HARMONY ASSET LIMITED

亨亞有限公司*

(Incorporated in the Cayman Islands with limited liability)
(HKEx Stock Code : 428)

OVERSEAS REGULATORY ANNOUNCEMENT

This announcement is made pursuant to the disclosure requirement under rules 13.09 and 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

The attached is management discussion and analysis ("MD&A") of Harmony Asset Limited (the "Company") prepared in accordance with Canadian Securities Law to be published on the website of the System for Electronic Document Analysis and Retrieval [SEDAR] (www.SEDAR.com) on 31st March, 2014 pursuant to the requirements of the Toronto Stock Exchange. The attached MD&A is also published on the website of the Company (www.harmonyasset.com.hk).

For and on behalf of the board of directors
Harmony Asset Limited
LEE Fong Lit
Chairman

Hong Kong, 31st March, 2014

As at the date of this announcement, the board of directors of the Company comprises four executive directors, namely Mr. Lee Fong Lit David, Dr. Chow Pok Yu Augustine, Mr. Cheng Ming Shun and Mr. Chan Shuen Chuen Joseph; and three independent non-executive directors, namely Mr. Tong Kim Weng Kelly, Dr. Wong Yun Kuen and Mr. Ho Man Kai Anthony.

* *For identification purpose only*

HARMONY ASSET LIMITED
亨亞有限公司*

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

MANAGEMENT DISCUSSION AND ANALYSIS PREPARED IN ACCORDANCE WITH CANADIAN SECURITIES LAW

For the Year Ended: December 31, 2013

Date of Report: March 31, 2014

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 listed on the Hong Kong Stock Exchange (the "**HKEX**").

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

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

Reporting Currency

All monetary amounts contained in this MD&A are reported in Hong Kong dollar unless otherwise indicated.

Caution Regarding Forward-Looking Information

This MD&A contains forward-looking information which reflects the Company's current beliefs with respect to future events and is based on information currently available to the Company. Forward-looking information involves 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 information. When reviewing the Company's forward-looking information, investors and others should not place undue reliance on this forward-looking information 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 information. 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, 2013 with comparatives:

Operating Results (in HK$)	For the year ended December 31, (audited) 2013	2012
Turnover, other revenue and other gains and (losses)	**(21,107,516)**	**26,962,375**
(Loss) Profit before income tax	**(38,961,850)**	**9,530,972**
(Loss) Profit attributable to owners of the Company	**(38,961,850)**	**9,530,972**
Basic losses earnings per ordinary share	**(1.00)**	**0.24**

- 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, 2013, the Group recorded a turnover of HK$7,637,209 as compared to HK$10,275,453 in the prior year, representing a decrease of 26%. Such decrease was due to less interest income received during the 2013 year.

- The Group recorded a turnover, other revenue and other gains and losses in an aggregate loss of HK$21,107,516 for the year ended December 31, 2013, as compared to total revenue in a gain of HK$26,962,375 in the prior year. Such change has been discussed herein under the heading "Results of Operations".

- For the year ended December 31, 2013, the loss before income tax was HK$38,961,850 as compared to the profit of HK$9,530,972 in the prior year. The loss attributable to owners of the Company was HK$38,961,850 as compared to the profit of HK$9,530,972 in the prior year. The loss for the year ended December 31, 2013 was mainly due to a decrease in the fair value of the Group's trading securities and derivative financial instruments.. Details of the unrealised loss of trading securities are discussed herein under the heading "Investments".

- The value of the Group's equity portfolio continuously deteriorated over the quarter ended December 31, 2013. Global markets have remained volatile, as many European nations remain mired in debt and certain companies have announced uninspiring results. Lacklustre performance by some of the Group's investments caused further erosion in the value of the Group's portfolio.

- As at December 31, 2013, the Group had available funds of HK$30,878,872 which were mainly placed with banks as time deposits. The Group had no borrowing and did not have any capital expenditure commitments in the year ended December 31, 2013. 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, 2013, the Group recorded a turnover of HK$7,637,209 as compared to HK$10,275,453 in the prior year, representing a 26% decrease, which was primarily due to a decrease in interest income as compared to the prior year. The Group recorded interest income of HK$4,474,821 (2012: HK$7,909,026). Dividends received from listed and unlisted investments were HK$3,162,388 (2012: HK$2,366,427). Details of dividend income for the years ended December 31, 2013 and 2012 are as follows:

All figures in HK$		**The year ended December 31, 2013**	**The year ended December 31, 2012**
Listed securities:	**Stock code**		
HSBC	5	2,435	-
Swire Pacific A	19	2,958	-
New Heritage	95	12,428	22,968
Li & Fung	494	1,460	-
Prosperity Minerals	PMHL	-	621,757
Real Nutri	2010	-	79,584
Upbest Group	335	143,107	139,132
		162,388	863,441
Unlisted securities:			
Bright Genius		-	2,986
Mainco Limited		3,000,000	1,500,000
		3,000,000	1,502,986
Total		3,162,388	2,366,427

For the year ended December 31, 2013, gains on disposal of listed investments amounted to HK$3,094,469 (2012: HK$5,522,640), representing a 44% decrease from the prior year. As a result of the unfavourable performance of certain publicly traded securities held by the Company during the year, the Group recorded a net significant unrealized loss of HK$18,744,812 (2012: net gain of HK$21,114,391) on its publicly traded securities and the derivative financial instrument,. Fair value loss on a convertible bond designated as at fair value through profit or loss was HK$463,251. Details of the unrealised gain and loss of the trading securities for the years ended December 31, 2013 and 2012 are as follows:

	Stock code	The year ended December 31, 2013	The year ended December 31, 2012
Listed securities:			
American Oriental Bioeng Inc.	AOB	-	(608,670)
Allied Properties (HK) Ltd	56	50,572	-
Celsion Corp	CLSN	-	5,910,971
Century Iron Mines Corp	FER.V	26,985	-
Centurion Minerals Ltd	CTN	(42,625)	(1,317,375)
CH Nonferrous	8306	-	(254,490)
EntreMed Inc.	ENMD	-	615,127
Kaisun Energy Group Ltd	8203	(4,782,250)	(9,071,598)
MBMI Resources Inc	MBR.V	569,921	(4,422,843)
Medifocus Inc	MFS.P	(8,209,467)	20,218,344
Mwana Aferica	MWA.L	(115,380)	-
New Heritage	95	-	(524,258)
Prosperity Minerals	PMHL	-	(1,942,472)
Tai Shing	8103	-	(764,800)
Upbest Group	335	40,000	480,000
		(12,462,244)	8,317,936
Derivative financial securities:			
Warrants of Medifocus Inc		(7,149,699)	17,316,248
Convertible bonds		867,131	(4,519,793)
		(6,282,568)	12,796,455
Total		(18,744,811)	21,114,391

As at December 2013, the decrease in value of HK$7,149,699 of warrants of Medifocus Inc was resulted in the valuation which was made by an external valuer as compared to the valuation last year.

The Group recorded a net realized gain on disposal of an unlisted investment of HK$2,363,350 (2012: HK$1,018,508) for the year ended December 31, 2013. Recovery of impairment losses on loans and receivables previously recognized and written off were HK$4,949,381 (2012: HK$1,632,065). The impairment losses on unlisted investments were HK$4,726,655 (2012: HK$12,624,729). The impairment losses on loans and receivables were HK$13,384,734 (2012: HK$1,708,524). The impairment losses on accounts receivable were HK$2,260,000 (2012: recovery of HK$1,487,971). The Group recorded the turnover, other revenue and other gains and losses in an aggregate loss of HK$21,107,516 for the year ended December 31, 2013 as compared to the total gain of HK$26,962,375 in the prior year.

For the year ended December 31, 2013, the total operating expenses was HK$17,854,334 (2012: HK$17,431,403). For the year ended December 31, 2013, the loss before income tax was HK$38,961,850 as compared to the profit of HK$9,530,972 in the prior year. The loss attributable to owners of the Company was HK$38,961,850 as compared to the profit of HK$9,530,972 in the prior year.

As at December 31, 2013, the Group's unlisted investments (comprised of available-for-sale financial assets ("**AFS**") and loans and receivables) were HK$114,229,014 as compared to HK$135,556,159 as at December 31, 2012, representing a 16% decrease. The investments comprised the following activities: (1) net decrease in fair value of HK$2,140,194; (2) purchase of AFS of HK$19,472,712 (3) subscription of convertible bonds of HK$15,609,373; (4) advances to two investees an aggregate of HK$1,565,000; (5) repayment from convertible bonds of HK$8,731,838; (6) repayment from three investees of HK$6,285,968;

(7) total impairment loss of HK$13,384,734 was made on loans and receivables and (8) decrease in aggregate amount of AFS of HK$31,109,746 by disposal of seven investments.

As at December 31, 2013, accounts receivable and prepayments was HK$30,910,631 as compared to HK$12,438,006 as at December 31, 2012, representing a 149% increase. The net increase was the result of (1) balance of sale proceeds of HK$22,516,764 from disposal of three private investments; (2) outstanding amount of HK$3,000,000 from repayment of a convertible bond; (3) transfer of HK$5,000,000 to a convertible bond; (4) repayment of accounts receivable and prepayments of amount of HK$3,683,959 due from last year; (5) net increase of amount of HK$1,994,212 due from securities firms; (6) impairment loss of HK$2,260,000 due from a private company; and (7) a net decrease in interest receivable and prepayment of HK$741,820.

As at December 31, 2013, the Group held trading securities and a convertible bond designated as at fair value through profit or loss in an aggregate amount of HK$54,235,622 as compared to HK$87,031,396 as at December 31, 2012, representing a 38% decrease. The decrease was primarily due to: (1) purchases of securities for an aggregate amount of HK$29,625,168; (2) the disposals of certain securities which had an aggregate cost of HK$49,495,447; (3) net decrease in market value in the amount of HK$12,462,244 of the listed securities held by the Group and (4) fair value loss on a convertible bond designated as at fair value throught profit or loss of HK$463,251.

Outlook

Last year, global economy was in a period of "Goldilocks", i.e. stabilizing and improving growth, low and falling inflation and very accommodating monetary conditions, all of which proved very favorable for equity markets, particularly for developed markets, such as the United States (“**US**”) and Europe. Returns from world equities, represented by the MSCI World Index, have exceeded 20%, while the S&P 500 index which tracks US equities returned over 27%. The laggards, however, have been Asia and the emerging markets. The MSCI Emerging Markets Index, in contrast, fell by 4%.

After a strong run up in share prices in 2013, what can we expect to see this year in the macro picture of the financial world? Management believes that we are likely to see the next 12 months as the year of the Taper verses the year of the galloping Horse. The process of tapering by the US Federal Reserve Bank is expected to lead to a rising yield curve on US interest rates which would pull liquidity back to the US. The result will continue to be more financial pressure on the emerging markets, many of which are set to underperform in 2014.

Still, according to a recent study released by the World Bank, the global economy is on course for a smooth recovery in 2014. The study posited that as advanced economies heal from the global crises, the recovery is gaining momentum and will pull along emerging economies that have slowed.

For Asian markets, volatility is likely to rise due to the Federal's policy to shift to taper territory. We intend to steel our investments for increased volatility, thus avoiding the kind of shocks suffered by emerging market equities last year when tapering was first mooted.

China remains a favorite in terms of the Group's asset allocation and a key source of value. Management is cognizant that the market condition in China has been and still is a very policy driven market. However, the results of the 3rd Plenum, the shift to more of a market focus and the ongoing reform programs are improving the long term quality of growth, which we believe will eventually result in a market rerating. The government is expected to announce detailed structural reform measures to address the local government debt problems at the upcoming National People's Congress. Management believes that current valuations have yet to reflect the benefits of progress to be announced in March.

As the year of Taper progresses, management intends to keep a balance among assets in the Group's portfolio and not to engage in the extreme of risk taking. The Group's investment philosophy has always been based on the use of rigorous, disciplined fundamental research coupled with appropriate risk management tools. Management has identified several sectors which it believes warrant further attention and investment: Biotechnology, Healthcare, Natural Resources, Commercial Property Development in China to name but a few. As the Group positions itself for the growth in these industries, management is cognizant of the stakeholders' support and will strive to deliver positive results to shareholders. To this end, the directors of Harmony are committed to work with the management, employees and business partners for a successful year.

SELECTED ANNUAL INFORMATION

	As at December 31,		
All figures in HK$	**2013**	2012	2011
	(audited)	(audited)	(audited)
Net investment (loss) gain (operating (loss) profit)	**(38,961,850)**	9,530,972	(45,704,441)
Income (total revenue and other gains and (losses))	**(21,107,516)**	26,962,375	(28,322,935)
Net (loss) income for the year (profit (loss) attributable to owners of the Company)	**(38,961,850)**	9,530,972	(48,045,466)
Basic (losses) earnings per ordinary share	**(1.00)**	0.24	(1.23)
Diluted (losses) earnings per ordinary share	**(1.00)**	0.24	(1.23)
Total assets	**249,210,883**	291,048,311	275,521,837
Total long-term financial liabilities	**-**	-	-
Shareholders' equity	**241,681,687**	282,783,731	268,697,349
Cash dividends declared per ordinary share	**nil**	nil	nil

- Variation in the annual results is mainly a result of a decrease in the realized gain on disposals of certain listed securities and increase in fair value losses in market values of the publicly traded investments and derivative financial instruments, 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, 2013 with comparatives are as follows:

Operating Results (all figures in HK$)	**Three months ended December 31, (unaudited)**		**Year ended December 31, (audited)**	
	2013	2012	**2013**	2012
Turnover (total investment income)*	**3,050,478**	3,497,676	**7,637,209**	10,275,453

Operating Results (all figures in HK$)	Three months ended December 31, (unaudited)		Year ended December 31, (audited)	
	2013	2012	2013	2012
Interest income	**2,901,978**	3,358,544	**4,474,821**	7,909,026
Dividends received	**148,500**	139,132	**3,162,388**	2,366,427
Gain (loss) on disposals of listed investments	**(6,085,729)**	1,573,167	**3,094,469**	5,522,640
Net (loss) income before tax	**(6,351,554)**	22,731,039	**(38,961,850)**	9,530,972
(Loss) profit attributable to owners of the Company	**(6,351,554)**	22,731,039	**(38,961,850)**	9,530,972

* 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)	
	2013	2012	2013	2012
Other income:				
Service fee income	**34,161**	125,026	**37,401**	136,592
Total other income	**34,161**	125,026	**37,401**	136,592
Other gains and (losses):				
Net exchange gain (loss) on financial instruments not a fair value through profit or loss	**455,008**	170,747	**264,585**	108,008
Fair value changes on financial assets at fair value through profit and loss	**11,995,302**	35,510,792	**(18,744,812)**	21,114,391
Net realized gain on disposals of financial assets at fair value through profit and loss	**(6,085,729)**	1,573,167	**3,094,469**	5,522,640
Fair value loss on a convertible bond designated as at fair value through profit and loss	**(463,251)**	-	**(463,251)**	-
Realized gain on disposals of a convertible bond	**125,541**	-	**125,541**	-
Net realized gain on disposals of available-for-sale financial assets	**(1,338,755)**	1,018,508	**2,363,350**	1,018,508
Recovery of impairment losses on loans and receivables previous recognised and written off	**4,065,000**	1,349,820	**4,949,381**	1,632,065
Impairment losses on accounts receivable and interest receivables	**(2,260,000)**	-	**(2,260,000)**	1,487,971
Impairment losses on loans and receivables	**(4,790,862)**	(1,708,524)	**(13,384,734)**	(1,708,524)
Impairment losses on available-for-sale financial assets				
-equity investments	**(4,726,655)**	(12,624,729)	**(4,726,655)**	(12,624,729)
- deposits on investments written off	**-**	-	**-**	-
Total other gains and (losses)	**(3,024,401)**	25,289,781	**(28,782,126)**	16,550,330
Total	**2,990,240**	25,414,807	**(28,744,725)**	16,686,922

For the year ended December 31, 2013, the Group recorded a turnover of HK$7,637,209 as compared to HK$10,275,453 in the prior year, representing a 26% decrease, which was primarily due to a decrease in interest income as compared to the prior year. The Group recorded interest income of HK$4,474,821 (2012:

HK$7,909,026). Dividends received from listed and unlisted investments were HK$3,162,388 (2012: HK$2,366,427).

For the year ended December 31, 2013, gains on disposal of listed investments amounted to HK$3,094,469 (2012: HK$5,522,640), representing a 44% decrease from the prior year. With the impact of unfavourable performance of certain publicly traded securities held by the Company during the year, the Group recorded a significant net unrealized loss of HK$18,744,812 (2012: net gain of HK$21,114,391) on its publicly traded securities and the derivative financial instruments. Fair value loss on a convertible bond designated as at fair value through profit or loss was HK$463,251.

The Group recorded a net realized gain on disposal of an unlisted investment of HK$2,363,350 (2012: HK$1,018,508) for the year ended December 31, 2013. Recovery of impairment losses on loans and receivables previously recognized and written off were HK$4,949,381 (2012: HK$1,632,065). The impairment losses on unlisted investments was HK$4,726,655 (2012: HK$12,624,729). The impairment loss on loans and receivables were HK$13,384,734 (2012: HK$1,708,524). The impairment loss on accounts receivable was HK$2,260,000 (2012: recovery of HK$1,487,971). The Group recorded the turnover, other revenue and other gains and losses in an aggregate loss of HK$21,107,516 for the year ended December 31, 2013 as compared to the total gain of HK$26,962,375 in the prior year.

For the year ended December 31, 2013, the total operating expenses was HK$17,854,334 (2012: HK$17,431,403). For the year ended December 31, 2013, the loss before income tax was HK$38,961,850 as compared to the profit of HK$9,530,972 in the prior year. The loss attributable to owners of the Company was HK$38,961,850 as compared to the profit of HK$9,530,972 in the prior year.

SUMMARY OF QUARTERLY RESULTS

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

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

	Reviewed and Unaudited Financial Information for the Quarter ended			
	December 31, 2013	**September 30, 2013**	**June 30, 2013**	**March 31, 2013**
Net investment loss	(6,351,554)	(6,821,214)	(15,189,948)	(10,599,134)
Net loss for the period	(6,351,554)	(6,821,214)	(15,189,948)	(10,599,134)
Losses per ordinary share – basic	(0.16)	(0.17)	(0.39)	(0.27)
Losses per ordinary share – diluted	(0.16)	(0.17)	(0.39)	(0.27)
	December 31, 2012	**September 30, 2012**	**June 30, 2012**	**March 31, 2012**
Net investment gain (loss)	22,731,039	(381,523)	(17,572,372)	4,753,828
Net income (loss) for the period	22,731,039	(381,523)	(17,572,372)	4,753,828
Earnings (losses) per ordinary share – basic	0.58	(0.01)	(0.45)	0.12
Earnings (losses) per ordinary share – diluted	0.58	(0.01)	(0.45)	0.12

Significant variations arise in the quarterly results due to unrealized loss on investments recognized in the income statement which results from the Group revaluing its investments. The values at which publicly traded investments are carried are subject to fluctuations in the public markets from quarter to quarter. The private investments are 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, 2013, the Group recorded a turnover of HK$3,050,478 as compared to HK$3,497,676 in the same period last year, representing a 12.8% decrease which was primarily due to the decrease in interest income as compared to the prior year. The interest income was HK$2,901,978 as compared to HK$3,358,544 in the same period in the prior year, representing a 13.6% decrease. Dividends received from investments were HK$148,500 (2012: HK$139,132). Loss on the disposal of listed investments amounted to HK$6,085,729 (2012: gain of HK$1,573,167). Given the impact of unfavourable performance of certain trading securities continuously in the fourth quarter of 2013, the Group recorded an unrealised loss of HK$11,995,302 (2012: gain of HK$35,510,792) on trading securities and derivative financial instruments. Fair value loss on a convertible bond designated as at fair value through profit or loss was HK$463,251. The Group recorded the turnover, other revenue and other gains and losses in an aggregate gain of HK$60,238 for the three months ended December 31, 2013 as compared to HK$28,912,483 in the same period in the prior year, representing a 99.8% decrease.

For the three months ended December 31, 2013, the loss before income tax was HK$6,351,554 as compared to a profit of HK$22,731,039 in the same period last year. The loss attributable to owners of the Company was HK$6,351,554 as compared to the profit of HK$22,731,039 in the same period last year.

For the three months ended December 31, 2013, 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 interest 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, 2013, the other operating expenses were HK$5,095,354 as compared to HK$4,940,455 for the same period in the prior year, representing a 3.1% increase. No accrual of incentive fees was made in the fourth quarter of 2013 (2012: incentive fee of HK$1,058,997). The new operating lease expense in respect of land and buildings was HK$246,977 and the old operating lease was HK$694,278 (2012: HK$694,278). Due to a decrease in net asset value of the Group for the three months ended December 31, 2013, the payment of investment management fees decreased to HK$921,482 as compared to HK$970,879 for the same period in the prior year, representing a 5% decrease.

CASH FLOW

The Group's selected cash flow information for the three months and the years ended December 31, 2013 and 2012 are as follows:

(Unaudited: reviewed by management)	**Three months ended**		**Year ended**	
	December 31, 2013	**December 31, 2012**	**December 31, 2013**	**December 31, 2012**
Net cash (used in) from operating activities	(9,607,570)	5,741,482	(12,270,333)	(22,043,625)
Net cash (used in) from investing activities	22,047,635	(3,585,059)	9,052,793	(19,264,572)
Net cash from (used in) financing activities	-	-	-	-

Net increase (decrease) in cash and cash equivalents	12,440,065	2,156,423	(3,217,540)	(41,308,197)
Cash and cash equivalents at October 1 or January 1	18,438,807	31,939,989	34,096,412	75,404,609
Cash and cash equivalents at December 31	30,878,872	34,096,412	30,878,872	34,096,412
Analysis of the balance of cash and cash equivalents:				
Bank balances and cash	30,878,872	34,096,412	30,878,872	34,096,412

For the three months ended December 31, 2013 versus the three months ended December 31, 2012

For the three months ended December 31, 2013, net cash used in operations was HK$9,607,570 as compared to cash of HK$5,741,482 from operations in the same period in the prior year, which figure comprises net cash from disposal of traded securities of HK$17,303,553 (2012: HK$4,569,670). No cash was used to purchase derivative financial instruments (2012: used HK$912,560). Net cash used in an increase of accounts receivable was HK$16,954,971 (2012: cash from decrease in accounts receuvable of HK$3,517,029). Increase in accounts payable was HK$1,461,114 as compared to HK$1,073,903 in the same period in the prior year. No amount was due to a related company (2012: HK$1,058,997).

Net cash from investing activities was HK$22,047,635 as compared to net cash of HK$3,585,059 used in investing activities in the same period in the prior year. No cash dividend was received (2012: nil) from unlisted investments. Interest income decreased by HK$32,996 (2012: increase of HK$1,502,317). Cash repayment of HK$3,940,619 (2012: HK$1,393,030) was received from loans and receivables. Cash advanced to investee companies was HK$1,400,000 (2012: HK$8,535,000). Purchase of AFS was HK$344,747 (2012: HK$2,953,558). Purchase of investment deposits of HK$3,883,515 (2012: nil). Purchase of convertible bonds was HK$2,324,374 (2012: HK$16,000,000). Redemption of convertible bond was HK$3,731,838 (2012: HK$2,000,000). Net cash proceeds of HK$22,725,643 was from the disposal of AFS (2012: HK$1,938,152). The Group purchased fixed assets of HK$364,833 (2012: nil).

No cash was used in financing activities for the three months ended December 31, 2013 (2012: nil).

For the year ended December 31, 2013 versus the year ended December 31, 2012

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, 2013, net cash flow used in operations of HK$12,270,333 included:

- HK$13.33 million loss before working capital changes (a non-cash item);
- HK$19.87 million from disposal of shares in publicly traded companies;
- HK$20.73 million increase in accounts receivable and prepayments;
- HK$0.32 million increase in accounts payable and accruals;
- HK$1.06 million decrease in amount due to a related company; and
- HK$2.66 million refund from profit tax .

In contrast, for the year ended December 31, 2012, net cash flow used in operations of HK$22,043,625 included:

- HK$9.67 million loss before working capital changes (a non-cash item);

- HK$8.35 million in purchases of shares in publicly traded companies;
- HK$0.91 million increase in derivative financial instruments;
- HK$4.54 million increase in accounts receivable and prepayments;
- HK$0.38 million increase in accounts payable and accruals; and
- HK$1.06 million increase in amount due to a related company.

For the year ended December 31, 2013, net cash generated from investing activities was HK$9,052,793 as compared to HK$19,264,572 used in the prior year. The Group received cash dividends from private investments in the aggregate amount of HK$3,000,000 (2012: HK$1,502,986). Cash advanced to investees was HK$1,565,000 as compared to HK$5,915,000 in the prior year. Repayment from investees was HK$6,285,968 (2012: HK$2,708,030). Purchase of AFS was HK$19,472,712 (2012: HK$10,750,558). Purchase of convertible bonds was HK$15,609,373 (2012: HK$16,000,000). Redemption of convertible bonds was HK$8,731,838 (2012: HK$2,000,000). The net proceeds from disposal of AFS was HK$30,339,748 (2012: HK$1,938,152). Interest received by the Group was HK$1,590,672 as compared to HK$5,288,795 in the prior year. The Group purchased fixed assets of HK$364,833 (2012: HK$36,977).

For the year ended December 31, 2013, no net cash was used in financing activities (2012: nil).

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$30,878,872 which were mainly placed with banks as time deposits. Cash and bank balances held by the Group are mainly denominated in Hong Kong dollar and Canadian dollar.

As at December 31, 2013, the Group had no borrowing (2012: nil). The gearing ratio for the Group was 0% (2012: 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, 2013, the Group had future aggregate minimim lease payments under non-cancellable operating leases in respect of land and buildings as follows:

Contractual Obligations	*Payments Due by Period (HK$)*				
	Total	*Less than 1 year*	*1 - 3 years*	*4 - 5 years*	*After 5 years*
Debt	–	–	–	–	–
Finance Lease Obligations	–	–	–	–	–
Operating Leases	*5,518,238*	*1,954,800*	*3,563,438*	–	–
Purchase Obligations1	–	–	–	–	–
Other Obligations2	–	–	–	–	–
Total Contractual Obligations	*5,518,238*	*1,954,800*	*3,563,438*	–	–

The Group has sufficient funds to meet the requirement of the commitment of the operating leases. As at December 31, 2013, the Group has no other contractual obligations for which funds are required to be reserved for such purpose.

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, 2013 and 2012 are categorised as follows:

	Group	
	December 31 2013 HK$	December 31 2012 HK$
Available-for-sale financial assets	71,150,303	85,610,660
Loans and receivables		
Loans and receivables	43,078,711	49,945,499
Accounts receivable	28,069,296	10,449,982
Bank balances and cash	30,878,872	34,096,412
	102,026,879	94,491,893
Financial assets at fair value through profit or loss		
Trading securities	54,235,622	87,031,396
Derivative financial instruments	14,383,832	18,228,808
	68,619,454	105,260,204
Total financial assets	241,796,636	285,362,757
Other financial liabilities		
Accounts payable and accruals	7,529,196	7,205,583
Amount due to a related company	-	1,058,997
Total financial liabilities	7,529,196	8,260,580

As at and for the year ended December 31, 2013, the significant changes in financial instruments as compared to the statement of financial position as at December 31, 2012 consisted primarily of:

(1) The change in the Group's AFS and loans and receivables was primarily due to: (1) net decrease in fair value of HK$2,140,194; (2) purchase of AFS of HK$19,472,712 (3) subscription of convertible bonds of HK$15,609,373; (4) advances to two investees of HK$1,565,000; (5) repayment from convertible bonds of HK$8,731,838; (6) repayment from three investees of HK$6,285,968; (7) total impairment loss of HK$13,384,734 was made on loans and receivables and (8) decrease in aggregate amount of AFS of HK$31,109,746 by disposal of seven investments.

(2) The movement in the Group's accounts receivable was primarily due to: (1) balance of sale proceeds of HK$22,516,764 from disposal of three private investments; (2) outstanding amount of HK$3,000,000 from repayment of a convertible bond (3) transfer of HK$5,000,000 to a convertible bond; (4) repayment of accounts receivable and prepayments of amount of HK$3,683,959 due from last year; (5) net increase of amount of HK$1,994,212 due from security firms; (6) impairment loss of HK$2,260,000 due from a private company; and (7) a net increase in interest receivable and prepayment of HK$741,820.

(3) During the period, the Group engaged in the following major trading transactions: (1) purchases of securities for an aggregate amount of HK$29,625,168; (2) the disposals of certain securities which had an aggregate cost of HK$49,495,447; (3) net decrease in market value in the amount of HK$12,462,244 of the listed securities held by the Group and (4) fair value loss on a convertible bond designated as at fair value through profit or loss of HK$463,251.

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)(d) and 27(b) of the audited financial statements of the Group for the year ended December 31, 2013.

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2013 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 "**2010 Investment Management Agreement**") with HAML as detailed in the information circular of the Company dated April 29, 2010, whereby HAML agreed to provide its management services for an additional three years until May 31, 2013. In accordance with the 2010 Investment Management Agreement, HAML was 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 of HK$18,391,986 for the year ended December 31, 2012.

On April 11, 2013, the Company entered into a new investment management agreement with HAML (the "**New Investment Management Agreement**"). Under the New Investment Management Agreement, HAML has agreed to assist the Board with the day-to-day management of the Group for additional three years from June 1, 2013 to May 31, 2016. In accordance with the 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$7,860,670 which was previously agreed for the period from January 1, 2013 to May 31, 2013 and caps of HK$2,911,523 and HK$2,830,502 for management fees and incentive fee respectively for the period from June 1, 2013 to December 31, 2013.

On April 24, 2013, the Company and HAML entered into the supplemental agreement (the "**Supplemental Agreement**") to amend the calculation method of the incentive fee under the New Investment Management Agreement. After entering into the Supplemental Agreement, the incentive fee payable by the Company to HAML under the New Investment Management Agreement (as amended by the Supplemental Agreement) in respect of each financial year shall be 10% of the audited net profit of the Group in the financial year and for the purpose of the calculating the audited net profit of the financial year (i) any audited net loss of the Group in any financial year commencing January 1, 2013 shall be carried forward and set off against the audited net profit of the Group in subsequent financial years, and (ii) the audited net profit of the financial year shall be calculated before accrual of any incentive fee that will be payable. The New Investment Management Agreement and the Supplemental Agreement were approved by the independent shareholders of the Company on the extraordinary meeting of the Company which was held on May 31, 2013.

Dr. Chow Pok Yu Augustine, being a beneficial shareholder of HAML, had an interest in the 2010 Investment Management Agreement and the New Investment Management Agreement during the years ended December 31, 2013 and 2012. The management fees and incentive fee paid and payable to HAML are as follows:

	2013 HK$	2012 HK$
Management fees	3,906,350	3,915,231
Incentive fee	-	1,058,997
Total	3,906,350	4,974,228

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 31, 2014, 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**

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 years ended December 31, 2013 and December 31, 2012 (collectively, the "**Financial Statements**"), which were prepared in accordance with the International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the HKEX.

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

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

2. Significant accounting polices

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

3. Use of estimates

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

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

The Group adopts two principal methodologies to determine the fair value of 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, 2013 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, 2013 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, 2013, 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, 2013.

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, 2013. 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, 2013. 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, 2013 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, 2013 (the

"**AIF**"). These risks and uncertainties are not the only ones facing the Company. Additional risks and uncertainties not currently known to the Company, or that the Company currently considers immaterial, may also impair the business of the Company. If any such risks actually occur, the business, financial condition, liquidity and results of operations of the Company could be materially adversely affected.

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

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

2. *Risk of Limited Number of Investments*

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

3. *Marketability of the Company's Investments*

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

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

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

4. *(a) Due Diligence*

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

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

The Company does not have formal purchase agreements and/or shareholder/subscription agreements in place for some of its investments in privately held companies. As at December, 2013, a total carrying value of all these investments is approximately HK$11.5 million, which is 4.8% of the net asset value of the Group. It is not entirely abnormal for the Company to make investments in privately held companies in the absence of formal purchase agreements and/or shareholder/subscription agreements. As mentioned in the preceding paragraph, due diligence process was undertaken by the Company in connection with its investments through internal resources or by hiring external consultancy and/or professional advisors and most of the investments in privately held companies made by the Company took the form of share equities. Under the laws of the jurisdictions of these privately held companies, the certificates specifying the shares held by the Company are prima facie evidence of the title of the Company to those share equities and the Board considers the risk of the Company having title to its investments challenged due to lack of formal purchase agreements and/or shareholder/subscription agreements is low.

5. *Reliance upon the Directors and Management*

Shareholders must rely upon the expertise and discretion of the board of directors and management of the Company in selecting and investing in securities, the composition of the portfolio of such securities owned or acquired by the Company and in determining whether to dispose of any securities held by the Company. The success of the Company will be dependent upon the board of directors and management of the Company successfully identifying and managing the Company's investments. Accordingly, the Company's continued success will depend upon the continued services of these individuals who are not obligated to remain employed with the Company. The loss of the services of any of these individuals could have a material adverse effect on the Company's revenues, net income and cash flows and could harm the Company's ability to maintain or grow its existing assets and raise additional funds in the future.

6. *Currency and Foreign Exchange Rate Risks*

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

7. *Liquidity Risk*

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

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

8. *Interest Rate Risk*

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

9. *Speculative Nature of Ordinary Shares*

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

10. *Trading Price of Shares relative to Net Asset Value*

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

FINANCIAL RISK MANAGEMENT

The Company has implemented policies to manage its exposure to certain financial risks. Refer to Note 27 of the notes to the 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, 2013. The Annual Report includes the audited consolidated financial statements as at December 31, 2013, 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.