
Harmony Asset Limited – Third Quarterly Report 2011
prepared in accordance with the Canadian Securities Law

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Harmony Asset Limited

(Incorporated in the Cayman Islands with limited liability)

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

Unaudited condensed consolidated interim financial statements

Nine-month periods ended 30th September, 2011

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NOTICE TO READER

The management of Harmony Asset Limited is responsible for the preparation of the accompanying consolidated interim financial statements. The interim financial statements have been prepared in accordance with International Accounting Standards 34 “Interim Financial Reporting” and are considered by management to present fairly the financial position, operation results and cash flows of the Company and its subsidiaries. These interim financial statements have not been audited, reviewed or otherwise verified for accuracy and completeness of information by the auditor of the Company.

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CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 30th September, 2011

		Three months ended		Nine months ended	
		30th September,		30th September,	
		2011	2010	2011	2010
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	Note	HK\$	HK\$	HK\$	HK\$
Turnover	2	1,984,302	27,845,200	8,857,410	36,973,204
Other revenue	2	203	30,000	27,402	90,005
Other gains (losses)	2	(20,715,105)	(10,319,887)	(39,778,689)	9,010,576
		(18,730,600)	17,555,313	(30,893,877)	46,073,785
Employee benefits expenses		(740,274)	(567,138)	(1,988,184)	(1,839,062)
Depreciation of property, plant and equipment		(93,131)	(79,016)	(274,787)	(237,449)
Other operating expenses		(3,132,106)	(2,277,920)	(8,824,055)	(7,457,692)
(Loss) profit before income tax		(22,696,111)	14,631,239	(41,980,903)	36,539,582
Income tax expense	4	–	(296,944)	–	(464,561)
(Loss) profit for the period attributable to owners of the Company		(22,696,111)	14,334,295	(41,980,903)	36,075,021
Other comprehensive income:					
Gains (losses) on fair value changes on available-for-sale financial assets		26,197	(18,630,397)	4,227,062	(2,599,044)
Transfer to profit or loss upon disposals of available-for-sale financial assets		–	(2,514,580)	(3,420,171)	(14,015,560)
		26,197	(21,144,977)	806,891	(16,614,604)
Total comprehensive income for the period attributable to owners of the Company		(22,669,914)	(6,810,682)	(41,174,012)	19,460,417
		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
(Loss) earnings per share	6				
Basic		(58.11)	36.70	(107.48)	92.36
Diluted		(58.11)	36.70	(107.48)	92.36

The notes on pages 10 to 16 form part of these interim financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30th September, 2011 and 31st December, 2010

	<i>Note</i>	30th September, 2011 (Unaudited) HK\$	31st December 2010 (Audited) HK\$
Non-current assets			
Property, plant and equipment	7	2,119,918	1,160,398
Available-for-sale financial assets		72,913,073	60,201,831
Loans and receivables		37,480,376	24,796,040
Deferred tax assets		4,002,372	4,002,372
		116,515,739	90,160,641
Current assets			
Accounts receivable and prepayments	8	28,219,966	25,089,549
Trading securities		66,879,517	65,956,302
Derivative financial instruments		758,330	758,330
Bank balances and cash		59,286,131	141,083,888
		155,143,944	232,888,069
Current liabilities			
Accounts payable and accruals	9	6,381,546	6,809,600
Amount due a related company		–	3,928,169
Tax payable		3,021,429	3,021,429
		9,402,975	13,759,198
Net Current assets		145,740,969	219,128,871
Total assets less current liabilities		262,256,708	309,289,512
Net assets		262,256,708	309,289,512
Capital and reserves			
Share capital	10	39,058,615	39,058,615
Reserves		223,198,093	270,230,897
Total equity		262,256,708	309,289,512
Net asset value per share		HK\$6.71	HK\$7.92

The notes on pages 10 to 16 form part of these interim financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30th September, 2011 and 2010

	Share capital <i>HK\$</i>	Share premium <i>HK\$</i>	Fair value reserve <i>HK\$</i>	Share option reserve <i>HK\$</i>	Proposed dividend <i>HK\$</i>	Retained profits (accumulated losses) <i>HK\$</i>	Total <i>HK\$</i>
As 1st January, 2011 (audited)	39,058,615	162,768,326	18,730,736	313,040	5,858,792	82,560,003	309,289,512
Loss for the period	-	-	-	-	-	(41,980,903)	(41,980,903)
Gain on fair value changes on available-for-sale financial assets	-	-	4,227,062	-	-	-	4,227,062
Transfer to profit or loss upon disposal of available-for-sale financial assets	-	-	(3,420,171)	-	-	-	(3,420,171)
Other comprehensive income for the period	-	-	806,891	-	-	-	806,891
Total comprehensive income for the period	-	-	806,891	-	-	(41,980,903)	(41,174,012)
Transfer to retained profits upon lapse of share options	-	-	-	(313,040)	-	313,040	-
Proposed dividend transferred to current liabilities upon approval of shareholders at annual general meeting	-	-	-	-	(5,858,792)	-	(5,858,792)
At 30th September, 2011 (unaudited)	<u>39,058,615</u>	<u>162,768,326</u>	<u>19,537,627</u>	<u>-</u>	<u>-</u>	<u>40,892,140</u>	<u>262,256,708</u>

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the nine months ended 30th September, 2011 and 2010

	Share capital <i>HK\$</i>	Share premium <i>HK\$</i>	Fair value reserve <i>HK\$</i>	Share option reserve <i>HK\$</i>	Proposed dividend <i>HK\$</i>	Retained profits (accumulated losses) <i>HK\$</i>	Total <i>HK\$</i>
As 1st January, 2010 (audited)	39,058,615	162,768,326	18,310,881	1,034,156	3,905,861	52,422,755	277,500,594
Loss for the period	-	-	-	-	-	36,075,021	36,075,021
Gain on fair value changes on available-for-sale financial assets	-	-	(2,599,044)	-	-	-	(2,599,044)
Transfer to profit or loss upon disposal of available-for-sale financial assets	-	-	(14,015,560)	-	-	-	(14,015,560)
Other comprehensive income for the period	-	-	(16,614,604)	-	-	-	(16,614,604)
Total comprehensive income for the period	-	-	(16,614,604)	-	-	36,075,021	19,460,417
Transfer to retained profits upon lapse of share options	-	-	-	(721,116)	-	721,116	-
Proposed dividend transferred to current liabilities upon approval of shareholders at annual general meeting	-	-	-	-	(3,905,861)	-	(3,905,861)
At 30th September, 2010 (unaudited)	<u>39,058,615</u>	<u>162,768,326</u>	<u>1,696,277</u>	<u>313,040</u>	<u>-</u>	<u>89,218,892</u>	<u>293,055,150</u>

The notes on pages 10 to 16 form part of these financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

For the nine months ended 30th September, 2011 and 2010

	Nine months ended	
	30th September,	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Operating activities		
(Loss) profit before taxation	(41,980,903)	36,539,582
Interest income	(5,787,620)	(4,469,453)
Dividend income from available-for-sale financial assets	(2,320,000)	(32,156,818)
Depreciation of property, plant and equipment	274,787	237,449
Fair value changes on financial assets at fair value through profit or loss		
– trading securities	28,288,912	14,925,737
– derivative financial instruments	–	(6,991,713)
Net realised gain on disposals of available-for-sale financial assets	(3,420,171)	(14,015,560)
Impairment loss on available-for-sale financial assets		
– equity investment	–	9,888,919
– deposits on Investment written off	–	244,458
Recovery of impairment loss on loans and receivables previously recognised	(1,103,620)	–
	<hr/>	<hr/>
(Loss) profit before working capital changes	(26,048,615)	4,202,601
Increase in financial assets at fair value through profit or loss	(29,212,127)	(21,894,498)
Decrease in derivative financial instruments	–	28,314,448
Increase in accounts receivable and prepayments	(3,733,970)	(18,245,420)
Decrease in accounts payable and accruals	(428,054)	(1,068,359)
Decrease in amount due to a related company	(3,928,169)	(6,028,948)
	<hr/>	<hr/>
Net cash used in operating activities	(63,350,935)	(14,720,176)
Investing activities		
Interest received	6,391,173	4,778,299
Dividend income from available-for-sale financial assets	2,320,000	8,382,625

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW (CONTINUED)

For the nine months ended 30th September, 2011 and 2010

	Nine months ended	
	30th September,	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Advances to investee companies	(14,202,480)	(788,000)
Repayments from investee companies	2,621,764	1,139,706
Purchase of property, plant and equipment	(1,234,306)	–
Purchase of available-for-sale financial assets	(11,904,352)	(11,000,000)
Proceeds from disposals of available-for-sale financial assets	3,420,171	16,094,343
Net cash (used in) from investing activities	(12,588,030)	18,606,973
Cash used in financing activities		
Dividend paid	(5,858,792)	(3,905,861)
Net decrease in cash and cash equivalents	(81,797,757)	(19,064)
Cash and cash equivalents at 1st January	141,083,888	98,065,356
Cash and cash equivalents at 30th September	59,286,131	98,046,292
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	59,286,131	98,046,292

The notes on pages 10 to 16 form part of these financial statements.

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NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

1. Basis of preparation

The unaudited condensed consolidated interim financial statements (“interim financial statements”) are prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” issued by the International Accounting Standards Board.

The interim financial statements should be read in conjunction with the annual financial statements for the year ended 31st December, 2010. The accounting policies and basis of preparation used in the preparation of these interim financial statements are consistent with those used in the annual financial statements for the year ended 31st December, 2010.

2. Turnover, other revenue and other gains and losses

The Group principally invests in securities listed on recognised stock exchanges and unlisted securities, including equity securities, convertible notes, issued by corporate entities. Turnover, other revenue and other gains or losses recognised during the period are as follows:

	Nine months ended 30th September,	
	2011 (Unaudited) HK\$	2010 (Unaudited) HK\$
Turnover:		
Interest income from		
– bank deposits	566,650	221,764
– loans receivable	5,075,970	4,164,840
– convertible bond	145,000	82,849
Dividend income from		
– listed investments	749,790	346,933
– unlisted investments	2,320,000	32,156,818
	8,857,410	36,973,204
Other revenue:		
Sundry income	27,402	90,005
	27,402	90,005
Other gains and (losses):		
Exchange gain	(50,064)	(57,090)
Fair value changes on financial assets		
at fair value through profit or loss		
– trading securities	(50,498,151)	(14,925,737)
– derivative financial instruments	–	6,991,713
Net realised gain on disposals of financial assets		
at fair value through profit or loss		
– trading securities	5,875,464	13,005,508
– derivative financial instruments	370,271	–
Recovery of impairment loss on accounts receivable previously recognised	–	113,999
Recovery of impairment loss on loans and receivables previously recognised	1,103,620	–
Net realised gain on disposals of available-for-sale financial assets	3,420,171	14,015,560
Impairment loss on available-for-sale financial assets		
– equity investments	–	(9,888,919)
– deposits on investment written off	–	(244,458)
	(39,778,689)	9,010,576
	(30,893,877)	46,073,785

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NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

2. Turnover, other revenue and other gains and losses (continued)

Management considers the Group has only one operating segment, i.e. investment holding. Accordingly, the Group's turnover, other revenue, other gains and losses for the period, and total assets are attributable to the segment of investment holding.

3. Operating profit

Operating profit has been arrived at after charging the following:

	Nine months ended 30th September, 2011 (Unaudited) HK\$	2010 (Unaudited) HK\$
Management fees	3,339,798	3,306,535
Pension costs – contributions to defined contribution plan	92,420	85,543
Operating lease in respect of land and buildings	<u>1,849,401</u>	<u>1,624,673</u>

4. Income tax expenses

No provision for Hong Kong Profits Tax has been made for the nine months ended 30th September, 2011 as the Group has no estimated assessable profit for the period. Hong Kong Profits Tax was calculated at 16.5% of the estimated assessable profits for the nine months ended 30th September, 2011.

	Nine months ended 30th September, 2011 (Unaudited) HK\$	2010 (Unaudited) HK\$
Current tax		
Hong Kong profits tax		
Provision for the current period	–	2,878,509
Over provision in last year	–	(2,413,948)
	<u>–</u>	<u>–</u>
Deferred tax	–	–
	<u>–</u>	<u>464,561</u>

5. Dividend

The Board does not recommend payment of any interim dividend for the nine months ended 30th September, 2011.

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NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

6. (Loss) earnings per share

The calculation of basic (loss) per share is as follows:

	Nine months ended 30th September,	
	2011 (Unaudited) <i>HK\$</i>	2010 (Unaudited) <i>HK\$</i>
(Loss) profit attributable to owners of the Company	(41,980,903)	38,128,921
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share and diluted (loss) earnings per share	39,058,614	39,058,614
	<i>HK cents</i>	<i>HK cents</i>
(Loss) earnings per share		
Basic	(107.48)	92.36
Diluted	(107.48)	92.36

The calculation of basic (loss) earnings per share is based on the Group's (loss) profit attributable to owners of the Company by the weighted average number of the ordinary shares in issue during the period.

Diluted (loss) earnings per share for the period is the same as basic (loss) earnings per share as the effect of the assumed conversion of the outstanding share options is anti-dilutive.

7. Property, plant and equipment

	As at 30th September 2011 (Unaudited) <i>HK\$</i>	As at 31st December 2010 (Audited) <i>HK\$</i>
Furniture and fixture	538,809	423,022
Motor vehicle	1,444,000	1,444,000
Office equipment	493,377	465,556
Leasehold improvements	2,008,304	917,606
	4,484,490	3,250,184
Accumulated depreciation	(2,364,572)	(2,089,786)
Carrying amount	2,119,918	1,160,398

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NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

8. Accounts receivable and prepayments

	As at 30th September 2011 (Unaudited) <i>HK\$</i>	As at 31st December 2010 (Audited) <i>HK\$</i>
Accounts receivable	6,931,550	1,907,250
Loan receivable, secured	–	16,666,666
Loan receivable, unsecured	18,600,000	–
Interests receivable	220,574	824,127
Other receivables	<u>1,641,817</u>	<u>3,616,236</u>
Receivables after allowance for impairment loss	27,393,941	23,014,279
Deposits	750,651	1,511,689
Prepayments	<u>75,374</u>	<u>563,581</u>
	<u>28,219,966</u>	<u>25,089,549</u>

As at 30th September, 2011, the unsecured loan receivable are interest-bearing at annual fixed rate of 24%.

As at 31st December, 2010, the secured loan receivable are interest-bearing at annual fixed rate of 19% to 26.6%.

The aging analysis of the accounts receivable (after allowance for impairment losses) based on the due date is as follows:

	As at 30th September 2011 (Unaudited) <i>HK\$</i>	As at 31st December 2010 (Audited) <i>HK\$</i>
Balances neither past due nor impaired		
Current	27,393,941	5,575,928
Balance past due between 1 to 180 days but not impaired	<u>–</u>	<u>17,438,351</u>
Balances not impaired and receivables after allowance for impairment losses	<u>27,393,941</u>	<u>23,014,279</u>

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NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

9. Accounts payable and accruals

	As at 30th September 2011 (Unaudited) HK\$	As at 31st December 2010 (Audited) HK\$
Accruals	6,224,274	6,652,308
Unclaimed dividend payable	157,272	157,292
	<u>6,381,546</u>	<u>6,809,600</u>

The aging analysis of the accounts payable and accruals is as follows:

	As at 30th September 2011 (Unaudited) HK\$	As at 31st December 2010 (Audited) HK\$
Current	6,224,274	6,735,070
Over 1 year	157,272	74,530
	<u>6,381,546</u>	<u>6,809,600</u>

10. Share capital

	Number of shares	Amount HK\$
Authorised:		
Ordinary shares of HK\$1 each at 31st December, 2010 (audited) and 30th September, 2011 (unaudited)	<u>100,000,000</u>	<u>100,000,000</u>
Issued and fully paid:		
Ordinary shares of HK\$1 each at 31st December, 2010 (audited) and 30th September, 2011 (unaudited)	<u>39,058,614</u>	<u>39,058,615</u>

The nominal amount of the ordinary shares amounting to HK\$39,058,615 is HK\$1 more than the amount calculated based on the 39,058,614 ordinary shares of HK\$1 each in issue as the fractional shares arising from the Company's shares consolidation on 14th December, 2006 had not been issued to its then shareholders.

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NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

11. Share Option Scheme

The Company has adopted the Share Option Scheme at its extraordinary general meeting held on 28th June, 2005. All directors (including executive directors, non-executive directors and independent non-executive directors) and employees of the Company and its subsidiaries and consultants, advisors, agents, customers, service providers, contractors, business partners of any member of the Group or any member of it has a shareholding interest, in the sole discretion of the Board, has contributed to the Group or any member of it are eligible to participate in the Share Option Scheme.

Each option gives the holder the right to subscribe for one ordinary share in the Company. Upon acceptance of the options, the grantee shall pay HK\$1 to the Company by way of consideration for the grant.

An option may be exercised at any time during a period as the Board may determine which shall not be more than ten years from the date of grant of the option subject to the provisions of early termination thereof. Unless otherwise determined by the Board at its sole discretion, the Share Option Scheme does not require a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised.

The Share Option Scheme will remain in force for a period of ten years from 28th June, 2005. The total number of shares of the Company which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not in aggregate exceed 3,900,261 shares of the Company, being approximately 10% of the issued shares of the Company at the date of refreshment of the 10% mandate of the Share Option Scheme at the annual general meeting held 27th May, 2009.

On 18th August, 2011, 522,047 share options expired and lapsed.

Details of the lapse of share options as at 30th September, 2011 are as follows:

	Date of grant	Exercise period	Outstanding as at 1st January, 2011	Lapsed during the period	Outstanding as at 30th September, 2011	Exercise price HK\$
Other employees	18/8/2008	18/8/2008 – 17/8/2011	522,047	522,047	–	5.10

Other than the share options lapsed as disclosed above, no share options were granted, exercised, lapsed or cancelled under the Share Option Scheme during the period.

12. Related party transactions

	Nine months ended 30th September, 2011 (Unaudited) HK\$	2010 (Unaudited) HK\$
Harmony Asset Management Limited (“HAML”): – Management fees	<u>3,339,798</u>	<u>3,306,535</u>

On 8th April, 2010, the Company entered into a new investment management agreement with HAML, a company which is wholly-owned by a director of the Company, Dr. Chow Pok Yu Augustine. Under the new agreement, HAML has agreed to assist the Board with the day-to-day management of the Group for additional three years until 31st May, 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 of the preceding month and an incentive fee is calculated at 10% of the audited net profit of a financial year (before accrual of the incentive fee) subject to an annual cap of HK\$16,919,971 for the year ending 31st December, 2011.

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NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

13. Lease commitments

As at 30th September, 2011, the Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	As at 30th September 2011 (Unaudited) <i>HK\$</i>	As at 31st December 2010 (Audited) <i>HK\$</i>
Within one year	2,777,112	2,497,796
In the second to fifth years inclusive	3,471,390	5,554,224
	6,248,502	8,052,020

The Group leases an office under operating leases. The leases typically run from an initial period of three years, with an option to renew the lease after that date at which time all terms are renegotiated.

14. Financial risk management

(a) Financial risk factors

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

(i) Market risk

– Foreign exchange risk

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

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

– Price risk

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

(ii) Credit risk

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

(iii) Liquidity risk

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

15. Approval of the unaudited interim financial statements

The unaudited interim financial statements were approved and authorised for issue by the Board on 14th November, 2011