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'S DISCUSSION AND ANALYSIS PREPARED IN ACCORDANCE WITH CANADIAN SECURITIES LAW

For the Quarter Ended: March 31, 2010

Date of Report: May 14, 2010

Nature of the Business

Harmony Asset Limited (**"Harmony"** or the **"Company"**) was incorporated in the Cayman Islands on September 28, 1993. The Company's ordinary shares are dual listed on the 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 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.

OVERALL PERFORMANCE AND SIGNIFICANT EVENTS

1. Overview

Financial Highlights for the period ended March 31, 2010 with comparatives:

	Three months ended March 31 (unaudited)	
Operating Results (in HK$)	**2010**	**2009**
Turnover, other revenue and other gains	**27,407,068**	8,936,098
Net income before tax	**24,617,762**	6,568,024
Profit attributable to shareholders	**24,872,447**	7,426,024
Basic earnings per ordinary share	**0.64**	0.19

- For the three months ended March 31, 2010, the profit before income tax was HK$24,617,762 as compared to HK$6,568,024 in the same period in the prior year, representing a 275% increase. The profit attributable to shareholders (equivalent to net profit after tax) was HK$24,872,447 as compared to HK$7,426,024 in the same period in the prior year, representing a 235% increase.

- The Group's net asset value was HK$307,785,222 as at March 31, 2010 as compared to HK$277,500,594 as at December 31, 2009, representing an 11% increase.

- The Group maintained its debt-free status.

2. Investments

- For the period ended March 31, 2010, due to appreciation in value of the Group investments in listed securities, particularly in Hong Kong and overseas stock markets, the Group disposed of certain of its publicly traded securities to obtain a realised gain of HK$6,774,166 (2009: nil). Gain on fair value changes on trading securities was HK$16,524,160 for the three months ended March 31, 2010 as compared to HK$13,736,179 in the same period in the prior year, representing 20% increase. For the three months ended March 31, 2010, the Group recorded a turnover of HK$4,163,642 as compared HK$3,246,795 in the same period in the prior year, representing a 28% increase. Total revenue was HK$27,407,068 for the three months ended March 31, 2010 as compared to HK$8,936,098 in the same period in the prior year, representing a 207% increase. Detailed information with respect to the changes in turnover, other income and other gains and (losses) is disclosed below with comparative figures to the same period in the prior year:

Turnover, other revenue, other gains and losses	**Three months ended March 31,**	
(All figures in HK$)	**2010**	**2009**
Turnover:		
Interest income from		
- bank interest	**33,363**	6,795
- loans receivable	**341,207**	240,000
Dividend income from		
- unlisted investments	**3,789,072**	3,000,000
	4,163,642	3,246,795
Other income		
Sundry income	**30,001**	67,119
	30,001	67,119
Other gains and (losses)		
Exchange (loss) gain	**(84,901)**	3,387
Fair value changes on financial assets at fair value through profit or loss	**16,524,160**	13,736,179
Net realised gain on disposal of trading securities	**6,774,166**	-
Impairment loss on loans and receivable	**-**	(7,610,238)
Impairment loss on available-for-sale financial assets		
- deposits on investment written off	**-**	(507,144)
	23,213,425	5,622,184
	27,407,068	8,936,098

The increases in fair value changes on financial assets at fair value through profit or loss for the three months ended March 31, 2010 as compared to the same period in the prior year was due to the increase in market price of some listed securities when compared to the same period in the prior year.

- As at March 31, 2010, the Group's unlisted investments (comprised of available-for-sale financial assets ("**AFS**") and loans and receivables) were HK$122,691,103 as compared to HK$117,168,628 as at December 31, 2009, representing a 4.71% increase. Such increase was the net result of: (1) increases in the fair value of the Group's AFS by HK$5,412,181; (2) the granting of a loan in the amount of HK$500,000 to an investee company; and (3) a payment of HK$389,706 received from an investee company.

  As at March 31, 2010, accounts receivable and prepayments was HK$30,529,534 as compared to HK$17,810,465 as at December 31, 2009, representing a 71% increase. Such increase was primarily due to: (1) the Group recording a receivable of HK$8,259,281 as a result of the disposal of certain trading securities; (2) participation in the amount of HK$20,000,000 in a new financing project; and (3) the repayment of accounts receivable in the amount of HK$15,000,000 together with accrued interest of HK$792,808, which was brought forward from the year ended December 31, 2009.

  As at March 31, 2010, the Group held trading securities in the amount of HK$75,407,706 as compared to HK$44,930,302 as at December 31, 2009, representing a 68% increase. The increase was primarily due to: (1) purchases of securities during the three months ended March 31, 2010 for an aggregate amount of HK$29,500,640; and (2) the increase in market value in the amount of HK$16,524,160 of certain of the Group's securities and the disposal of certain securities which had a cost of HK$15,547,396. The value of derivative financial instruments was reduced to HK$18,137,014 as compared to HK$21,322,735 as at December 31, 2009 as a result of the Group paying HK$7,384,200 to exercise warrants to acquire 2,000,000 common shares of a company listed on the TSX Venture Exchange.

3. Outlook

The core business of the Group for the three months ended March 31, 2010 remains in investment with an emphasis on undervalued, high-quality private companies. The Company will continue to focus on its core investment pursuits in the fields of resources and real estate development in Asia and the greater China region as these two business sectors are expected to demonstrate continuous strong growth and capital appreciation.

Results of Operations

The Group's selected financial highlights for the three months ended March 31, 2010 and year ended December 31, 2009 with comparatives are as follows:

Operating Results (all figures in HK$)	Three months ended March 31, (unaudited)		Year ended December 31, (audited)	
	2010	2009	**2009**	2008
Turnover (total investment income)*	**4,163,642**	3,246,795	**6,089,942**	12,916,300
Interest income	**374,570**	246,795	**1,314,810**	4,391,728
Dividends received	**3,789,072**	3,000,000	**4,775,132**	8,524,572
Gain (loss) on disposal of listed investments	-	-	**110,724,365**	5,839,602
Net income (loss) before tax	**24,617,762**	6,568,024	**99,507,864**	(93,662,234)
Profit (loss) attributable to shareholders	**24,872,447**	7,426,024	**84,954,963**	(88,590,514)

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

Other revenue, other (losses) and gains (all figures in HK$)	Three months ended March 31, (unaudited)		Year ended December 31, (audited)	
	2010	2009	**2009**	2008
Other revenue:				
Sundry Income	**30,001**	67,119	**273,134**	599,451
Total other revenue	**30,001**	67,119	**273,134**	599,451
Other gains and (losses):				
Exchange gain (loss), net	**(84,901)**	3,387	**546,674**	(1,610,946)
Fair value changes on financial assets at fair value through profit or loss	**16,524,160**	13,736,179	**27,070,318**	(44,044,129)
Net realized gain on disposal of financial assets at fair value through profit or loss	**6,774,166**	-	**110,724,365**	5,839,602
Net unrealized gain on disposal of available-for-sale financial assets	-	-	**222,002**	-

Gain on disposal of property, plant and equipment	-	-	**10,000**	-
Gain on disposal of an associate	-	-	**100,000**	-
Recovery of impairment loss on loans and receivables previous recognised	-	-	**54,000**	-
Recovery of impairment loss on accounts and receivable previous recognised	-	-	**8,000,000**	-
Impairment loss on accounts receivables	-	-	**(18,807,483)**	(4,703,792)
Impairment loss on loans and receivables	-	(7,610,238)	**(14,729,472)**	(38,219,864)
Impairment loss on available-for-sale financial assets				
-equity investments written off	-	-	-	(5,399,014)
-deposits on investments written off	-	(507,144)	**(600,000)**	(200,000)
Total other gains and (losses)	**23,213,425**	5,622,184	**112,590,404**	(88,338,143)
Total	**23,243,426**	5,689,303	**112,863,538**	(87,738,692)

For the three months ended March 31, 2010, the Group received interest income in the aggregate amount of HK$374,570 as compared to HK$246,795 in the same period in the prior year, representing a 52% increase. Dividend income generated from unlisted securities was HK$3,789,072 for the three months ended March 31, 2010 as compared to HK$3,000,000 in the same period in the prior year, representing a 26% increase. Turnover was HK$4,163,642 for the three months ended March 31, 2010 as compared to HK$3,246,795 in the same period in the prior year, representing a 28% increase. Gain on the fair value changes on the listed securities was HK$16,524,160 as compared to HK$13,736,179 in the same period in the prior year, representing a 20% increase. The Group disposed of certain of its publicly traded securities to obtain a realised gain of HK$6,774,166 (2009: nil). The Group recorded turnover, other revenue and other gains and losses of HK$27,407,068 for the three months ended March 31, 2010 as compared to HK$8,936,098 in the same period in the prior year, representing a 207% increase. The profit before income tax was HK$24,617,762 for the three months ended March 31, 2010 as compared to HK$6,568,024 in the same period in the prior year, representing a 275% increase. The profit attributable to shareholders was HK$24,872,447 for the three months ended March 31, 2010 as compared to HK$7,426,024 in the same period in the prior year, representing a 235% increase.

Summary of Quarterly Results

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

Other revenue, other (losses) and gains (all figures in HK$)	**Unaudited Financial Information for the Quarter ended**			
	March 31, 2010	**December 31, 2009**	**September 30, 2009**	**June 30, 2009**
Net investment gains (loss)	24,617,762	6,888,156	(16,888,067)	102,939,751
Net income (loss) for the period	27,872,447	7,442,150	(15,816,991)	85,903,780
Earnings (loss) per ordinary share – basic	0.64	0.19	(0.41)	2.20
Earnings per ordinary share – diluted	N/A	0.19	(0.41)	2.20
	March 31, 2009	**December 31, 2008**	**September 30, 2008**	**June 30, 2008**
Net investment gains (loss)	6,568,024	(73,308,517)	(37,661,963)	7,780,809

Net income (loss) for the period	7,426,024	(69,342,143)	(34,243,991)	6,342,737
Earnings (loss) per ordinary share – basic	0.19	(1.78)	(0.88)	0.16
Earnings per ordinary share – diluted	0.19	N/A	N/A	0.16

Significant variations arise in the quarterly results due to unrealised gains/losses on investments recognised in the income statement which resulted 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, 2010, the Group received interest income in the aggregate amount of HK$374,570 as compared to HK$246,795 in the same period in the prior year, representing a 52% increase. Dividend income generated from the unlisted securities was HK$3,789,072 as compared to HK$3,000,000 in the same period in the prior year, representing a 26% increase. The turnover was HK$4,163,642 as compared to HK$3,246,795 in the same period in the prior year, representing a 28% increase. Gain on the fair value changes on the listed securities was HK$16,524,160 as compared to HK$13,736,179 in the same period in the prior year, representing a 20% increase. The Group disposed of certain of its publicly traded securities to obtain a realised gain of HK$6,774,166 (2009: nil). The Group recorded turnover, other revenue and other gains and losses of HK$27,407,068 as compared to HK$8,936,098 in the same period in the prior year, representing a 207% increase.

For the three months ended March 31, 2010, the profit before income tax was HK$24,617,762 as compared to HK$6,568,024 in the same period in the prior year, representing a 275% increase. For the three months ended March 31, 2010, the profit attributable to shareholders was HK$24,872,447 as compared to HK$7,426,024 in the same period in the prior year, representing a 235% increase.

For the three months ended March 31, 2010, there were no significant changes in the Group's operations as compared to the same period in the prior year. The major sources of income were bank deposits, interest on 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 the prior year.

As at March 31, 2010, the Group's unlisted investments (comprised of AFS and loans and receivables) was HK$122,691,103 as compared to HK$117,168,628 as at December 31, 2009, representing a 4.71% increase. Such increase was the net result of: (1) increases in the fair value of the Group's AFS by HK$5,412,181; (2) the granting of a loan in the amount of HK$500,000 to an investee company; and (3) a payment of HK$389,706 received from an investee company.

As at March 31, 2010, accounts receivable and prepayments was HK$30,529,534 as compared to HK$17,810,465 as at December 31, 2009, representing a 71% increase. Such increase was primarily due to: (1) the Group recording a receivable in the amount of HK$8,259,281 as a result of the disposal of certain trading securities; (2) participation in the amount of HK$20,000,000 in a new financing project; and (3) the repayment of accounts receivable in the amount of HK$15,000,000 together with accrued interest of HK$792,808, which was brought forward from the year ended December 31, 2009.

As at March 31, 2010, the value of trading securities increased to HK$75,407,706 from HK$44,930,302 as at December 31, 2009 primarily due to: (1) unrealized gains totalling HK$16,524,160 as a result of changes in the fair value of the Group's trading securities; (2) purchases of securities for HK$29,500,640 and (3) the disposal of certain securities with a cost of HK$15,547,396. As at March 31, 2010, the value of certain derivative financial instruments decreased from HK$21,322,735 to HK$18,137,014 due to the exercise of warrants to acquire securities of a company listed on the TSX Venture Exchange.

For the three months ended March 31, 2010, other operating expenses were HK$2,079,940 as compared to HK$1,799,287 in the same period in the prior year, representing a 16% increase primarily due to increases in investment management fees. The payment of investment management fees was HK$1,054,093 (2009: HK$849,428) because of the increase in the Company's net asset value. The operating lease expense in respect of land and buildings was HK$527,340 (2009: HK$527,340).

CASH FLOW

The Group's selected cash flow information for the financial years ended December 31, 2009 and 2008 and for the three month periods ended March 31, 2010 and 2009 are as follows:

	Three months ended		**Year ended**	
	March 31, 2010 (unaudited)	**March 31, 2009 (unaudited)**	**December 31, 2009 (audited)**	**December 31, 2008 (audited)**
Net cash (used in) from operating activities	(20,678,747)	(2,789,910)	119,325,256	6,973,567
Net cash from (used in) investing activities	4,714,155	3,069,836	(27,889,138)	(11,861,285)
Net cash from (used in) financing activities	-	-	(3,623,547)	(6,557,681)
Net (decrease) increase in cash and cash equivalents	(15,964,592)	279,926	87,812,571	(11,445,399)
Cash and cash equivalents at January 1	98,065,356	10,252,785	10,252,785	21,698,184
Cash and cash equivalents at March31 and December 31	82,100,764	10,532,711	98,065,356	10,252,785
Analysis of the balance of cash and cash equivalents:				
Bank balances and cash	82,100,764	10,532,711	98,065,356	10,252,785

Cash flow for the three months ended March 31, 2010

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, 2010, net cash flow used in operations of HK$20,678,747 included:

- HK$4 million in profit before working capital changes (a non-cash item)
- (HK$13.95) million increase in trading securities
- HK$3.19 million decrease in derivative instruments
- (HK$13.38) million increase in accounts receivable and prepayments
- (HK$0.54) million decrease in accounts payable and accruals

In contrast, for the three months ended March 31, 2009, net cash flow used in operations of HK$2,789,910 included:

- (HK$2.29) million in loss before working capital changes (a non-cash item)
- HK$0.07 million decrease in accounts receivable and prepayments
- (HK$0.57) million decrease in accounts payable and accruals

For the three months ended March 31, 2010, net cash from investing activities was HK$4,714,155 as compared to HK$3,069,836 in the same period in the prior year. The Group received cash dividends from private investments in the aggregate amount of HK$3,789,072 (2009: HK$3,000,000). Cash in the amount of HK$500,000 was advanced to an investee company for the three months ended March 31, 2010 (2009: nil). The Group also received a payment of HK$389,706 for the three months ended March 31, 2010 from an investee company. The Group did not purchase any fixed assets during the three months ended March 31, 2010 (2009: nil). Interest received by the Group as a result of financing certain projects was HK$1,035,377 for the three months ended March 31, 2010 (2009: HK$69,836).

LIQUIDITY

Debt, contractual obligations 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$82,100,764 which were mainly placed with banks as time deposits. Cash and bank balances held by the Group are mainly denominated in Hong Kong dollars and Canadian dollars.

As at March 31, 2010, the Group had no borrowing (2009: nil). The gearing ratio for the Group was 0% (2008: 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 unutilised banking facilities of HK$3,000,000 and requires no significant funding for investment and capital expenditure commitments. The interest rate charged on the banking facilities is 2% per annum over the Prime Lending Rate or 2% per annum over the prevailing overnight Hong Kong Interbank Offered Rate, whichever is higher.

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

FINANCIAL INSTRUMENTS

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

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

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

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

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

The Group's financial instruments as at March 31, 2010 and December 31, 2009 are categorised as follows:

	Group	
	March 31 2010 HK$	December 31 2009 HK$
Available-for-sale financial assets	116,266,674	110,854,493
Loans and receivables		
Amounts due from subsidiaries	-	-
Loans and receivables	6,424,429	6,314,135
Accounts receivable	30,529,534	17,046,476
Bank balances and cash	82,100,764	98,065,356
	119,054,727	121,425,967
Financial assets at fair value through profit or loss		
Trading securities	75,407,706	44,930,302
Derivative financial instruments	18,137,014	21,322,735
	93,544,720	66,253,037
Total financial assets	328,866,121	298,533,497
Other financial liabilities		
Accounts payable and accruals	709,432	1,249,956
Amount due to a related company	6,028,948	6,028,948
Total financial liabilities	6,738,380	7,278,904

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

(1) A net increase in the fair value of the Group's AFS in the amount of HK$5,412,181;

(2) The Group's accounts receivable increased primarily due to: (1) a net increase of HK$8,259,281 as a result of the disposal of certain trading securities as discussed above; (2) participation in the amount of HK$20,000,000 in a new financing project; and (3) the repayment of accounts receivable in the amount of HK$15,000,000 together with accrued interest of HK$792,808, which was brought forward from the year ended December 31, 2009.

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

(4) The Group increased in value of trading securities from HK$44,930,302 as at March 31, 2010 to HK$75,407,706 as at December 31, 2009 as a result of: (1) an unrealized gain of HK$16,524,160 on the fair value change of the Group's trading securities; (2) the purchase of securities in the amount of HK$29,500,640; and the disposal of securities with an aggregate cost to the Group of HK$15,547,396. The value of derivative financial instruments decreased from HK$21,322,735 to HK$18,137,014 due to the exercise of warrants to acquire securities of a company listed on the TSX Venture Exchange.

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

OFF-BALANCE SHEET ARRANGEMENTS

As at March 31, 2010, there are no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

On May 17, 2007, the Company entered into a supplemental agreement (the "**Supplemental Agreement**") with Harmony Asset Management Limited (the "**Management Company**"), a company wholly owned by Dr. Chow Pok Yu, Augustine, the Chief Executive Officer and an executive director of the Company, amending the terms of a management agreement (the "**Management Agreement**") between the Company and the Management Company dated June 1, 1998, as amended on April 5, 2000. Under the Management Agreement, the Management Company has agreed to assist the board of directors of the Company with the day-to-day management of the Company and to provide the Company with investment management services, including identifying and analyzing investment opportunities and structuring and monitoring investments. The Supplemental Agreement was entered into by the parties to extend the term of the Management Agreement from June 1, 2007 to May 31, 2010 and to amend the remuneration term of the Management Agreement in order to reflect market standards. In accordance with the Management Agreement, 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 which is calculated at 10% of the audited net profit of the preceding financial year subject to an annual cap of HK$6,771,840, respectively for the five months ended May 31, 2010.

An Extraordinary General Meeting ("**EGM**") of shareholders will be held on May 27, 2010 to consider, and if thought fit, pass (with or without amendments) an ordinary resolution to approve the transactions contemplated under the Management Agreement. An Information Circular containing detailed information regarding the EGM can be found on SEDAR at www.sedar.com.

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 May 14, 2010, the number of Ordinary Shares of the Company outstanding and the number of Ordinary Shares issuable pursuant to the outstanding options of the Company are as follows:

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

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

PRINCIPAL ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES:

1. Basis of preparation

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

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

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

2. Financial instruments

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

3. Fair value

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

(a) *Publicly traded investments:*

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

(b) *Privately held investments:*

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

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

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

4. Financial assets

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

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

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

5. Revenue recognition

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

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

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

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

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

6. Use of estimates

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

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

(a) Market price:

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

(b) Net asset value:

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

CHANGES IN ACCOUNTING POLICY

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

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Canadian Securities Administrators have issued National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings* (**"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 March 31, 2010, management has evaluated the effectiveness of the design and the operating effectiveness of the disclosure controls and procedures as defined by National Instrument 52-109. This evaluation was performed under the supervision of and with the participation of the Company's Chairman and Chief Executive Officer and Chief Financial Officer. Based on this evaluation, the Company's Chairman and Chief Executive Officer and Chief Financial Officer concluded that the design and operation of the disclosure controls and procedures were effective as of March 31, 2010.

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 at March 31, 2010. Based on this evaluation, management, with the participation of the Company's Chairman and Chief Executive Officer and Chief Financial Officer, has concluded that the design and operating effectiveness of ICFR was effective as of March 31, 2010. 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, internal control over financial reporting may not prevent or detect misstatements on a timely basis as such systems can only be designed to provide reasonable as opposed to absolute assurance. Also, projections of any evaluation of the effectiveness of ICFR to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

National Instrument 52-109 also requires public companies in Canada to disclose in their MD&A any change in ICFR during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting. There were no changes in ICFR during the quarter ended March 31, 2010 that materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Risk Factors

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

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

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

2. *Risk of a Limited Number of Investments*

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

3. *Marketability of the Company's Investments*

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

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

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

4. *Due Diligence*

The due diligence process that the Company undertakes in connection with investments may not reveal all facts that may be relevant in connection with an investment. Before making investments, the Company conducts due diligence that it deems reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence, the Company may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants and investment banks may be involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, the Company relies on the resources available to it, 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 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 of the Company 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 of the Company and should be aware that the value of the ordinary shares of the Company 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 of the Company, 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 of the Company may decrease.

FINANCIAL RISK MANAGEMENT

The Company has implemented policies to manage its exposure to certain financial risks. Refer to Note 28 of the Notes to the Company's 2009 Financial Statements for a discussion regarding the Company's financial risk management.

ADDITIONAL INFORMATION

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