HARMONY ASSET LIMITED

亨亞有限公司*

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 428)
(TSX Stock Symbol: HAR)

MANAGEMENT DISCUSSION AND ANALYSIS PREPARED IN ACCORDANCE WITH CANADIAN SECURITIES LAW

For the Year Ended: December 31, 2011

Date of Report: March 26, 2012

Nature of the Business

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

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

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

Reporting Currency

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

Caution Regarding Forward-Looking Statements

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

OVERALL PERFORMANCE AND SIGNIFICANT EVENTS

Overall Performance

Financial Highlights for the year ending December 31, 2011 with comparatives:

Operating Results (in HK$)	For the year ended December 31, (audited) 2011	2010
Turnover, other revenue and other gains and (losses)	(28,322,935)	51,579,976
(Loss) profit before income tax	(45,704,441)	33,449,229
(Loss) profit attributable to owners of the Company	(48,045,466)	35,274,924
Basic (loss) earnings per ordinary share	(1.23)	0.90

- The Group maintained its debt-free status.

- The Group principally invests in securities listed on recognised stock exchanges and unlisted securities, including equity securities and convertible bonds issued by corporate entities.

- For the year ended December 31, 2011, the Group recorded a turnover of HK$16,157,407 as compared to HK$40,628,394 in the prior year. The Group recorded the turnover, other revenue and other gains and losses in an aggregate loss of HK$28,322,935 for the year ended 31st December, 2011, as compared to the total revenue in a gain of HK$51,579,976 in the prior year.

- For the year ended December 31, 2011, the total operating expenses before share of loss of associate was HK$15,809,782 (2010: HK$18,130,747). Share of loss of HK$1,571,724 (2010: nil) from an associate, which was Gold China Development Limited ("Gold China"), a private company of which the Group owns 26% of the shares with the appointment of the Group's director to the board of Gold China. For the year ended December 31, 2011, the loss before income tax was HK$45,704,441 as compared to the profit of HK$33,449,229 in the prior year. The loss attributable to owners of the Company was HK$48,045,466 as compared to the profit of HK$35,274,924 in the prior year. The significant loss for the year ended December 31, 2011 was primarily caused by the unrealised loss of publicly traded securities in the stock market. Details of the significant unrealised loss of trading securities are discussed herein under the heading "Investments".

- Looking back over the year ended December 31, 2011, the uncertainty of the global economy had an adverse effect on the global investment environment. The European financial crisis continues to have a great impact on the Group's overall performance. The fluctuation in market value of publicly traded securities materially influenced the Company's results. The unfavourable result in the year ended December 31, 2011 further draws the Board of Directors' (the "Board") attention to maintaining a prudent policy on investments.

- The Group had available funds of HK$75,404,609 which were mainly placed with banks as time deposits. The Group had no borrowing and also did not have any capital expenditure commitments. Management believes that the Group's current cash position is sufficient to meet the ongoing needs of its business.

Investments

For the year ended December 31, 2011, the Group recorded a turnover of HK$16,157,407 as compared to HK$40,628,394 in the prior year, representing a 60% decrease, which was primarily due to substantial dividend income of HK$29,695,453 after accrual of tax expenses from Getchance Holdings and Win Direct, two unlisted securities recorded last year. Income from interest amounted to HK$9,853,642 (2010: HK$7,176,790). Dividends received from listed and unlisted investments were HK$6,303,765 (2010: HK$33,451,604). Details of dividend income for the year ended December 31, 2011 and 2010 are as follows:

All figures in HK$	**The year ended December 31, 2011**	**The year ended December 31, 2010**
Listed securities:		
Asia Standard (#129)	21,793	-
China Mobile (#941)	57,817	-
Hang Seng Bank (#11)	142,525	297,753
Hong Kong Stock exchange (#388)	-	123,580
Hutchison (#13)	42,543	-
Neo-Neon (#1868)	28,840	-
PCCW (#8)	40,988	-
Prosperity Minerals (#PMHL)	428,623	-
Real Nutri (#2010)	18,400	-
Standard Chartered Bank (#2888)	122,732	54,314
Upbest Group (#335)	79,504	79,504
	983,765	555,151
Unlisted securities:		
Bright Genius	220,000	201,000
Mainco Limited	5,100,000	1,500,000
Modern Market	-	1,500,000
Getchance Holdings	-	3,847,907
Win Direct	-	25,847,546
	5,320,000	32,896,453
Total	6,303,765	33,451,604

For the year ended December 31, 2011, gains on disposal of listed investments amounted to HK$5,624,865 (2010: HK$19,847,468), representing a 72% decrease from the prior year which was due to exceptional increases in the prices of particular shares held by the Group in 2010. With the impact of the ongoing general downturn of global stock markets in the year of 2011, the prices of certain securities held by the Group as at December 31, 2011 had significantly decreased. The Group recorded a net unrealized loss of HK$58,531,282 (2010: HK$17,413,882) on its publicly traded securities. Details of the trading securities having significant unrealised loss for the year ended December 31, 2011 and 2010 are as follows:

	The year ended December 31, 2011	The year ended December 31, 2010
Listed securities:		
American Oriental Bioeng Inc. (#AOB)	(1,018,285)	-
Art Textile (#565)	(1,235,610)	-
Asia Standard (#129)	(749,240)	-
Celsion Corp (#CLN)	(2,349,654)	(1,457,003)
Century Iron Mines Corp (#FER.V)	(2,635,353)	-
CH Nonferrous (#8306)	(2,024,235)	-
COLT Resources (#GTP)	(857,063)	-
CQRC Bank	(789,864)	-
Eloro Resources Ltd (#ELO.V)	(1,397,812)	156,990
Hang Seng Bank (#11)	-	1,338,513
Kaisun Energy Group Ltd (#8203)	(7,186,066)	(15,462,900)
MBMI Resources Inc (#MBR.V)	(25,918,233)	-
Medifocus Inc (#MFS.P)	(2,374,614)	(902,500)
Neo-Neon (#1868)	(2,793,347)	-
OTIS Gold Corp (#OOO.V)	(1,718,194)	-
Prosperity Minerals (#PMHL)	(1,583,568)	-
Real Nutri (#2010)	(734,919)	-
Standard Chartered Bank (#2888)	-	(692,688)
Tai Shing (#8103)	(1,503,573)	-
Upbest Group(#335)	(600,000)	(160,000)
Other securities	(1,061,652)	(234,294)
	(58,531,282)	(17,413,882)

The Group recorded a net realized gain on disposal of an unlisted investment of HK$3,420,171 (2010: HK$13,555,482) for the year ended December 31, 2011. Recovery of impairment loss on loans and receivables was HK$2,080,000 (2010: nil). The Group recorded the turnover, other revenue and other gains and losses in an aggregate loss of HK$28,322,935 for the year ended December 31, 2011 as compared to the total gain of HK$51,579,976 in the prior year.

For the year ended December 31, 2011, the loss before income tax was HK$45,704,441 as compared to profit of HK$33,449,229 in the prior year. The loss attributable to owners of the Company was HK$48,045,466 as compared to the profit of HK$35,274,924 in the prior year.

As at December 31, 2011, the Group's unlisted investments (comprised available-for-sale financial assets ("**AFS**"), loans and receivables and interest in an associate) were HK$120,388,007 as compared to HK$84,997,871 as at December 31, 2010, representing a 42% increase. Such increase was the net result of: (1) increase in fair value of AFS by HK$16,617,266; (2) purchase of AFS of HK$8,098,750; (3) disposal of an unlisted investment with carrying value of HK$3,420,171; (4) repayment of loans of HK$2,621,764 from investee companies; and (5) advance to two investee companies of HK$5,253,082; and (6) investment in and loan to an associate of HK$7,800,000.

As at December 31, 2011, accounts receivable and prepayments was HK$6,414,293 as compared to HK$25,089,549 as at December 31, 2010, representing a 74% decrease. Such decrease was primarily due to: (1) financing an amount of HK$3,000,000 for a Hotel project in Zhuhai of PRC; and (2) the repayment of accounts receivable in the amount of HK$16,666,666; (3) decrease in cash balance of HK$3,217,754 in two securities firms; and (4) net increase in deposit and prepayment of HK$1,135,228.

As at December 31, 2011, the financial assets at fair value through profit and loss for trading securities was HK$65,365,498 (2010: HK$65,956,302), which comprises (1) purchases of securities for an aggregate amount of HK$ 153,611,273; (2) the disposal of certain securities which had a cost of HK$95,670,795; and (3) the decrease in market value in the amount of HK$58,531,282 of certain of the Group's securities.

Outlook

The outlook for the year 2012 remains challenging. The uncertainty of the sovereign debt crisis in the European Union, while abated somewhat, is still a cause of concern to investors worldwide. The slow down in China's economy to a 7.5% GNP growth will also cast a doubt over its growth model. The Group foresees a higher degree of volatility in stock markets resulting in wider fluctuation of market values of publicly traded securities. The unfavourable factors that had adversely impacted the Group's performance in the year 2011 shows no sign of amelioration even at the time of writing. Accordingly, we will continue to strengthen our scrutinization process to identify new business propositions that will not only provide stability but will also produce outstanding returns on our investments.

For now, the Group will maintain its core business investments by focusing on energy resources, real estate developments and manufacturing industries in Asia and the Greater China region. By maintaining a prudent attitude towards the macro business outlook and employing a stringent selection criteria on investment opportunities, we are resolute in our efforts to bring profitability back to meet the benefits of our shareholders.

SELECTED ANNUAL INFORMATION

	As at December 31,		
All figures in HK$	**2011 (audited)**	2010 (audited)	2009 (audited)
Net investment (loss) gains (operating (loss) profit)	**(45,704,441)**	33,449,229	99,507,864
Income (total revenue and other gains and (losses))	**(28,322,935)**	51,579,976	118,953,480
Net (loss) income for the year ((loss) profit attributable to owners of the Company)	**(48,045,466)**	35,274,924	84,954,963
Basic (loss) earnings per ordinary share	**(1.23)**	0.90	2.18
Diluted (loss) earnings per ordinary share	**(1.23)**	0.90	2.17
Total assets	**275,521,837**	323,048,710	300,762,649
Total long-term financial liabilities	**-**	-	2,413,948
Shareholders' equity	**268,697,349**	309,289,512	277,500,594
Cash dividends declared per ordinary share	**nil**	0.1	0.2

- Variation in the annual results is mainly a result of a decrease in the realized gain on disposals of certain listed securities and fair value loss in market values of the publicly traded investments, which are recognized in profit or loss.

RESULTS OF OPERATIONS

The Group's selected financial highlights for the three months and the year ended December 31, 2011 with comparatives are as follows:

Operating Results (all figures in HK$)	**Three months ended December 31, (unaudited)**		**Year ended December 31, (audited)**	
	2011	2010	2011	2010
Turnover (total investment income)*	**7,299,997**	3,655,190	**16,157,407**	40,628,394
Interest income	**4,066,022**	2,707,337	**9,853,642**	7,176,790
Dividends received	**3,233,975**	947,853	**6,303,765**	33,451,604
Gain (loss) on disposals of listed investments	**(250,599)**	6,841,960	**5,624,865**	19,847,468
Net (loss) income before tax	**(3,725,538)**	(43,090,353)	**(45,706,441)**	33,449,229
(Loss) profit attributable to owners of the Company	**(6,064,563)**	(800,097)	**(48,045,466)**	35,274,924

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

Other income, other gains and (losses) (all figures in HK$)	Three months ended December 31, (unaudited)		Year ended December 31, (audited)	
	2011	2010	2011	2010
Other income:				
Service fee income	**173**	30,009	**27,575**	120,014
Total other income	**173**	30,009	**27,575**	120,014
Other gains and (losses):				
Net exchange (loss) gain on financial instruments not a fair value through profit or loss	**(14,089)**	1,524,644	**(64,154)**	1,467,554
Fair value changes on financial assets at fair value through profit and loss	**(5,209,652)**	(2,488,145)	**(55,707,803)**	(17,413,882)
Net realized gain on disposals of financial assets at fair value through profit and loss	**(250,599)**	6,848,976	**5,995,137**	26,846,197
Net realized (loss) gain on disposals of available-for-sale financial assets	**-**	(460,078)	**3,420,171**	13,555,482
Loss on disposal of property, plant and equipment	**(25,915)**	-	**(25,915)**	-
Recovery of impairment losses on loans and receivables previous recognised	**976,380**	-	**2,080,000**	-
Recovery of impairment losses on accounts and receivable	**-**	-	**-**	113,999
Impairment losses on loans and receivables	**(90,353)**	(1,922,160)	**(90,353)**	(1,922,160)
Impairment losses on available-for-sale financial assets				
-equity investments	**(115,000)**	(1,682,245)	**(115,000)**	(11,571,164)
- deposits on investments written off	**-**	-	**-**	(244,458)
Total other gains and (losses)	**(4,729,228)**	1,820,992	**(44,507,917)**	10,831,568
Total	**(4,729,055)**	1,851,001	**(44,480,342)**	10,951,582

For the year ended December 31, 2011, the Group recorded a turnover of HK$16,157,407 as compared to HK$40,628,394 in the prior year, representing a 60% decrease, which was primarily due to record substantial dividend income of HK$29,695,453 after accrual of tax expenses from Getchance Holdings and Win Direct, two unlisted securities recorded last year. Income from interest amounted to HK$9,853,642 (2010: HK$7,176,790). Dividends received from listed and unlisted investments were HK$6,303,765 (2010: HK$33,451,604).

For the year ended December 31, 2011, gains on disposal of listed investments amounted to HK$5,624,865 (2010: HK$19,847,468), representing a 72% decrease in the prior year which was due to exceptional increases in the prices of particular shares held by the Group in 2010. With the impact of the ongoing general downturn of global stock markets in the year of 2011, overall the prices listed securities held by the Group as at December 31, 2011 had significantly decreased. The Group recorded a net unrealized loss of HK$55,707,803 (2010: HK$17,413,882) on its publicly traded securities and derivative financial instruments.

The Group recorded a net realized gain on disposal of an unlisted investment of HK$3,420,171 (2010: HK$13,555,482) for the year ended December 31, 2011. Recovery of impairment loss on loans and receivables was HK$2,080,000 (2010: nil). The Group recorded the turnover, other revenue and other gains and losses in an aggregate loss of HK$28,322,935 for the year ended December 31, 2011 as compared to the total gain of HK$51,579,976 in the prior year.

For the year ended December 31, 2011, the loss before income tax was HK$45,704,441 as compared to profit of HK$33,449,229 in the prior year. The loss attributable to owners of the Company was HK$48,045,466 as compared to the profit of HK$35,274,924 in the prior year.

For the year ended December 31, 2011, there were no significant changes in the Group's operations as compared to the prior year. The major sources of income were interests on loans and bank deposits, dividends from investments held and gains on disposals of publicly traded securities.

For the year ended December 31, 2011, due to the increment of salary, employee benefits expenses were HK$3,176,136 (2010: HK$2,989,275). Other operating expenses were HK$11,971,351 as compared to HK$14,825,148 in the prior year, representing a 19% decrease. The decrease was mainly due to no acrrual of incentive fees (2010: HK$3,928,169) for the year ended December 31, 2011. The management fee had decreased to HK$4,342,743 (2010:HK$4,417,468) due to the decrease in the net asset value during the year ended December 31, 2011. The new operating lease expense in respect of land and buildings was HK$2,543,678 (2010: HK$2,175,278).

SUMMARY OF QUARTERLY RESULTS

The following table sets out a summary of the Group's quarterly results for the eight most recently completed quarters is as follows:

This information has been derived from the financial statements of the Company, which have been prepared in accordance with International Financial Reporting Standards.

	Reviewed and Unaudited Financial Information for the Quarter ended			
	December 31, 2011	**September 30, 2011**	**June 30, 2011**	**March 31, 2011**
Net investment gains (loss)	(3,725,538)	(22,696,111)	(26,382,575)	7,097,783
Net income (loss) for the period	(6,064,563)	(22,696,111)	(26,382,575)	7,097,783
Earnings (loss) per ordinary share – basic	(0.16)	(0.58)	(0.68)	0.18
Earnings (loss) per ordinary share – diluted	(0.16)	(0.58)	(0.68)	0.18
	December 31, 2010	**September 30, 2010**	**June 30, 2010**	**March 31, 2010**
Net investment gains (loss)	(3,090,353)	14,631,239	(2,709,419)	24,617,762
Net income (loss) for the period	(3,800,097)	14,334,295	(3,131,721)	27,872,447
Earnings (loss) per ordinary share – basic	(0.01)	0.37	(0.08)	0.71
Earnings (loss) per ordinary share – diluted	(0.01)	0.37	(0.08)	0.71

Significant variations arise in the quarterly results due to unrealized gains on investments recognized in the income statement which results from the Group revaluing its investments. The values at which publicly traded investments are carried is subject to fluctuations in the public markets from quarter to quarter. The private investments are revalued 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 in the Group's performance.

FOURTH QUARTER

For the three months ended December 31, 2011, the Group recorded a turnover of HK$7,299,997 as compared to HK$3,655,190 in the same period last year, representing a 100% increase which was due to the receipt of a cash dividend of HK$3,000,000 from Mainco Limited, a private investee company during the period. The interest income was HK$4,066,022 as compared to HK$2,707,337 in the same period last year, representing a 50% increase which was due to the recording of imputed interest of HK$2,997,766 from loans and receivable of unlisted investments during the period. Dividends received from investments were HK$3,233,975 (2010: HK$947,853). Loss on the disposal of listed investments amounted to HK$250,599 (2010: gain of HK$6,848,976). With the ongoing general downturn of the global stock markets in the fourth quarter of 2011, the Group recorded a net unrealized loss of HK$5,209,652 (2010: HK$2,488,145) on trading securities and derivative financial instruments. The Group recorded the turnover, other revenue and other gains and losses in an aggregate gain of HK$2,570,942 for the three months ended December 31, 2011 as compared to HK$5,506,191 in the same period in the prior year, representing a 53% decrease.

For the three months ended December 31, 2011, the loss before income tax was HK$3,725,538 as compared to a loss of HK$3,090,353 in the same period last year, representing a 21% increase. The loss attributable to owners of the Company was HK$6,064,563 as compared to HK$3,800,097 in the same period last year, representing a 658% increase.

For the three months ended December 31, 2011, 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 interests on bank deposits and loans receivable, dividends from investments held and gain on disposals of publicly traded investments.

For the three months ended December 31, 2011, the other operating expenses were HK$3,147,296 as compared to HK$7,367,456 for the same period in the prior year, representing a 57% decrease. This decrease was mainly due to no accrual of incentive fees in the fourth quarter of 2011(2010: HK$3,928,169). The new operating lease expense in respect of land and buildings was HK$694,278 (2010: HK$550,605). Due to a decrease in net asset value of the Group for the three months ended December 31, 2011, the payment of investment management fees decreased to HK$1,002,945 as compared to HK$1,110,933 for the same period in the prior year, representing a 10% decrease.

CASH FLOW

The Group's selected cash flow information for the three months and the years ended December 31, 2011 and 2010 are as follows:

(Unaudited: reviewed by management)	**Three months ended**		**Year ended**	
	December 31, 2011	**December 31, 2010**	**December 31, 2011**	**December 31, 2010**
Net cash (used in) from operating activities	7,946,059	4,641,274	(55,404,876)	(10,078,902)
Net cash (used in) from investing activities	8,172,419	38,355,634	(4,415,611)	56,962,607
Net cash from (used in) financing activities	-	40,688	(5,858,792)	(3,865,173)
Net increase in cash and cash equivalents	16,118,478	43,037,596	(65,679,279)	43,018,532
Cash and cash equivalents at October 1 or January 1	59,286,131	98,046,292	141,083,888	98,065,356
Cash and cash equivalents at December 31	75,404,609	141,083,888	75,404,609	141,083,888

Analysis of the balance of cash and cash equivalents:				
Bank balances and cash	75,404,609	141,083,888	75,404,609	141,083,888

For the three months ended December 31, 2011 versus the three months ended December 31, 2010

For the three months ended December 31, 2011, net cash from operations was HK$7,946,059 as compared to HK$4,641,274 in the same period in the prior year, which figure comprises net cash used to purchase HK$28,728,351 (2010: HK$1,682,327) worth of traded securities. Net cash from a decrease in accounts receivable was HK$22,409,226 (2010: HK$10,966,336). Increase in accounts payable was HK$442,942 as compared to HK$6,587,315 in the same period in the prior year. The increase in accounts payable in 2010 was due to a provisional tax of HK$5,867,964 on cash dividends received from two unlisted investments. No incentive fee was required to be paid to a related company in the year ended December 31, 2011 while an accrual of incentive fee of HK$3,928,169 was made for the year ended December 31, 2010. Cash paid for Hong Kong income tax was HK$4,021,209 as compared to HK$15,138,398 in the same period in the prior year.

Net cash from investing activities was HK$8,172,419 as compared to HK$38,355,634 in the same period in the prior year. There was a cash dividend of HK$3,000,000 (2010: HK$28,786,334) received from private investment. Cash received from interest income was HK$217,419 (2010: HK$944,489). No repayment of loans and receivables was received (2010:nil). Cash from investee companies was HK$9,403,009(2010: nil). Cash paid for investment and loans of HK$8,253,611 (2010: nil) in Gold China, an associate of the Group. Purchase of AFS was HK$3,805,602 (2010: HK$5,755,542). No cash was used to acquire office equipment (2010: HK$11,560). No cash proceeds was received from the disposal of property, plant and equipment and unlisted investments (2010: HK$13,032,104).

No cash was used in financing activities for the three months ended December 31, 2011 as compared to outstanding dividend payments of HK$40,688 declared in the same period in the prior year.

For the year ended December 31, 2011 versus the year ended December 31, 2010

In the normal course of business for the Group, significant fluctuations in cash flows can occur. Generally, this category includes such items as share transactions, accounts receivable, operating loans to investees and listing expenses. For the year ended December 31, 2011, net cash flow used in operations of HK$55,404,876 included:

- HK$8.21 million loss before working capital changes (a non-cash item);
- HK$57.94 million in purchases of shares in publicly traded companies;
- HK$18.68 million decrease in accounts receivable and prepayments;
- HK$0.01 million increase in accounts payable and accruals;
- HK$3.93 million decrease in amount due to a related company; and
- HK$4.02 million in income tax paid.

In contrast, for the year ended December 31, 2010, net cash flow used in operations of HK$10,078,902 included:

- HK$11.17 million from profit before working capital changes (a non-cash item);
- (HK$23.58) million in share purchase of publicly traded companies;
- HK$21.32 million decrease in derivative financial instruments;

- (HK$7.28) million increase in accounts receivable and prepayments;
- HK$5.52 million increase in accounts payable and accruals;
- (HK$2.1 million) decrease in amount due to a related company; and
- (HK$15.14) million in income tax paid.

For the year ended December 31, 2011, net cash used in investing activities was HK$4,415,611 as compared to HK$56,962,607 generated from the prior year. The Group received cash dividends from private investments in the aggregate amount of HK$5,320,000 (2010: HK$32,896,453). Cash advanced to investee companies was HK$5,253,082 as compared to HK$6,788,000 in the prior year. Repayment from investee companies was HK$2,621,764 (2010: HK$1,288,706). Purchase of AFS was HK$8,098,750 (2010: HK$5,244,458). Cash paid for investment and loans in Gold China, an associate of the Group, was HK$7,800,000 (2010: nil). The Group purchased fixed assets of HK$1,234,306 (2010: HK$11,560). Total proceeds from disposal of an unlisted investments was HK$3,420,171 (2010: HK$29,098,678). Interest received by the Group was HK$6,608,592 as compared to HK$5,722,788 in the prior year.

For the year ended December 31, 2011, net cash used in financing activities was HK$5,858,792 (2010: HK$3,865,173). The use of funds was mainly due to the payment of dividends for the years ended December 31, 2010 and 2009.

LIQUIDITY

Debt, contractual obligation and contingent liabilities

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

The Group had available funds of HK$75,404,609 which were mainly placed with banks as time deposits. Cash and bank balances held by the Group are mainly denominated in Hong Kong dollars and Canadian dollars.

As at December 31, 2011, the Group had no borrowing (2010: nil). The gearing ratio for the Group was 0% (2010: 0%) which represents the ratio of the Group's borrowings to the net asset value of the Group.

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

CAPITAL RESOURCES

As at the date of this MD&A, the Group has unutilized banking facilities of HK$10,000,000 and requires no significant funding for investment and capital expenditure commitments. The interest rate charged on the banking facilities is 3% per annum over the applicable Hong Kong Interbank Offered Rate.

As of the date of this MD&A, except the commitment of the operating leases, the Group does not have any capital expenditure commitments and management is not aware of any expected fluctuations in the Group's capital resources. As at December 31, 2011, the Group had future aggregate minimim lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group		
	2011 December 31 HK$		2010 December 31 HK$
Within one year	2,777,112		2,497,796
In the second to fifth years inclusive	2,777,112		5,554,224
	5,554,224		8,052,020

FINANCIAL INSTRUMENTS

The Group has limited 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 recognized 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 recognized 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 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 regulation or convention in the marketplace.

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

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

The Group's financial instruments as at December 31, 2011 and 2010 are categorised as follows:

	Group	
	2011 December 31 HK$	2010 December 31 HK$
Available-for-sale financial assets	81,497,676	60,201,831
Loans and receivables		
Loans and receivables	32,208,444	24,796,040
Accounts receivable	5,474,251	23,014,279
Bank balances and cash	75,404,609	141,083,888
	113,087,304	188,894,207
Financial assets at fair value through profit or loss		
Trading securities	65,365,498	65,956,302
Derivative financial instruments	3,581,809	758,330
	68,947,307	66,714,632
Total financial assets	263,532,287	315,810,670
Financial liabilities at amortized cost		
Accounts payable and accruals	6,824,488	6,809,600
Amount due to a related company	-	3,928,169
Total financial liabilities	6,824,488	10,737,769

As at and for the year ended December 31, 2011, the significant changes in financial instruments as compared to the statement of financial position as at December 31, 2010 consisted primarily of:

(1) The movement in the Group's AFS and loans and receivables were primarily due to: (a) increase in fair value of AFS by HK$16,617,266; (b) purchase of AFS of HK$8,098,750; (c) disposal of an unlisted investment with carrying value of HK$3,420,171; (d) repayment of loans of HK$2,621,764 from three investee companies; (e) advance to two investee companies of HK$5,253,082; and (f) investment in and loan to an associate of HK$7,800,000.

(2) The decrease in accounts receivable was primarily the result of (a) financing an amount of HK$3,000,000 for a Hotel project in Zhuhai of PRC; and (b) the repayment of accounts receivable in the amount of HK$16,666,666; (c) decrease in cash balance of HK$3,217,754 in two securities firms; and (4) net increase in deposits and prepayments of HK$1,135,228.

(3) During the year, the Group had the following major trading transactions: (a) purchases of securities for an aggregate amount of HK$ 153,611,273; (b) the disposal of certain securities which had a cost of HK$95,670,795; and (c) the decrease in market value in the amount of HK$58,531,282 of certain of the Group's securities.

Further detailed information with respect to the financial instruments and significant assumptions made by the Group in estimation of fair value with respect to its financial instruments have been disclosed in notes (4)(e) and 29(a) of the audited financial statements of the Group for the year ended December 31, 2011.

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2011, there are no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

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

On April 8, 2010, the Company entered into a new investment management agreement (the "**New Investment Management Agreement**") with HAML as detailed in the information circular of the Company dated April 29, 2010, whereby HAML has agreed to provide its management services for an additional three years until May 31, 2013. In accordance with the New Investment Management Agreement, HAML is entitled to a monthly management fee calculated at 1.5% per annum on the net asset value of the Group for the preceding month and an incentive fee calculated at 10% of the audited net profit of the financial year (before accrual of the incentive fee) subject to an aggregate cap of HK$16,919,971 for the year ended December 31, 2011.

Dr. Chow Pok Yu Augustine, being a beneficial shareholder of HAML, had an interest in the Original Investment Management Agreement and the New Investment Management Agreement during the years ended December 31, 2011 and 2010. The management fees and incentive fee paid and payable to HAML are as follows:

	2011 **HK$**	**2010** **HK$**
Management fees	4,342,743	4,417,468
Incentive fee	-	3,928,169
Total	4,342,743	8,345,637

PROPOSED TRANSACTIONS

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

OUTSTANDING SHARE DATA

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

As at March 26, 2012, 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 pursuant to options	nil
Total diluted ordinary shares	**39,058,614**

On August 18, 2011, 522,047 share options expired and lapsed. Other than the foregoing, no share options were granted, exercised, expired or cancelled pursuant to the Share Option Scheme of the Company. There are no other options outstanding.

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, 2011 and December 31, 2010 (collectively, the "**Financial Statements**"), which were prepared in accordance with the International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the HKEX.

   The Financial Statements have been prepared under the historical cost basis, except that, as disclosed in the accounting policies shown in the Financial Statements, available-for-sale financial assets and financial assets at fair value through profit or loss are stated at fair value.

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

2. **Significant accounting polices**

   A summary of significant accounting policies are set out in the note 4 to the Financial Statements of the Company.

3. **Use of estimates**

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

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

(a) *Market price:*

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

(b) *Net asset value or discounted cash flows:*

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

CHANGES IN ACCOUNTING POLICY

Adoption of new or revised IFRSs during the year ended December 31, 2011 is detailed in note 2 to the audited financial statements. The adoption of new or revised IFRSs has no significant impact on the Group's financial statements. The Group is in the process of making an assessment of the potential impact of new or revised IFRSs that have been issued but are not yet effective for the year ended December 31, 2011 and the directors so far concluded that the application of these new or revised IFRSs will have no material impact on the Group's financial statements except for IFRS9, which is explained in note 2 to the audited Financial Sstatements.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

As of December 31, 2011, management has evaluated the effectiveness of the design and the operating effectiveness of the disclosure controls and procedures as defined by National Instrument 52-109. This evaluation was performed under the supervision of and with the participation of the Company's Chairman and Chief Executive Officer and Chief Financial Officer. Based on this evaluation, the Company's Chairman and Chief Executive Officer and Chief Financial Officer concluded that the design and operation of the disclosure controls and procedures in use at the Company were effective as of December 31, 2011.

INTERNAL CONTROL OVER FINANCIAL REPORTING

National Instrument 52-109 also requires public companies in Canada to submit an annual certificate relating to the design and operating effectiveness of internal control over financial reporting ("**ICFR**"). ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. Management is responsible for establishing and maintaining ICFR and management, including the Company's Chairman and Chief Executive Officer and Chief Financial Officer, has evaluated the design and tested the effectiveness of the ICFR as at December 31, 2011. Based on this evaluation, management, with the participation of the Company's Chairman and Chief Executive Officer and Chief Financial Officer, has concluded that the design and operating effectiveness of ICFR in place at the Company was effective as of December 31, 2011. The Company has continued to use the basic framework for international control and risk management internal control framework issued by the Hong Kong Institute of Certified Public Accountants to design its ICFR. Due to its inherent limitations, ICFR may not prevent or detect misstatements on a timely basis as such systems can only be designed to provide reasonable as opposed to absolute assurance. Also projections of any evaluation of the effectiveness of ICFR to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

National Instrument 52-109 also requires public companies in Canada to disclose in their MD&A any change in ICFR during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting. There were no changes in ICFR during the quarter ended December 31, 2011 that materially affected or are reasonably likely to materially affect the Company'sICFR.

Risk Factors

The following are certain risk factors inherent in the Company's businesses and an investment in the ordinary shares of the Company. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing in the Company's Annual Information Form for the financial year ended December 31, 2011 (the "**AIF**"). These risks and uncertainties are not the only ones facing the Company. Additional risks and uncertainties not currently known to the Company, or that the Company currently considers immaterial, may also impair the business of the Company. If any such risks actually occur, the business, financial condition, liquidity and results of operations of the Company could be materially adversely affected.

1. Risks of Doing Business in the People's Republic of China

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

2. Risk of Limited Number of Investments

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

3. *Marketability of the Company's Investments*

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

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

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

4. *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 the Company. The loss of the services of any of these individuals could have a material adverse effect on the Company's revenues, net income and cash flows and could harm the Company's ability to maintain or grow its existing assets and raise additional funds in the future.

6. *Currency and Foreign Exchange Rate Risks*

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

7. *Liquidity Risk*

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

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

8. *Interest Rate Risk*

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

9. *Speculative Nature of Ordinary Shares*

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

10. Trading Price of Shares relative to Net Asset Value

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

FINANCIAL RISK MANAGEMENT

The Company has implemented policies to manage its exposure to certain financial risks. Refer to Note 29 of the Notes to 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, 2011. The Annual Report includes the audited consolidated financial statements as at December 31, 2011, the notes thereto and the report of the Company's auditors thereon. Copies of these documents, together with copies of this MD&A and copies of any documents or the pertinent pages of any documents incorporated by reference in this MD&A, are available upon request to the Company, provided that the Company may require payment of a reasonable charge if the request is made by a person who is not a security holder of the Company.