the three business sectors expected to demonstrate continuous strong growth and capital appreciation. With the impact of the sub-prime debacle, Harmony sees increasing investment opportunities in China.

SELECTED ANNUAL INFORMATION

The Group's selected annual information for the three most recently completed financial years as at and for the years ended December 31, 2007, 2006 and 2005 is as follows:

All figures in HK$	2007	2006	2005
Net investment gains (operating profit)	$61,989,732	$10,940,772	$22,200,477
Income (total revenue and other gains and losses)	$80,048,650	$23,594,093	$32,755,500
Net income for the year (profit attributable to shareholders)	$50,907,356	$10,685,282	$21,561,356
Earnings per share – basic	$1.48	$0.37	$0.76
Earnings per share – diluted	$1.46	$0.36	N/A
Total assets	$300,342,663	$197,995,480	$179,107,866
Total liabilities	$12,295,568	$7,550,961	$9,448,460
Shareholder's equity	$288,047,095	$190,444,519	$169,659,406
Cash dividends declared per-share	$0.17	$0.15	$0.15

Variation in the annual results is mainly caused by changes in the market values of the publicly traded investments held by Harmony, which are recognised in income statements. Positive valuations have resulted from the increases in the Chinese and Hong Kong markets in two of the last three financial years.

RESULTS OF OPERATIONS

The Group's selected financial highlights for the three months ended March 31, 2008 and year ended December 31, 2007 with comparatives are as follows:

Operating Results (all figures in HK$)	Three months ended March 31, (unaudited)		Year ended December 31, (audited)	
	2008	2007	2007	2006
Turnover (total investment income)*	1,737,970	1,863,829	5,084,365	5,095,847
Interest income	1,437,970	733,829	3,722,822	4,144,939
Dividends received	300,000	1,130,000	1,361,543	950,908
Gain on disposal of listed investments	5,739,119	–	4,929,798	3,403,625
Net gains income before tax	**9,527,437**	**278,117**	**61,986,119**	**10,799,748**
Profit attributable to shareholders	**8,652,883**	**278,117**	**50,907,356**	**10,685,282**

* 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 March 31, (unaudited) 2008	2007	Year ended December 31, (audited) 2007	2006
Other income:				
Consultancy fee	–	–	–	5,000,000
Sundry Income	230,434	256,880	879,909	1,780,109
Total other income	**230,434**	**256,880**	**879,909**	**6,780,109**
Other gains and (losses):				
Exchange gain, net	–	–	2,434,795	4,408
Fair value changes on financial assets at fair value through profit and loss	5,300,329	255,956	75,431,756	9,522,128
Net realised gain on disposal of financial assets at fair value through profit and loss	5,739,119	–	4,929,798	3,403,625
Reversal of impairment loss/(net losses) upon disposal of available-for-sale financial assets	–	–	800,000	(377,470)
Reversal of impairment loss on accounts receivable	–	–	–	8,300,000
Impairment loss on loans and receivables	–	–	(8,973,727)	(228,654)
Impairment loss on available-for-sale financial assets	–	–	(288,246)	(5,980,000)
Deposits on investments written off	–	–	(250,000)	(2,925,900)
Total other gains and (losses)	**11,039,448**	**255,956**	**74,084,376**	**11,718,137**
Total	**11,269,882**	**512,836**	**74,964,285**	**18,498,246**

For the three months ended March 31, 2008, the Group received interest income in the aggregate amount of HK$1,437,970 as compared to HK$733,829 in the same period last year, representing a 96% increase. Dividend income generated from the unlisted securities was HK$300,000 as compared to HK$1,130,000 in the same period last year, representing a 73% decrease. Turnover, or interest and dividend income, for the year was HK$1,737,970 as compared to HK$1,863,829 in the same period last year, representing a 7% decrease. Net realised gain on disposal of listed securities generated HK$5,739,119 (2007: Nil). The fair value gain on the listed securities reached HK$5,300,329 as compared to HK$255,956 in the same period last year, representing a 1,971% increase. The Group recorded turnover, other revenue and other gains and losses of HK$13,007,852 as compared to HK$2,376,665 in the same period last year, representing a 447% increase.

For the three months ended March 31, 2008, the profit before income tax was HK$9,527,437 as compared to HK$278,117 in the same period last year, representing a 3,326% increase. The profit attributable to shareholders was HK$8,652,883 as compared to HK$278,117 in the same period lasts year, representing a 3,011% increase.

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			
	March 31, 2008	**December 31, 2007**	**September 30, 2007**	**June 30, 2007**
Net investment gains (loss)	$9,527,437	$51,491,119	($15,167,700)	$25,384,582
Net income (loss) for the period	$8,652,883	$40,718,287	($12,227,118)	$22,138,069
Earnings (loss) per ordinary share – basic	$0.22	$1.04	($0.31)	$0.74
Earnings per ordinary share – diluted	$0.22	$1.04	($0.31)	$0.74
	March 31, 2007	**December 31, 2006**	**September 30, 2006**	**June 30, 2006**
Net investment gains (loss)	278,117	($4,540,614)	$5,340,508	$5,325,902
Net income (loss) for the period	278,117	($4,655,080)	$5,340,508	$5,325,902
Earnings (loss) per ordinary share – basic	$0.01	($0.16)	$0.18	$0.18
Earnings per ordinary share – diluted	$0.01	($0.16)	$0.18	$0.18

Significant variations arise in the quarterly results due to unrealised gains/losses on investments recognised in income statement which result from the Company 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.

FIRST QUARTER RESULTS

For the three months ended March 31, 2008, the Group received interest income in the aggregate amount of HK$1,437,970 as compared to HK$733,829 in the same period last year, representing a 96% increase. Dividend income generated from the unlisted securities was HK$300,000 as compared to HK$1,130,000 in the same period last year, representing a 73% decrease. Turnover, or interest and dividend income, for the year was HK$1,737,970 as compared to HK$1,863,829 in the same period last year, representing a 7% decrease. Net realised gain on disposal of listed securities generated HK$5,739,119 (2007: Nil). The fair value gain on the listed securities reached HK$5,300,329 as compared to HK$255,956 in the same period last year, representing a 1,971% increase. The Group recorded turnover, other revenue and other gains and losses of HK$13,007,852 as compared to HK$2,376,665 in the same period last year, representing a 447% increase.

For the three months ended March 31, 2008, the profit before income tax was HK$9,527,437 as compared to HK$278,117 in the same period last year, representing a 3,326% increase. The profit attributable to shareholders was HK$8,652,883 as compared to HK$278,117 in the same period lasts year, representing a 3,011% increase.

For the three months ended March 31, 2008, there were no significant changes in the Group's operations as compared to the same period in 2007. The major sources of income were bank deposits, interest on loan receivables, dividends from investments held, fair value gain and gain on disposal of publicly traded investments. The change in fair value of publicly traded investments had a significant impact on the total gains and revenue of the Group as compared to the same period in 2007.

As at March 31, 2008, the accounts receivable and prepayments was HK$34,169,850 as compared to HK$28,940,971 as at December 31, 2007, representing a 18% increase, which comprise the payment of HK$3.3 million to a new project of property development in Nannin, Guangxi province of PRC, further investment of HK$0.9 million in a new Japanese restaurant and other prepayment of HK$0.8 million.

For the three months ended March 31, 2008, the other operating expenses was HK$2,863,582 as compared to HK$1,577,818 for the same period last year, representing a 81% increase. The operating lease expense in respect of land and buildings was HK$710,651 as compared to HK$400,451 for the same period last year, representing a 77% increase. The payment of investment management fees was HK$1,082,570 as compared to HK$709,372 for the same period last year, representing a 53% increase.

LIQUIDITY

The Group's selected cash flow information for the financial years and three-month periods ended March 31, 2008 and 2007 are as follows:

(Unaudited: reviewed by management)	**Three months ended**		**Year ended**	
	March 31, 2008	**March 31, 2007**	**December 31, 2007**	**December 31, 2006**
Net cash (used in) from operating activities	$13,943,980	($4,528,097)	($33,964,587)	$32,067,381
Net cash (used in) from investing activities	$224,507	$516,760	($1,257,595)	($6,581,425)
Net cash from (used in) financing activities	–	–	$38,204,433	($11,881,113)
Net increase (decrease) in cash and cash equivalents	$14,168,487	($4,011,337)	$2,982,251	$13,604,843
Cash and cash equivalents at January 1	$21,698,184	$18,715,933	$18,715,933	$5,111,090
Cash and cash equivalents at March 31 and December 31	$35,866,671	$14,704,596	$21,698,184	$18,715,933
Analysis of the balance of cash and cash equivalents:				
Bank balances and cash	$35,866,671	$14,704,596	$21,698,184	$18,715,9331

1. Cash flow for the three months year ended March 31, 2008

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 March 31, 2008, net cash flow generated from operations of HK$13,943,980 included:

- HK$2.5 million in profit before working capital changes (a non-cash item),
- HK$16.4 million in share disposal of publicly traded companies,
- (HK$4.6) million increase in accounts receivable and prepayments,
- (HK$0.25) million decrease in accounts payable and accruals and
- (HK$0.17) million in income taxes paid.

In contrast, for the three months ended March 31, 2007, net cash used in operations of HK$4,528,097 included:

- (HK$1.8) million in loss before working capital changes (a non-cash item),
- (HK$1.8) million increase in accounts receivable and prepayments, and
- (HK$0.9) million in decrease in accounts payable and accruals.

For the three months ended March 31, 2008, net cash from investing activities was HK$224,507 as compared to HK$516,760 in the same period last year. The Group received cash dividends from private investments in the aggregate amount of HK$300,000 as compared to HK$1,130,000 in the same period last year. Cash advanced to investee companies was (HK$1,100,000) as compared to (HK$160,000) in the same period last year. Repayment from investee companies was HK$253,900 as compared to HK$11,504 in the same period last year. There is no increase in available-for-sale of financial assets as compared to (HK$600,000) in the same period last year. The Group purchased fixed assets of (HK$967) in 2008 (2007: nil). Interest received by the Group was an aggregate amount of HK$771,574 in 2008 as compared to HK$135,256 in the same period last year.

2. 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's contractual obligations are as follows:

- Office lease in connection with the premises located at Room 1101, St. George's Building, 2 Ice House Street, Central, Hong Kong for a term of 3 years fixed with an annual rental payment of HK$2,109,360;

- Consulting and management fees payable to Harmony Asset Management Limited consisting of 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 calculated at 10% of the audited net profit of a financial year (before accrual of the incentive fee). For more information regarding this contractual obligation, please refer to the Transaction with Related Parties section of this MD&A.

As at March 31, 2008, the Group had cash and cash equivalents in the amount of HK$35,866,671, which were mainly placed with banks as time deposits, as compared to HK$21,698,184 as at December 31, 2007. Bank balances and cash held by the Group are mainly denominated in Hong Kong dollars and Canadian dollars.

The Group had shareholders' equity (including share capital and reserves) in the amount of HK$296,699,978 on March 31, 2008 as compared to HK$288,047,095 on December 31, 2007.

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.

On May 31, 2007, the Company completed a private placement in Canada in which 8,766,140 ordinary shares in the capital of the Company (representing approximately 30% of the Company's existing share capital at the time) were issued at C$0.70 per share with gross aggregate proceeds of C$6,136,298 (HK$44,794,976). The net proceeds of approximately HK$39,793,695 were used to invest in publicly traded and private securities with earnings growth and capital appreciation potential in accordance with the Company's investment policy.

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.

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2007, 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 agrees 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$3,427,995 and HK$1,424,700, respectively for the year ended December 31, 2007.

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

1. Authorised and issued capital

	No. of shares	Amount
Authorised capital:		
ordinary/common shares of $1 each (*)	100,000,000	HK$100,000,000
Balance, December 31, 2005		
Issued share capital (*)	29,220,474	HK$29,220,475
Balance, December 31, 2006		
Issued share capital	29,220,474	HK$29,220,475
Balance, December 31, 2007		
Issued share capital	39,002,614	HK$39,002,615

On May 31, 2007, the Company completed a private placement in Canada in which 8,766,140 ordinary shares in the capital of the Company (representing approximately 30% of the Company's existing share capital at the time) were issued at CDN$0.70 per share with a gross aggregate proceed of CDN$6,136,298 (HK$44,794,976).

On June 22, 2007, 1,016,000 share options were exercised by the directors and employees which resulted in the issuance of 1,016,000 ordinary shares by the Company at HK$2.75 per share. The Company received HK$2,794,000 from this share issuance.

The Company did not redeem any of its shares during the financial year ended December 31, 2007. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

* Authorised capital has been adjusted for the 5-for-1 share consolidation which took place on December 14, 2006.

2. **Share options granted**

Date granted	No. of options	Exercised price
January 17, 2006	1,016,000	$2.75
April 30, 2007	1,044,000	$4.29
June 18, 2007	290,000	$6.03

On June 22, 2007, 1,016,000 share options granted on January 17, 2006 were exercised by the directors and employees which resulted in the Company's issuance of 1,016,000 new ordinary shares at HK$2.75 per share. The Company received HK$2,794,000 from this share issuance.

The fair values of 1,044,000 and 290,000 share options granted on April 30, 2007 and June 18, 2007 respectively as evaluated by an independent appraiser, were HK$762,000 and HK$245,000 respectively as at their respective date of grant.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's Chairman and Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

As at the end of the period covered by this MD&A, management of the Company, with the participation of the Chairman and Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, the Chairman and Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this MD&A, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the Company, including the Chairman and Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

During the financial year ended December 31, 2007, there were no changes 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 elsewhere in this Annual Information Form. 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*

   The majority of the Group 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 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 note 27 of the Notes to the Company's 2007 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 Annual Report for the financial year ended December 31, 2007, which includes the audited consolidated financial statements as at December 31, 2007, 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.