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, 2008

Date of Report: March 30, 2009

Nature of the Business

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

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

Reporting Currency

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

Caution Regarding Forward-Looking Statements

This MD&A contains forward-looking statements which 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, 2008 with comparatives:

Operating Results (in HK$)	For the year ended December 31, (audited) 2008	2007
Turnover, other revenue and gains and losses	(74,822,392)	80,048,650
Net (loss) income before tax	(93,662,234)	61,986,119
(Loss) profit attributable to shareholders	(88,590,514)	50,907,356
Basic (loss) earning per ordinary share	(2.27)	1.48

- The Group's core business remained focused on investment holding and less than 10% of the turnover and other revenue, results and assets of the Group are attributable to markets outside Hong Kong.

The downturn of worldwide financial markets has caused substantial decreases in the value of real estate, equities, commodities and currencies alike. The financial crisis has had a significant impact on the global financial industry and thus affected Hong Kong and the Group's operating results.

As at December 31, 2008 the Group recorded the loss of HK$88,590,514 attributable to equity holders of the Company for the year as compared to the profit of HK$50,907,356 in the same period in the prior year, representing a 274% decrease. Basic loss per share was HK$2.27 as compared to the earning of HK$1.48 per share in the same period in the prior year, representing a 253% decrease. The Group's net asset value decreased to HK$183,541,764 as compared to HK$288,047,095 as at December 31, 2007, representing 36% decrease.

The significant decrease in the Group's financial performance is summarized as follows:

- As a result of the continuing turmoil in the global financial markets, most of the Group's publicly traded securities dropped by over 50% in value. The Group incurred a loss of HK$44,044,129 on the fair value change of its publicly traded securities as compared to a gain of HK$75,431,756 in the same period in the prior year, a 158% decrease.

- The local economy in China is facing many financial difficulties. The increasing unemployment and decreasing consumer demand are impacting the restaurant and retail industry. The Group booked an impairment loss provision of HK$43,818,878 for the equity and loans and receivables of the private investments as compared to HK$9,155,450 in the same period in the prior year, a 378% increase. The accounts receivable and prepayments of HK$4,703,792 were written off as compared to HK$356,523 in the same period in the prior year, a 1,219% increase.

The Group is dealing with economic conditions that have gone from financial turbulence into economic recession. The next twelve months will be challenging for the Group. However, with strong net current assets and no bank borrowings, the Group is confident it can maintain its strong financial position. There is adequate liquidity to meet future operations. Although the Group will not be making any further investments in the short term, the Group will continue to look at investment opportunities at the appropriate time when the economy begins to recover.

Investments

For the year ended December 31, 2008, the turnover increased to HK$12,916,300 when compared to HK$5,084,365 in the same period in the prior year, a 154% increase. The interest income was HK$4,391,728 as compared to HK$3,722,822 in the same period in the prior year, an 18% increase. Dividends generated from the listed and unlisted securities were HK$8,524,572 as compared to HK$1,361,543 in the same period in the prior year, a 526% increase. During the year ended December 31, 2008, the Group disposed of certain publicly traded securities with an aggregate value of HK$17,341,200, resulting in a net realised gain of HK$5,839,602 as compared to HK$4,929,798 as at December 31, 2007, representing 18% increase. As a result of the turmoil in global financial markets, the Group recorded an unrealized loss of HK$44,044,129 on fair value change on the publicly traded securities as compared to the gain of HK$75,431,756 in the same period in the prior year, a 158% decrease. After taking into account of turnover, other revenue, other gains and losses, a negative result of HK$74,822,392 appeared in the Group's records when compared to the gain of HK$80,048,650 in the same period in the prior year, a 193% decrease.

As at December 31, 2008, the Group's long term investments, which represent available-for-sale financial assets ("**AFS Financial Assets**"), loans and receivables, amounted to HK$88,136,439, as compared to HK$117,419,175 as at December 31, 2007, representing a 25% decrease. The decrease was primarily due to an impairment loss of HK$43,818,878 recognized for the year ended December 31, 2008, consisting of losses of HK$5,399,014 on AFS Financial Assets, HK$38,219,864 on loans and receivables and HK$200,000 on investment deposits. Despite the impairment provision, the Group still increased its investments, which included a HK$19,020,796 investment in a manufacturer of high quality wire and electrical accessory products, an increase in additional investment in a private equity by HK$5,000,000 resulting from the receipt of dividend payments on new shares and a subscription of an overseas listed security for HK$2,211,405.

As at December 31, 2008, the Group reduced accounts receivable and prepayments to HK$19,383,342 as compared to HK$28,940,971 as at December 31, 2007, representing a 33% decrease. During the year ended December 31, 2008, the Group received HK$10,000,000 from loan repayments. The Group paid a deposit of HK$3,294,939 to a property development project in Nanning, Guangxi province of PRC. An impairment loss provision of HK$4,703,792 was made on the account receivables and prepayments.

Outlook

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

The Group has not escaped the impact of the current global financial crisis. The next twelve months will be challenging for the Group.

The bearish conditions developing in worldwide financial markets will create difficult investment conditions especially in the Hong Kong and China markets and the Group will be undertaking a cautionary approach with respect to its direct investments.

For the next six months, the Group's board of directors will undertake no further investments in new projects. The focus of the Group's portfolio's decisions will be on maintaining a quality portfolio.

The Group's board of directors is anticipating, despite current economic conditions, that there may be good investment opportunities over the next year or so especially in China. The Group is financially sound, with no borrowings and with net current assets of approximately HK$97,920,181, the company remains well positioned to take advantage of investments opportunities that may emerge when the economy recovers and investor confidence returns.

SELECTED ANNUAL INFORMATION

All figures in HK$	As at December 31, 2008 (audited)	2007 (audited)	2006 (audited)
Operating (loss) profit	**(93,662,234)**	61,989,732	10,940,772
Total revenue and other (losses) and gains	**(74,822,392)**	80,048,650	23,594,093
(Loss) profit attributable to equity holders	**(88,590,514)**	50,907,356	10,685,282
Basic earning (loss) per ordinary share	**(2.27)**	1.48	0.37
Diluted earning (loss) per ordinary share	**N/A**	1.46	0.36
Total assets	**190,806,081**	300,342,663	197,995,480
Total liabilities	**7,264,317**	12,295,568	7,550,961
Shareholder's equity	**183,541,764**	288,047,095	190,444,519
Cash dividends declared per ordinary share	**0**	0.17	0.15

Variation in the annual results is mainly as a result of changes in the market values of the publicly traded investments held and provision of impairment loss made by Harmony, which are recognised in income statements. Negative valuations have resulted from the significant decrease in the Chinese and Hong Kong markets in the third quarter for the year ended December 31, 2008.

RESULTS OF OPERATIONS

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

Operating Results (all figures in HK$)	Three months ended December 31, (unaudited)		Year ended December 31, (audited)	
	2008	2007	2008	2007
Turnover (total investment income)*	**3,238,223**	1,512,731	**12,916,300**	5,084,365
Interest income	**1,018,967**	1,281,188	**4,391,728**	3,722,822
Dividends received	**2,219,256**	231,543	**8,524,572**	1,361,543
Gain (loss) on disposal of listed investments	**(167,004)**	1,112,174	**5,839,602**	4,929,798
Net (loss) income before tax	**(73,308,517)**	53,741,704	**(93,662,234)**	61,986,119
(Loss) profit attributable to shareholders	**(69,342,143)**	42,968,872	**(88,590,514)**	50,907,356

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

Other revenue, other (losses) and gains (all figures in HK$)	Three months ended December 31, (unaudited)		Year ended December 31, (audited)	
	2008	2007	2008	2007
Other revenue:				
Sundry Income	**68,381**	(11,890)	**599,451**	879,909
Total other revenue	**68,381**	(11,890)	**599,451**	879,909
Other (losses) and gains:				
Exchange (loss) gain, net	**(1,586,462)**	2,172,390	**(1,610,946)**	2,434,795
Fair value changes on financial assets at fair value through profit or loss	**(21,968,091)**	61,176,454	**(44,044,129)**	75,431,756
Net realized gain on disposal of financial assets at fair value through profit or loss	**(167,004)**	1,112,174	**5,839,602**	4,929,798
Reversal of impairment loss upon disposal of available-for-sale financial assets	**-**	-	**-**	800,000
Impairment loss on accounts receivables	**(4,703,792)**	(356,523)	**(4,703,792)**	(356,523)
Impairment loss on loans and receivables	**(38,219,864)**	(5,308,943)	**(38,219,864)**	(8,617,204)
Impairment loss on available-for-sale financial assets				
-equity investments written off	**(5,399,014)**	(288,246)	**(5,399,014)**	(288,246)
-deposits on investments written off	**(200,000)**	(250,000)	**(200,000)**	(250,000)
Total other (losses) and gains	**(72,244,227)**	58,257,306	**(88,338,143)**	74,084,376
Total	**(72,175,846)**	58,245,416	**(87,738,692)**	74,964,285

For the year ended December 31, 2008, the Group had interest income of HK$4,391,728 as compared to HK$3,722,822 in the same period in the prior year, an 18% increase. Dividend generated from listed and unlisted securities was HK$8,524,572 as compared to HK$1,361,543 in the same period in the prior year, a 526% increase. The amount of turnover for the year ended December 31, 2008 was HK$12,916,300 as compared to HK$5,084,365 in the same period in the prior year, a 154% increase. The Group disposed of certain publicly traded securities with an aggregate value of HK$23,180,802, resulting in a net realised gain of HK$5,839,602 for the year ended December 31, 2008 as compared to HK$4,929,798 for the same period in the prior year, representing an 18% increase. As a result of the continuing turmoil in global financial markets, the Group recorded an unrealized loss of HK$44,044,129 on fair value change on its publicly traded securities as compared to a gain of HK$75,431,756 in the same period in the prior year, a 158% decrease. After taking into account turnover, other revenue, other (losses) and gains, a negative result of HK$74,822,392 was recorded on the Group's financial statements for the year ended December 31, 2008, when compared to a gain of HK$80,048,650 in the same period in the prior year, a 193% decrease.

The global economic downturn has affected most industries in Hong Kong. As at December 31, 2008, the Group's long term investments, which represent AFS Financial Assets, loans and receivables, amounted to HK$88,136,439, as compared to HK$117,419,175 as at December 31, 2007, representing a 25% decrease. The decrease was primarily due to an impairment loss of HK$43,818,878 recognized for the year ended December 31, 2008, which consisted of losses of HK$5,399,014 on AFS Financial Assets, HK$38,219,864 on loans and receivables and HK$200,000 on investment deposits. A further provision for an impairment loss of HK$4,703,792 was made on the account receivables and prepayments. The Group recorded these provisions after taking into consideration the financial condition of its investee companies, including, but not limited to, the significant accumulated losses of each particular investee company as well the ability of the investee company to repay its debts obligations considering the investee company's net asset position.

For the year ended December 31, 2008, employee benefits expenses were HK$5,570,840 as compared to HK$3,063,128 in the same period in the prior year, an 82% increase. The primary reason for this increase was performance bonus of HK$2,600,000 for the year ended December 31, 2007 which was approved by the Group's board of directors and payable in April, 2008. Depreciation expenses were HK$129,027 for the year ended December 31, 2008 (2007: HK$206,717). No additional expenses were incurred in connection with the Company's dual listing (2007: HK$2,250,586).

Other operating expenses were HK$13,139,975 for the year ended December 31, 2008, as compared to HK$14,789,073 in the same period in the prior year, an 11% decrease. The net decrease in operating expenses was the net result of the following:

- Investment management fees paid in the amount of HK$4,175,591 for the year ended December 31, 2008 (2007: HK$3,427,995). This balance increased due to the overall increase in the net asset value of the Group during certain periods of the year ended December 31, 2008;
- No incentive fee (2007: HK$1,424,700) was provided for the year ended December 31, 2008, because of the net loss for the year ended December 31, 2008.
- The operating lease in respect of land and buildings decreased slightly from HK$2,244,839 to HK$2,438,110 for the year ended December 31, 2008.

Provisional for Hong Kong Profits Tax has been made at 16.5% (2007: 17.5%) of the Group's estimated assessable profits for the year. Income tax had a tax credit of HK$5,071,720 for the year ended December 31, 2008 as compared to a tax expense of HK$11,078,763 for the same period in the prior year. This represented an adjustment of profit tax over provided in the prior year. For the year ended December 31, 2008, the Group's board of directors considered unrealized gains and losses recognised in income statement should not be taxable and deductible respectively until they have been realised. The current tax and deferred taxation in respect of the prior year has been adjusted in the current year accordingly.

SUMMARY OF QUARTERLY RESULTS

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

Other revenue, other (losses) and gains (all figures in HK$)	**Reviewed and Unaudited Financial Information for the Quarter ended**			
	December 31, 2008	**September 30, 2008**	**June 30, 2008**	**March 31, 2008**
Net investment gains (loss)	(68,937,622)	(37,661,963)	7,780,809	9,527,437
Net income (loss) for the period	(76,255,862)	(34,243,991)	6,342,737	8,652,883
Earnings (loss) per ordinary share – basic	(1.96)	(0.88)	0.16	0.22
Earnings per ordinary share – diluted	N/A	N/A	0.16	0.22

	December 31, 2007	September 30, 2007	June 30, 2007	March 31, 2007
Net investment gains (loss)	53,741,704	(15,167,700)	23,133,997	278,118
Net income (loss) for the period	42,968,872	(12,227,118)	19,887,484	278,118
Earnings (loss) per ordinary share – basic	1.10	(0.31)	0.65	0.01
Earnings per ordinary share – diluted	1.09	N/A	0.65	0.01

- Significant variations arise in the quarterly results due to unrealized gains/losses on investments recognized in the income statement which resulted from the Group revaluing its investments. The value at which publicly traded investments are carried are subject to fluctuations in the public markets from quarter to quarter. Private investments are re-valued when management adjusts its estimates of the fair value of the investments, which is completed on a quarterly or monthly basis. Management is not aware of any significant seasonal and cyclical factors that would contribute to the quarter-to-quarter variations of the Group's performance.

FOURTH QUARTER

For the three months ended December 31, 2008, the Group received interest income in the aggregate amount of HK$1,018,967 as compared to HK$1,281,188 in the same period in the prior year, representing a 20% decrease. Dividend income generated from the listed and unlisted securities was HK$2,100,000 (2007: HK$231,543). Turnover, or interest and dividend income, for the three months ended December 31, 2008 was HK$3,238,223 as compared to HK$1,512,731 in the same period in the prior year, representing a 114% increase. Net realised loss on disposal of listed securities was HK$167,004 (2007: gain of HK$1,112,174). The fair value loss on listed securities was HK$21,968,091 as compared to a gain of HK$61,176,454 in the same period in the prior year, representing a 136% decrease. The Group's turnover, other revenue and other losses and gains were aggregated to result in a loss of HK$68,937,622 as compared to the gain of HK$58,245,416 in the same period in the prior year, representing a 218% decrease.

For the three months ended December 31, 2008, the loss before income tax was HK$73,651,515 as compared to the profit of HK$51,491,119 in the same period in the prior year, representing a 243% increase. The loss attributable to equity holders of the Company was HK$76,255,862 as compared to HK$40,718,287 in the same period in the prior year, representing a 287% increase.

For the three months ended December 31, 2008, there were no significant changes in the Group's operations as compared to the same period in the prior year. The major sources of income were bank deposits, interest on loans receivable, dividends from investments held, fair value gain, and gain on disposal of publicly traded investments. As a result of global financial crisis, the change in fair value of publicly traded investments had a significant impact on the total losses and gains and revenue of the Group as compared to the same period in 2007.

For the three months ended December 31, 2008, the other operating expenses were HK$3,531,782 as compared to HK$7,398,422 for the same period in the prior year, representing a 52% decrease. The operating lease expense in respect of land and buildings was HK$527,340 as compared to HK$645,941 for the same period in the prior year, representing a 18% decrease. Due to continuous decrease in net asset value of the Group for the three months ended December 31, 2008, the payment of investment management fees decreased to HK$885,687 as compared to HK$1,023,766 for the same period in the prior year, representing a 13% decrease. No incentive fee (2007: HK$1,424,700) was provided for the year ended December 31, 2008, due to the net loss overall recorded for the year.

For the three months ended December 31, 2008, the Group received a repayment of HK$780,000 from loans and receivables. Due to the impact of the global economic downturn, the Group temporarily suspended making any new investments in December 2008. New projects will be under review again after six months.

CASH FLOW

The Group's selected cash flow information for the three months and the year ended December 31, 2008 and 2007 are as follows:

	Three months ended		Year ended	
	December 31, 2008 (unaudited)	**December 31, 2007 (unaudited)**	**December 31, 2008 (audited)**	**December 31, 2007 (audited)**
Net cash from (used in) operating activities	471,997	(5,729,983)	6,973,567	(33,964,587)
Net cash (used in) from investing activities	2,693,995	(1,422,740)	(11,861,285)	(1,257,595)
Net cash from (used in) financing activities	72,763	2,250,585	(6,557,681)	38,204,433
Net (decrease) increase in cash and cash equivalents	3,238,755	(4,902,138)	(11,445,399)	2,982,251
Cash and cash equivalents at October 1 and January 1	7,014,030	26,600,322	21,698,184	18,715,933
Cash and cash equivalents at December 31	10,252,785	21,698,184	10,252,785	21,698,184
Analysis of the balance of cash and cash equivalents:				
Bank balances and cash	10,252,785	21,698,184	10,252,785	21,698,184

Cash flow for the twelve months ended December 31, 2008

In the normal course of business for Harmony, significant fluctuations in cash flows can occur. Generally, this category includes such items as share transactions, accounts receivable, operating loans to investees and listing expenses. For the year ended December 31, 2008, net cash flow generated from operations of HK$6,973,567 included:

- (HK$13.42) million in loss before working capital changes (a non-cash item);
- HK$15.13 million in share disposal of publicly traded companies;
- HK$6.06 million decrease in accounts receivable and prepayments;
- (HK$1.30) million increase in accounts payable and accruals; and
- (HK$0.50) million in income taxes refunded.

In contrast, for the year ended December 31, 2007, net cash used in operations of (HK$33,964,587) included:

- (HK$8.6) million in loss before working capital changes (a non-cash item);
- (HK$11.8) million in share purchases of publicly traded companies;
- (HK$5.2) million decrease in accounts payable and accruals;
- (HK$7.2) million increase in accounts receivable and prepayments; and

- (HK$1.1) million in income taxes paid.

For the year ended December 31, 2008, net cash used in investing activities was HK$11,861,285 as compared to HK$1,257,595 in the same period in the prior year. The Group received cash dividends from private investments in the aggregate amount of HK$3,400,000 (2007: HK$1,130,000). Cash advanced to investee companies was HK$1,472,000 as compared to HK$5,332,000 in the same period in the prior year. Repayment from investee companies was HK$2,641,700 (2007: HK$8,848,301). Purchase of AFS Financial Assets was HK$18,256,891 (2007: HK$7,500,000). The Group purchased fixed assets of HK$52,133 in 2008 (2007: HK$49,705). Interest received by the Group was HK$1,878,039 as compared to HK$845,809 in the same period in the prior year.

For the year ended December 31, 2008, net cash used in financing activities was HK$6,557,681 as compared to net cash of HK$38,204,433 received in the same period in the prior year. The use of funds was mainly due to the payment of a dividend declared for the year ended December 31, 2007. For the year ended December 31, 2007, the Group received cash of HK$44,794,976 and HK$2,794,000 respectively from the placement of new shares and the exercise of share options as well as cash paid HK$4,383,262 and HK$5,001,281 respectively for dividend and dual listing expenses.

Cash flow for the three months ended December 31, 2008

For the three months ended December 31, 2008, net cash from operations was HK$5,902,710 as compared to HK$4,578,649 cash used in the same period in the prior year. This consisted primarily of net cash used in publicly traded securities in the amount of HK$1,781,086 as compared to the receipt of HK$2,884,694 from the disposal of securities in the same period in the prior year. Net cash from the decrease in accounts receivable was HK$6,651,348 as compared to HK$4,846,927 used in the same period in the prior year. Net cash used in accounts payable was HK$837,081 (2007: HK$2,114,843).

Net cash from investing activities was HK$2,693,995 as compared to HK$1,422,740 cash used in the same period in the prior year. Net cash from dividends declared by private investments was HK$2,100,000 (2007: nil). Net cash received from repayment of loans and receivables was HK$580,000 as compared to HK$7,536,798 in the same period in the prior year. Net cash used to pay the balance of consideration for a private investment was HK$175,872 (2007: HK$7,500,000). Net cash was advanced to investee companies was HK$372,000 during the three months ended December 31, 2008 as compared to cash advances of HK$1,689,800 in the same period in the prior year.

Net cash used in financing activities for the three months ended December 31, 2008 was HK$72,763 (2007: HK$2,250,585). The use of funds was mainly due to payment of a dividend declared in the prior year.

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.

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.

The Group has been impacted by the global financial crisis and expects that the next twelve months will be challenging. The Group expects that world financial markets will create difficult investment conditions, especially in the Hong Kong and China markets. As such, the Group will examine its direct investments with caution. The Group does not plan on making further investments in new projects within the next six months. The Group is confident that it can maintain its strong financial position with positive net assets and no bank borrowings. There is adequate liquidity to meet future operations. Although, the Group will not be making any further investments in the short term, the Group will continue to look at investment opportunities that may emerge when the economy begins to recover.

(audited)

	December 31, 2008	**December 31, 2007**
Accounts receivable and prepayments	19,383,342	28,940,971
Financial assets at fair value through profit or loss	72,896,629	132,070,553
Bank balance and cash	10,252,785	21,698,184
Current assets	102,532,756	182,709,708
Accounts payable and accruals	1,786,654	2,246,637
Tax payable	2,825,920	10,048,931
Current liabilities	4,612,575	12,295,568
Net current assets	97,920,181	170,414,140

The Group has an operating lease which will expire on April 15, 2010.

		Payments due by period			
Contractual Obligations	**Total**	**Less than 1 year**	**1 – 3 years**	**4 – 5 years**	**After 5 years**
Operating Leases	2,724,590	2,109,360	615,230	Nil	Nil

The Group had available funds of HK$10,252,785 which were mainly placed with banks as time deposits. Cash and bank balances held by the Group are mainly Hong Kong dollars and Canadian dollars.

As at December 31, 2008, the Group had no borrowings (2007: nil). The gearing ratio for the Group was 0% (2007: 0%) which represents the ratio of the Group's borrowings to the net asset value of the Group.

CAPITAL RESOURCES

As at the date of this MD&A, the Group has unutilised banking facilities of HK$3,000,000 and requires no significant funding for investment and capital expenditure commitments. The interest rate charged on the banking facilities is 2% per annum over the Prime Lending Rate or 2% per annum over the prevailing overnight Hong Kong Interbank Offered Rate, whichever is higher.

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

FINANCIAL INSTRUMENTS

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

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

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

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

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

As at December 31, 2008, the Group has financial instruments and their details were disclosed with the comparative figure for the year ended December 31, 2008 as follows:

Financial instruments (in HK$)	**Year ended December 31, 2008 (audited)**	**Year ended December 31, 2007 (audited)**
Available-for-sale financial assets	68,058,932	58,321,923
Loans and receivables	20,077,507	59,097,252
Accounts receivable and prepayments	19,383,342	28,940,971
Financial assets at fair value through profit or loss	72,896,629	132,070,553
Bank balances and cash	10,252,785	21,698,184
Accounts payable and accruals	1,786,655	2,246,637

Further detailed information with respect to the significant assumptions made by the Group with respect to its financial instruments has been disclosed in note (4)(g) of the audited financial statements for the year ended December 31, 2008 under summary of significant accounting policies.

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2008, there are no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

On May 17, 2007, the Company entered into a supplemental agreement (the "**Supplemental Agreement**") with Harmony Asset Management Limited (the "**Management Company**"), a company wholly owned by Dr. Chow Pok Yu, Augustine, the Chief Executive Officer and an executive director of the Company, amending the terms of a management agreement (the "**Management Agreement**") between the Company and the Management Company dated June 1, 1998, as amended on April 5, 2000. Under the Management Agreement, the Management Company agrees to assist the board of directors of the Company with the day-to-day management of the Company and to provide the Company with investment management services, including identifying and analyzing investment opportunities and structuring and monitoring investments. The Supplemental Agreement was entered into by the parties to extend the term of the Management Agreement from June 1, 2007 to May 31, 2010 and to amend the remuneration term of the Management Agreement in order to reflect market standards. In accordance with the Management Agreement, as amended by the Supplemental Agreement, the Management Company is entitled to a monthly 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$5,672,353 and HK$5,531,145 respectively for the year ended December 31, 2008.

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 December 31, 2008, 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	39,002,614
Issuable under options	1,906,047
Total diluted ordinary shares	**40,908,661**

On August 18, 2008, the Company granted 522,047 and 50,000 share options to three employees and a corporate development advisor respectively at the exercise price of HK$5.10 per Ordinary Share representing approximately 1.5% of the outstanding share capital of the Company as at December 31, 2008.

The estimated fair value of HK$343,000 (2007: HK$762,000) with respect to the share options granted to other employees and the consultant discussed above, were charged to the income statement for the year ended December 31, 2008.

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, 2008 and December 31, 2007 (collectively, the "**Financial Statements**"), which were prepared in accordance with the International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the HKEX.

The Financial Statements have been prepared under the historical cost convention, except that, as disclosed in the accounting policies shown in the Financial Statements, available-for-sale financial assets and financial assets at fair value through profit or loss are stated at fair value. An extract of the accounting policies that the Company believes to be critical to the Financial Statements is set out below. For a summary of all significant accounting policies, refer to note 4 to the financial statements for the year ended December 31, 2008.

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

2. Financial instruments

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

3. Fair value

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

(a) *Publicly traded investments:*

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

(b) *Privately held investments:*

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

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

Based on the Company's directors' conservative analysis of each of the privately held investments, the directors consider that it is appropriate to estimate the fair values of majority of these investments based on their net asset value or recent transaction prices. The carrying amounts of these privately held investments may be materially different from their fair values as estimated by more complex valuation techniques.

4. **Financial assets**

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

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

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

5. **Revenue recognition**

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

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

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

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

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

6. Use of estimates

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

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

(a) *Market price:*

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

(b) *Net asset value:*

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

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions 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 key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out in note 29 to the financial statements.

CHANGES IN ACCOUNTING POLICY

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

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Canadian Securities Administrators have issued National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings" 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, 2008, management has evaluated the effectiveness of the design and the operating effectiveness of the disclosure controls and procedures as defined by National Instrument 52-109. This evaluation was performed under the supervision of and with the participation of the Company's Chairman and Chief Executive Officer and Chief Financial Officer. Based on this evaluation, the Company's Chairman and Chief Executive Officer and Chief Financial Officer concluded that the design and operation of the disclosure controls and procedures were effective as of December 31, 2008.

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 at December 31, 2008. Based on this evaluation, management, with the participation of the Company's Chairman and Chief Executive Officer and Chief Financial Officer, has concluded that the design and operating effectiveness of ICFR was effective as of December 31, 2008. The Company has continued to use the basic frame work for international control and risk management internal control framework issued by the Hong Kong Institute of Certified Public Accountants to design its ICFR. Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis as such systems can only be designed to provide reasonable as opposed to absolute assurance. Also projections of any evaluation of the effectiveness of ICFR to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

National Instrument 52-109 also requires public companies in Canada to disclose in their MD&A any change in ICFR during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting. There were no changes in ICFR during the quarter ended December 31, 2008 that materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Risk Factors

The following are certain risk factors inherent in the Company's businesses and an investment in the ordinary shares of the Company. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing in the Company's Annual Information Form for the financial year ended December 31, 2008 (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*

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

2. *Risk of Limited Number of Investments*

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

3. *Marketability of the Company's Investments*

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

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

The value attributed to securities of privately held companies will be the cost 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 its 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 28 of the Notes to the Company's 2008 Financial Statements for a discussion regarding the Company's financial risk management.

ADDITIONAL INFORMATION

Additional information relating to Harmony may be found on SEDAR at www.sedar.com, the HKSE website at www.hkex.com.hk or the Company's website at www.harmonyasset.com.hk. Additional financial information is provided in the Company's AIF and Annual Report for the financial year ended

December 31, 2008. The Annual Report includes the audited consolidated financial statements as at December 31, 2008, 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.