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, 2010

Date of Report: March 30, 2011

Nature of the Business

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

Harmony is an investment company that principally invests in securities listed on the HKEX with an emphasis on companies with undervalued and discounted shares. The Company also invests in private companies which have potential for earnings growth and capital appreciation. The Company takes an active role in building its investee companies and often retains a long-term strategic interest in the companies 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, 2010 with comparatives:

Operating Results (in HK$)	For the year ended December 31, (audited) 2010	2009
Turnover, other revenue and other gains and (losses)	**51,579,976**	118,953,480
Profit before income tax	**33,449,229**	99,507,864
Profit attributable to owners of the Company	**35,274,924**	84,954,963
Basic earnings per ordinary share	**0.90**	2.18

- The Group maintained its debt-free status.
- The Group's core business remained focused on holding its investments.

For the year ended December 31, 2010, the Group recorded turnover of HK$40,628,394 as compared to HK$6,089,942 last year, representing a 567% increase. After taking into account of total turnover, other revenue and other gains and (losses), the Group recorded a gain of HK$51,579,976 for the year ended December 31, 2010 as compared to HK$118,953,480 last year, representing a 57% decrease.

For the year ended December 31, 2010, the total operating expense was HK$18,130,747 (2009: HK$19,445,616). The profit before income tax was HK$33,449,229 as compared to HK$99,507,864 in last year representing a 66% decrease. The profit attributable to owners of the Company was HK$35,274,924 as compared to HK$84,954,963 last year, representing a 58% decrease.

The Group had available funds of HK$141,083,888, which were mainly placed with banks as time deposits. Cash and bank balances held by the Group are mainly denominated in Hong Kong dollars and Canadian dollars.

The Group's shareholders' fund was valued at HK$309,289,512 at December 31, 2010 compared to HK$277,500,594 at December 31, 2009, representing an 11% increase.

Investments

For the year ended December 31, 2010, due to an increase in the participation in secured financial projects, the Group received interest income in the aggregate amount of HK$7,176,790 as compared to HK$1,314,810 last year, representing a 446% increase. Dividend income generated from the Group's investments was HK$33,451,604 as compared to HK$4,775,132 last year, representing a 601% increase. Turnover was HK$40,628,394 for the year ended 31 December, 2010 as compared to HK$6,089,942 last year, representing a 567% increase. The Group recorded an unrealized loss of HK$17,413,882 on listed securities as compared to an unrealized gain of HK$21,695,001 last year. The Group disposed of certain of its publicly traded securities to obtain a realized gain of HK$19,847,468 (2009: HK$110,724,365). The Group also disposed of some unlisted investments with a realized gain of HK$13,555,482 (2009: HK$222,002). Impairment losses of

HK$11,571,164 (2009: nil) were made on certain unlisted investments by reference to the value of investee companies. Impairment losses on loans and receivables were HK$1,922,160 as compared to HK$14,729,472 last year. Total revenue for the year ended December 31, 2010 was HK$51,579,976 as compared to HK$118,953,480 last year, representing a 57% decrease.

The profit before income tax was HK$33,449,229 as compared to HK$99,507,864 last year, representing a 66% decrease. The profit attributable to owners of the Company was HK$35,274,924 as compared to HK$84,954,963 last year, representing a 58% decrease.

As at December 31, 2010, the Group's investments, which are comprised of available-for-sale financial assets ("**AFS**"), and loans and receivables, amounted to HK$84,997,871 as compared to HK$117,168,628 as at December 31, 2009, representing a 27% decrease. Such decrease was mainly due to: (1) net increase in fair value of HK$419,855; (2) the investment of HK$11,000,000 in an investee company by way of equity in the amount of HK$5,000,000 and convertible bonds in the amount of HK$6,000,000; (3) disposals of seven equity investments with carrying value of HK$29,098,678; (4) the conversion of convertible bonds, of which the debt element in AFS was HK$14,863,057, into listed securities; (5) advances to investee companies in the amount of HK$788,000; (6) the repayment of loans in the amount of HK$1,288,706 received from investee companies; and (7) impairment losses of HK$1,922,160 on loans and receivables.

As at December 31, 2010, the accounts receivable and prepayments were HK$25,089,549 as compared to HK$17,810,465 as at December 31, 2009, representing 41% increase. This increase was primarily the result of: (1) increase in interest-earning financial projects of HK$3,572,916; and (2) net increase in prepayment and deposits of HK$1,311,281.

During the year, the Group had the following major trading transactions: (1) investments in HK$127 million trading securities; (2) disposals of trading securities with carrying value of HK$81 million; and (3) exercise of convertible bonds and warrants contributing net realized gain of HK$8,540,697.

Outlook

The Group will continue to focus on core investments which will include resource-related businesses in Asia and real estate developments in the greater China Region. The Group may devote some assets to participate in financial projects with recurring income and fixed interest returns in the near future. While profit as a whole decreased 58% when compared to the HK$84,954,963 earned last year, we are satisfied that the Group remained profitable in the face of a difficult year.

We are confident in the criteria established by our investment committee in choosing new investment opportunities which will enable us to advantageously reposition ourselves as the global economy eventually recovers. Prudence will be exercised in the aftermath of the dramatic earthquake and tsunami in Japan. We are also cautious of the inflationary trends unfolding worldwide, as well as to the credit tightening effected by the Chinese government to manage property prices in China.

Notwithstanding the upheavals in the financial markets, the measures that have been adopted by the investment committee and the Board of Directors have enabled us to achieve positive results as well as enhance our future business prospects.

SELECTED ANNUAL INFORMATION

All figures in HK$	As at December 31, 2010 (audited)	2009 (audited)	2008 (audited)
Net investment gains (loss) (operating profit (loss))	**33,449,229**	99,507,864	(93,662,234)
Income (total revenue and other gains and losses)	**51,579,976**	118,953,480	(74,822,392)
Net income (loss) for the year (profit (loss) attributable to owners of the Company)	**35,274,924**	84,954,963	(88,590,514)
Basic earnings (loss) per ordinary share	**0.90**	2.18	(2.27)
Diluted earnings (loss) per ordinary share	**0.90**	2.17	(2.27)
Total assets	**323,048,710**	300,762,649	190,806,081
Total long-term financial liabilities	**0**	2,413,948	2,651,742
Shareholders' equity	**309,289,512**	277,500,594	183,541,764
Cash dividends declared per ordinary share	**0.1**	0.2	0

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

RESULTS OF OPERATIONS

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

Operating Results (all figures in HK$)	Three months ended December 31, (unaudited)		Year ended December 31, (audited)	
	2010	2009	2010	2009
Turnover (total investment income)*	**3,655,190**	527,450	**40,628,394**	6,089,942
Interest income	**2,707,337**	388,318	**7,176,790**	1,314,810
Dividends received	**947,853**	139,132	**33,451,604**	4,775,132
Gain on disposals of listed investments	**6,841,960**	5,305,769	**19,847,468**	110,724,365
Net income (loss) before tax	**(43,090,353)**	6,888,156	**33,449,229**	99,507,864
Profit (loss) attributable to owners of the Company	**(800,097)**	7,442,150	**35,274,924**	84,954,963

* 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) 2010	2009	Year ended December 31, (audited) 2010	2009
Other income:				
Service fee income	**30,009**	(2,859,318)*	**120,014**	273,134
Total other income	**30,009**	(2,859,318)*	**120,014**	273,134
Other gains and (losses):				
Net exchange gain on financial instruments not a fair value through profit or loss	**1,524,644**	37,389	**1,467,554**	546,674
Fair value changes on financial assets at fair value through profit and loss	**(2,488,145)**	7,287,437	**(17,413,882)**	27,070,318
Net realized gain on disposals of financial assets at fair value through profit and loss	**6,848,976**	5,305,769	**26,846,197**	110,724,365
Net realized gain on disposals of available-for-sale financial assets	**(460,078)**	222,002	**13,555,482**	222,002
Gain on disposal of property, plant and equipment	**-**	10,000	**-**	10,000
Gain on disposal of an associate	**-**	-	**-**	100,000
Recovery of impairment losses on loans and receivables previous recognised	**-**	-	**-**	54,000
Recovery of impairment losses on accounts and receivable	**-**	8,000,000	**113,999**	8,000,000
Impairment losses on accounts receivable	**-**	(4,896,909)	**-**	(18,807,483)
Impairment losses on loans and receivables	**(1,922,160)**	(1,957,903)	**(1,922,160)**	(14,729,472)
Impairment losses on available-for-sale financial assets				
-equity investments	**(1,682,245)**	-	**(11,571,164)**	-
- deposits on investments written off	**-**	(32,349)	**(244,458)**	(600,000)
Total other gains and (losses)	**1,820,992**	13,975,436	**10,831,568**	112,590,404
Total	**1,851,001**	11,116,118	**10,951,582**	112,863,538

For the year ended December 31, 2010, due to an increase in the participation in secured financial projects, the Group received interest income in the aggregate amount of HK$7,176,790 as compared to HK$1,314,810 last year, representing a 446% increase. Dividend income generated from the Group's investments was HK$33,451,604 as compared to HK$4,775,132 last year, representing a 601% increase. Turnover was HK$40,628,394 for the year ended December 31, 2010 as compared to HK$6,089,942 last year, representing a 567% increase. The Group recorded an unrealized loss of HK$17,413,882 on listed securities as compared to an unrealized gain of HK$21,695,001 last year. The Group disposed of certain of its publicly traded securities to obtain a realized gain of HK$19,847,468 (2009: HK$110,724,365). The Group also disposed of some unlisted investments with a realized gain of HK$13,555,482 (2009: HK$222,002). Impairment losses of HK$11,571,164 (2009: nil) were made on certain unlisted investments by reference to the value of investee companies. Impairment losses on loans and receivables were HK$1,922,160 as compared to HK$14,729,472 last year. Total revenue for the year ended December 31, 2010 was HK$51,579,976 as compared to HK$118,953,480 last year, representing a 57% decrease.

The profit before income tax on investments was HK$33,449,229 as compared to HK$99,507,864 last year, representing a 66% decrease. The profit attributable to owners of the Company was HK$35,274,924 as compared to HK$84,954,963 last year, representing a 58% decrease.

For the year ended December 31, 2010, there were no significant changes in the Group's operations as compared to the prior year. The major sources of income were interests on loans and bank deposits, dividends from investments held and gain on disposals of publicly traded securities.

For the year ended December 31, 2010, employee benefits expenses were HK$2,989,275 (2009: HK$2,842,510). Other operating expenses were HK$14,825,148 as compared to HK$16,487,382 in prior year, representing a 10% decrease. The decrease was mainly due to reduction of an incentive fee. Please refer to below Transactions with Related Parties from HK$6,028,948 to HK$3,928,169 for the year ended December 31, 2010 when the profit was dropped by 58% as compared to the year ended December 31, 2009. The management fee was increased to HK$4,417,468 (2009:HK$3,473,236) due to the increase in the net asset value during the year ended December 31, 2010. The operating lease expense in respect of land and buildings was HK$2,175,278 (2009: HK$2,109,360).

SUMMARY OF QUARTERLY RESULTS

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

	Reviewed and Unaudited Financial Information for the Quarter ended			
	December 31, 2010	**September 30, 2010**	**June 30, 2010**	**March 31, 2010**
Net investment gains (loss)	(3,090,353)	14,631,239	(2,709,419)	24,617,762
Net income (loss) for the period	(3,800,097)	14,334,295	(3,131,721)	27,872,447
Earnings (loss) per ordinary share – basic	(0.10)	0.37	(0.08)	0.71
Earnings (loss) per ordinary share – diluted	(0.10)	0.37	(0.08)	0.71
	December 31, 2009	**September 30, 2009**	**June 30, 2009**	**March 31, 2009**
Net investment gains (loss)	6,888,156	(16,888,067)	102,939,751	6,568,024
Net income (loss) for the period	7,442,150	(15,816,991)	85,903,780	7,426,024
Earnings (loss) per ordinary share – basic	0.19	(0.41)	2.20	0.19
Earnings (loss) per ordinary share – diluted	0.19	(0.41)	2.20	0.19

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

FOURTH QUARTER

For the three months ended December 31, 2010, the Group received interest income in the aggregate amount of HK$2,707,337 (2009: HK$388,318). Dividend income generated from the listed and unlisted securities was HK$947,853 (2009: HK$139,132). Turnover, or interest and dividend income, for the three months ended December 31, 2010 was HK$3,655,190 as compared to HK$527,450 in the same period in prior year, representing an 593% increase. The increase is mainly due to the increase in return of loan interest income from financial projects and dividend income from two unlisted investments. Net realized gain on disposals of listed securities was HK$6,848,976 (2009: HK$5,305,769). The Group recorded an unrealized loss on listed securities and derivative financial instruments HK$2,488,145 (2009: gain of HK$7,287,437). The Group also disposed some unlisted investments with a realized loss of

HK$460,078 (2009: gain of HK$222,002). Impairment losses of HK$1,922,160 were made on loans and receivables (2009: HK$1,957,903). Total revenue for the three months ended December 31, 2010 was HK$5,506,191 as compared to HK$11,643,568 in the same period in the prior year, representing a 52% decrease.

For the three months ended December 31, 2010, the loss before income tax was HK$3,090,353 as compared to a gain of HK$6,888,156 in the same period in the prior year. The loss attributable to owners of the Company was HK$800,097 as compared to profit of HK$7,442,150 in the same period in the prior year.

For the three months ended December 31, 2010, there were no significant changes in the Group's operations as compared to the same period in the prior year. The major sources of income were interests on bank deposits and loans receivable, dividends from investments held and gain on disposals of publicly traded investments.

For the three months ended December 31, 2010, the other operating expenses were HK$7,367,456 as compared to HK$3,732,212 for the same period in the prior year, representing a 97% increase. This increase was mainly due to an accrual of incentive fee of HK$3,928,169 in the fourth quarter of 2010. The operating lease expense in respect of land and buildings was HK$550,605 (2009: HK$527,340). Due to an increase in net asset value of the Group for the three months ended December 31, 2010, the payment of investment management fees increased to HK$1,110,933 as compared to HK$968,839 for the same period in the prior year, representing a 15% increase.

CASH FLOW

The Group's selected cash flow information for the three months and the years ended December 31, 2010 and 2009 are as follows:

(Unaudited: reviewed by management)	**Three months ended**		**Year ended**	
	December 31, 2010	**December 31, 2009**	**December 31, 2010**	**December 31, 2009**
Net cash (used in) from operating activities	4,641,274	40,216,290	(10,078,902)	119,325,256
Net cash (used in) from investing activities	38,355,634	(23,538,573)	56,962,607	(27,889,138)
Net cash from (used in) financing activities	40,688	42,074	(3,865,173)	(3,623,547)
Net increase in cash and cash equivalents	43,037,596	17,829,793	43,018,532	87,812,571
Cash and cash equivalents at October 1 or January 1	98,046,292	80,235,563	98,065,356	10,252,785
Cash and cash equivalents at December 31	141,083,888	98,065,356	141,083,888	98,065,356
Analysis of the balance of cash and cash equivalents:				
Bank balances and cash	141,083,888	98,065,356	141,083,888	98,065,356

For the three months ended December 31, 2010 versus the three months ended December 31, 2009

For the three months ended December 31, 2010, net cash from operations was HK$4,641,274 as compared to HK$40,216,290 in the same period in the prior year. This decrease in net cash was a result of cash used to purchase HK$1,682,327 worth of traded securities as compared to net cash proceeds of HK$43,629,162 from the disposal of publicly listed securities. No derivative financial instruments were acquired (2009:

HK$15,947,418). Net cash from a decrease in accounts receivable was HK$10,966,336 (2009: HK$19,768,833). The increase in accounts payable was HK$6,587,315 as compared to a decrease of HK$6,884,532 in the same period in the prior year. The increase in accounts payable is due to a provisional tax of HK$5,867,964 on cash dividend received from two unlisted investments. An increase in the amount due to a related company was HK$3,928,169 (2009: HK$6,028,948). The increase in the amount due to a related company was for an accrual of incentive fee for the year ended December 31, 2010 payable to HAML (as defined in Transactions with Related Parties below). Cash paid for Hong Kong income tax was HK$15,138,398 as compared to HK$4,047,413 in the same period in the prior year.

Net cash from investing activities was HK$38,355,634 as compared to HK$23,538,573 cash used in the same period in the prior year. There was a cash dividend of HK$28,786,334 received from private investments (2009: nil). Cash received from interest income was HK$944,489 as compared to decrease of HK$524,500 after adjustment last year. No repayment of loans and receivables was received (2009: HK$2,054,000). No advance was made to investee companies (2009: HK$3,120,000). No cash was expended on unlisted investments (2009: HK$20,504,073). Cash used to acquire office equipment was HK$11,560 as compared to HK$1,444,000 used to acquire a motor vehicle last year. Total proceeds from the disposal of fixed assets, an associate and unlisted investments was HK$13,032,104 (2009: HK$1,110,002).

Net cash from financing activities for the three months ended December 31, 2010 was HK$40,688 (2009: HK$42,074). This was primarily due to outsanding dividend payments declared in the period as well as in prior year.

For the year ended December 31, 2010 versus the year ended December 31, 2009

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, 2010, net cash flow used in operations of HK$10,078,902 included:

- HK$11.17 million from profit before working capital changes (a non-cash item);
- (HK$23.58) million in share purchase of publicly traded companies;
- HK$21.32 million decrease in derivative financial instruments;
- (HK$7.28) million increase in accounts receivable and prepayments;
- HK$5.52 million increase in accounts payable and accruals;
- (HK$2.1 million) decrease in amount due to a related company; and
- (HK$15.14) million in income tax paid.

In contrast, for the year ended December 31, 2009, net cash flow generated from operations of HK$119,325,256 included:

- HK$92.35 million from profit before working capital changes (a non-cash item);
- HK$49.66 million from share disposal of publicly traded companies;
- (HK$15.95) million increase in derivative financial instruments;
- (HK$8.14) million increase in accounts receivable and prepayments;
- (HK$0.58) million decrease in accounts payable and accruals;
- HK$6.03 million in increase in amount due to a related company; and
- (HK$4.05) million in income tax paid.

For the year ended December 31, 2010, net cash from investing activities was HK$56,962,607 as compared to HK$27,889,138 used in the prior year. The Group received cash dividends from private investments in the aggregate amount of HK$32,896,453 (2009: HK$4,636,000). Cash advanced to investee companies was HK$6,788,000 as compared to HK$3,120,000 in the prior year. Repayment from investee companies was HK$1,288,706 (2009: HK$2,207,900). Purchase of AFS was HK$5,244,458 (2009: HK$31,504,073). The Group purchased fixed assets of HK$11,560 in 2010 (2009: HK$1,444,000). Total proceeds from disposal of fixed assets, an associate and unlisted investments were HK$29,098,678 (2009: HK$1,110,002). Interest received by the Group was HK$5,722,788 as compared to HK$225,033 in the prior year.

For the year ended December 31, 2010, net cash used in financing activities was HK$3,865,173 (2009: HK$3,623,547). The use of funds was mainly due to the payment of dividends for the years ended December 31, 2009 and 2008.

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$141,083,888 which were mainly placed with banks as time deposits. Cash and bank balances held by the Group are mainly denominated in Hong Kong dollars and Canadian dollars.

As at December 31, 2010, the Group had no borrowing (2009: nil). The gearing ratio for the Group was 0% (2009: 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$20,000,000 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 at the date of this MD&A, the Group does not have any capital expenditure commitment, except for leasehold improvements of HK$883,384 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 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, 2010 and 2009 are categorised as follows:

	Group	
	2010	**2009**
	HK$	**HK$**
Available-for-sale financial assets	60,201,831	110,854,493
Loans and receivables		
Loans and receivables	24,796,040	6,314,135
Accounts receivable	23,014,279	17,046,476
Bank balances and cash	141,083,888	98,065,356
	188,894,207	121,425,967
Financial assets at fair value through profit or loss		
Trading securities	65,956,302	44,930,302
Derivative financial instruments	758,330	21,322,735
	66,714,632	66,253,037
Total financial assets	315,810,670	298,533,497
Financial liabilities at amortized cost		
Accounts payable and accruals	6,809,600	1,249,956
Amount due to a related company	3,928,169	6,028,948
Total financial liabilities	10,737,769	7,278,904

As at and for the year ended December 31, 2010, the significant changes in financial instruments as compared to the statement of financial position as at December 31, 2009 consisted primarily of:

(1) The movement in the Group's AFS and loans and receivables were primarily due to: (a) net increase in fair value of HK$419,855; (b) the investment of HK$11,000,000 in an investee company by way of equity in the amount of HK$5,000,000 and convertible bonds in the amount of HK$6,000,000; (c) the disposal of seven equity investments with a carrying value of HK$26,098,678; (d) the conversion of convertible bonds, of which the debt element in AFS was HK$14,863,057, into listed securities; (e) advances to investee companies in the amount of HK$788,000; (f) the repayment of loans in the amount of HK$1,288,706 received from investee companies; and (g) impairment losses of HK$1,922,160 on loans and receivables;

(2) The increase in accounts receivable was primarily the result of an increase in interest-earning financial projects of HK$3,572,916.

(3) During the year, the Group had the following major trading transactions: (a) investments in HK$127 million trading securities; (b) disposals of trading securities with carrying value of HK$81 million; and (c) exercise of convertible bonds and warrants contributing a net realized gain of HK$8,540,697.

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)(f) and 28(b) of the audited financial statements for the year ended December 31, 2010.

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2010, 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 has agreed to assist the Board with the day-to-day management of the Group for three years until May 31, 2010.

On April 8, 2010, the Company entered into a new investment management agreement (the "**New Investment Management Agreement**") with HAML as detailed in the circular dated on April 29, 2010, whereby HAML has agreed to provide the management service for additional three years until May 31, 2013. In accordance with the New Investment Management Agreement, HAML is entitled to a monthly management fee calculated at 1.5% per annum on the net asset value of the Group of the preceding month and an incentive fee calculated at 10% of the audited net profit of a financial year (before accrual of the incentive fee) subject to an aggregate cap of HK$9,057,158 for the period from June 1, 2010 to December 31, 2010.

The calculations of monthly management fees and the incentive fee in accordance with the Original Investment Management Agreement, which expired on May 31, 2010, were the same as the New Investment Management Agreement, while the caps of the management fees and the incentive fee under the Original Investment Management Agreement for the five months ended May 31, 2010 were HK$4,042,670 and HK$2,729,170 respectively.

Dr. Chow Pok Yu Augustine, being a beneficial shareholder of HAML, is interested in these agreements during the years ended December 31, 2010 and 2009. The management fees and incentive fee paid and payable to HAML are as follows:

	2010 HK$	2009 HK$
Management fees	4,417,468	3,473,236
Incentive fee	3,928,169	6,028.948
	8,345,637	9,502,814

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 30, 2011, the number of ordinary shares of the Company outstanding and the number of ordinary shares issuable pursuant to the outstanding options of the Company are as follows:

Ordinary Shares	Number
Outstanding	39,058,614
Issuable under options	522,047
Total diluted ordinary shares	**39,580,661**

On April 30, 2010, 988,000 share options expired. Other than the foregoing, no share options were granted, exercised, expired or cancelled pursuant to the Share Option Scheme of the Company.

PRINCIPAL ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES:

1. Basis of preparation

This MD&A should be read in conjunction with the audited financial statements of the Company for the financial year ended December 31, 2010 and December 31, 2009 (collectively, the "**Financial Statements**"), which were prepared in accordance with the International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the HKEX.

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

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

2. Significant accounting polices

Summary of significant accounting policies are set out in the note 4 to the financial statements of the Company for the year ended December 31, 2010.

3. Use of estimates

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

The Group adopts two principal methodologies to determine the fair value of 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 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, 2010 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 IFRSs, which is explained in note 2 to the audited financial statements.

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, 2010, management has evaluated the effectiveness of the design and the operating effectiveness of the disclosure controls and procedures as defined by National Instrument 52-109. This evaluation was performed under the supervision of and with the participation of the Company's Chairman and Chief Executive Officer and Chief Financial Officer. Based on this evaluation, the Company's Chairman and Chief Executive Officer and Chief Financial Officer concluded that the design and operation of the disclosure controls and procedures were effective as of December 31, 2010.

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, 2010. Based on this evaluation, management, with the participation of the Company's Chairman and Chief Executive Officer and Chief Financial Officer, has concluded that the design and operating effectiveness of ICFR was effective as of December 31, 2010. 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, 2010 that materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Risk Factors

The following are certain risk factors inherent in the Company's businesses and an investment in the ordinary shares of the Company. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing in the Company's Annual Information Form for the financial year ended December 31, 2010 (the "**AIF**"). These risks and uncertainties are not the only ones facing the Company. Additional risks and uncertainties not currently known to the Company, or that the Company currently considers immaterial, may also impair the business of the Company. If any such risks actually occur, the business, financial condition, liquidity and results of operations of the Company could be materially adversely affected.

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

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

2. *Risk of Limited Number of Investments*

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

3. *Marketability of the Company's Investments*

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

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

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

4. *Due Diligence*

The due diligence process that the Company undertakes in connection with investments may not reveal all facts that may be relevant in connection with an investment. Before making investments, the Company conducts due diligence that it deems reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence, the Company may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants and investment banks may be involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, the Company relies on the resources available to us, including information provided by the target of the investment and, in some circumstances, third-party investigations. The due diligence investigation that is carried out with respect to any investment opportunity may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. Moreover, such an investigation will not necessarily result in the investment being successful.

5. *Reliance upon the Directors and Management*

Shareholders must rely upon the expertise and discretion of the board of directors and management of the Company in selecting and investing in securities, the composition of the portfolio of such securities owned or acquired by the Company and in determining whether to dispose of any securities held by the Company. The success of the Company will be dependent upon the board of directors and management of the Company successfully identifying and managing the Company's investments. Accordingly, the Company's continued success will depend upon the continued services of these individuals who are not obligated to remain employed with us. 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 28 of the Notes to the Company's 2010 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, 2010. The Annual Report includes the audited consolidated financial statements as at December 31, 2010, 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.