
Harmony Asset Limited – First Quarterly Report 2012
prepared in accordance with the Canadian Securities Law

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HARMONY ASSET LIMITED

(Incorporated in the Cayman Islands with limited liability)

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

Unaudited Condensed Consolidated Interim Financial Statements

Three-month periods ended March 31, 2012

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NOTICE TO READER

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

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Condensed Consolidated statement of Comprehensive Income

For the three months ended March 31, 2012

| | | Three months ended | |
|---|-------------|---------------------------|-------------|
| | | March 31, | |
| | | 2012 | 2011 |
| | | (Unaudited) | (Unaudited) |
| | | HK\$ | HK\$ |
| | <i>Note</i> | | |
| Turnover | 2 | 617,879 | 4,604,839 |
| Other revenue | 2 | 6,968 | 27,127 |
| Other gains and (losses) | 2 | 7,773,156 | 5,557,203 |
| | | 8,398,003 | 10,189,169 |
| Employee benefits expenses | | (719,342) | (544,450) |
| Depreciation of property, plant and equipment | | (168,891) | (89,684) |
| Other operating expenses | | (2,755,942) | (2,457,252) |
| Profit before income tax | 3 | 4,753,828 | 7,097,783 |
| Income tax expense | 4 | – | – |
| Profit for the period attributable to owners of the Company | | 4,753,828 | 7,097,783 |
| Other comprehensive income: | | | |
| Gains or (loss) on fair value changes on available-for-sale financial assets | | (1,017,144) | 666,105 |
| Transfer of fair value gains to profit or loss upon disposal of available-for-sale financial assets | | – | (1,670,172) |
| Other comprehensive income for the period | | (1,017,144) | (1,004,067) |
| Total comprehensive income for the period attributable to Owners of the Company | | 3,736,684 | 6,093,716 |
| Earnings per share | 5 | | |
| Basic | | HK\$0.12 | HK\$0.18 |
| Diluted | | HK\$0.12 | HK\$0.18 |

The notes on pages 9 to 14 form part of these interim financial statements.

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Condensed Consolidated Statement of Financial Position

As at March 31, 2012 and December 31, 2011

| | <i>Note</i> | March 31, 2012 (Unaudited) HK\$ | December 31 2011 (Audited) HK\$ |
|---|-------------|--|--|
| Non-current assets | | | |
| Property, plant and equipment | 6 | 1,537,603 | 1,706,494 |
| Interest in an associate | 7 | – | 6,681,887 |
| Available-for-sale financial assets | | 82,831,921 | 81,497,676 |
| Loans and receivables | | 47,407,742 | 32,208,444 |
| | | 131,777,266 | 122,094,501 |
| Current assets | | | |
| Accounts receivable and prepayments | 8 | 19,642,145 | 6,414,293 |
| Trading securities | | 81,202,953 | 65,365,498 |
| Derivative financial instruments | | 3,581,809 | 3,581,809 |
| Tax recoverable | | 2,661,127 | 2,661,127 |
| Bank balances and cash | | 39,949,367 | 75,404,609 |
| | | 147,037,401 | 153,427,336 |
| Current liabilities | | | |
| Accounts payable and accruals | 9 | 6,380,634 | 6,824,488 |
| | | 6,380,634 | 6,824,488 |
| Net Current assets | | 140,656,767 | 146,602,848 |
| Total assets less current liabilities/Net assets | | 272,434,033 | 268,697,349 |
| Capital and reserves | | | |
| Share capital | 10 | 39,058,615 | 39,058,615 |
| Reserves | | 233,375,418 | 229,638,734 |
| Total equity | | 272,434,033 | 268,697,349 |
| Net asset value per share | | HK\$6.98 | HK\$6.88 |

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Condensed Consolidated Statement of Changes in Equity

For the three months ended March 31, 2012 and 2011

| | Share capital HK\$ | Share premium HK\$ | Fair value reserve HK\$ | Share option reserve HK\$ | Proposed dividend HK\$ | Retained profits (accumulated losses) HK\$ | Total HK\$ |
|--|--------------------------|---------------------------|-------------------------------|---------------------------------|------------------------------|--|---------------------------|
| As January 1, 2012 (audited) | 39,058,615 | 162,768,326 | 32,042,831 | - | - | 34,827,577 | 268,697,349 |
| Loss for the period | | | | | | 4,753,828 | 4,753,828 |
| Loss on fair value changes on available-for-sale financial assets | - | - | (1,017,144) | - | - | - | (1,017,144) |
| Transfer to profit or loss upon disposal of available-for-sale financial assets | - | - | - | - | - | - | - |
| Other comprehensive income for the period | - | - | (1,017,144) | - | - | - | (1,017,144) |
| Total comprehensive income for the period | - | - | (1,017,144) | - | - | 4,753,828 | 3,736,684 |
| At March 31, 2012 (unaudited) | <u>39,058,615</u> | <u>162,768,326</u> | <u>31,025,687</u> | <u>-</u> | <u>-</u> | <u>39,581,405</u> | <u>272,434,033</u> |
| As January 1, 2011 (audited) | 39,058,615 | 162,768,326 | 18,730,736 | 313,040 | 5,858,792 | 82,560,003 | 309,289,512 |
| Loss for the period | | | | | | 7,097,783 | 7,097,783 |
| Gain on fair value changes on available-for-sale financial assets | - | - | 666,105 | - | - | - | 666,105 |
| Transfer to profit or loss upon disposal of available-for-sale financial assets | - | - | (1,670,172) | - | - | - | (1,670,172) |
| Other comprehensive income for the period | - | - | (1,004,067) | - | - | - | (1,004,067) |
| Total comprehensive income for the period | - | - | (1,004,067) | - | - | 7,097,783 | 6,093,716 |
| At March 31, 2011 (unaudited) | <u>39,058,615</u> | <u>162,768,326</u> | <u>17,726,669</u> | <u>313,040</u> | <u>5,858,792</u> | <u>89,657,786</u> | <u>315,383,228</u> |

The notes on pages 9 to 14 form part of these interim financial statements.

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Condensed Consolidated Cash Flow Statement

As at March 31, 2012 and December 31, 2011

| | March 31, 2012 (Unaudited) HK\$ | December 31, 2011 (Audited) HK\$ |
|---|--|---|
| Operating activities | | |
| Profit (loss) before taxation | 4,753,828 | (45,704,441) |
| Interest income | (614,893) | (9,853,642) |
| Dividend income from available-for-sale financial assets | (2,986) | (5,320,000) |
| Depreciation of property, plant and equipment | 168,891 | 662,295 |
| Fair value changes on trading securities | (5,180,112) | 58,531,282 |
| Fair value changes on derivative financial instruments | – | (2,823,479) |
| Impairment loss on available-for-sale financial assets | | |
| – equity investments | – | 115,000 |
| – deposits on Investment written off | – | – |
| Gain on disposals of available-for-sale financial assets | – | (3,420,171) |
| Impairment loss on loans and receivable | – | 90,353 |
| Recovery of impairment loss on loans and receivables | – | (2,080,000) |
| Recovery of impairment loss on accounts receivable | (316,611) | – |
| Share of loss of an associate | – | 1,571,724 |
| Gain on disposal of property, plant and equipment | – | 25,915 |
| | (1,191,883) | (8,205,164) |
| Profit (loss) before working capital changes | | |
| Increase in trading securities | (10,657,343) | (57,940,478) |
| (Increase) decrease in accounts receivable and prepayments | (13,063,775) | 18,675,256 |
| (Decrease) increase in accounts payable and accruals | (443,854) | 14,888 |
| Decrease in amount due to a related company | – | (3,928,169) |
| | (25,356,855) | (51,383,667) |
| Cash used in operations | | |
| Income tax paid | – | (4,021,209) |
| | (25,356,855) | (55,404,876) |
| Net cash used in operating activities | | |
| Interest received | 767,427 | 6,608,592 |
| Dividend income from available-for-sale financial assets | 2,986 | 5,320,000 |

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Condensed Consolidated Cash Flow Statement

As at March 31, 2012 and December 31, 2011

| | March 31, 2012 (Unaudited) HK\$ | December 31, 2011 (Audited) HK\$ |
|---|--|---|
| Advances to investee companies | (10,868,800) | (5,253,082) |
| Repayment from investee companies | – | 2,621,764 |
| Purchase of property, plant and equipment | – | (1,234,306) |
| Investment in and loan to an associate | – | (7,800,000) |
| Purchase of available-for-sale financial assets | – | (8,098,750) |
| Proceeds from disposal of available-for-sale financial assets | – | 3,420,171 |
| | <hr/> | <hr/> |
| Net cash used in investing activities | (10,098,387) | (4,415,611) |
| | <hr/> | <hr/> |
| Cash used in financing activities | | |
| Dividend paid | – | (5,858,792) |
| | <hr/> | <hr/> |
| Net decrease in cash and cash equivalents | (35,455,242) | (65,679,279) |
| | <hr/> | <hr/> |
| Cash and cash equivalents at January 1 | 75,404,609 | 141,083,888 |
| | <hr/> | <hr/> |
| Cash and cash equivalents at March 31 | 39,949,367 | 75,404,609 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Analysis of the balances of cash and cash equivalents: | | |
| Bank balances and cash | 39,949,367 | 75,404,609 |
| | <hr/> <hr/> | <hr/> <hr/> |

The notes on pages 9 to 14 form part of these interim financial statements.

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Notes to the Unaudited Consolidated Financial Statements

1. Basis of preparation

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

The interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2011. The accounting policies and basis of preparation used in the preparation of these interim financial statements are consistent with those used in the annual financial statements for the year ended December 31, 2011.

2. Turnover, other revenue and gains and losses

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

| | Three months ended | |
|--|---------------------------|--------------------|
| | March 31, | |
| | 2012 | 2011 |
| | (Unaudited) | (Unaudited) |
| | HK\$ | HK\$ |
| Turnover: | | |
| Interest income from | | |
| – bank deposits | 144,432 | 193,337 |
| – loans receivable and convertible bonds not impaired | 470,461 | 1,962,994 |
| Dividend income from | | |
| – listed investments | 2,986 | 128,508 |
| – unlisted investments | – | 2,320,000 |
| | 617,879 | 4,604,839 |
| Other revenue: | | |
| Sundry income | 6,968 | 27,127 |
| | 6,968 | 27,127 |
| Other gains and (losses): | | |
| Net exchange gain (loss) | (66,241) | 255,290 |
| Fair value gains (losses) on financial assets at fair value through profit or loss | 5,180,112 | (195,081) |
| Net realised gain on disposals of financial assets | | |
| at fair value through profit or loss | | |
| – trading securities | 2,342,674 | 2,353,165 |
| – derivative financial instruments | – | 370,038 |
| Net realised gain on disposals of available-for-sale financial assets | – | 1,670,172 |
| Recovery of impairment loss on accounts receivable | 316,611 | – |
| Recovery of impairment loss on loans and receivables | – | 1,103,619 |
| | 7,773,156 | 5,557,203 |
| | 8,398,003 | 10,189,169 |

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Notes to the Unaudited Consolidated Financial Statements (Continued)

3. Operating profit

Profit before income tax has been arrived at after charging the following:

| | Three months ended March 31, | |
|--|---------------------------------|-----------------------------|
| | 2012 (Unaudited) HK\$ | 2011 (Unaudited) HK\$ |
| Management fees | 979,417 | 1,105,954 |
| Pension costs – contributions to defined contribution plan | 24,644 | 27,037 |
| Operating leases in respect of land and buildings | <u>694,278</u> | <u>460,845</u> |

4. Income tax expense

No provision for Hong Kong Profits Tax is required during the three months ended March 2012 and 2011. Hong Kong profits tax rate is 16.5%.

5. Earnings per share

The calculation of basic and diluted earnings per share is as follows:

| | Three months ended March 31, | |
|--|---------------------------------|-----------------------------|
| | 2012 (Unaudited) HK\$ | 2011 (Unaudited) HK\$ |
| Profit attributable to owners of the Company | <u>4,753,828</u> | <u>7,097,783</u> |
| | Number of shares | Number of shares |
| Weighted average number of ordinary shares for the purpose of basic earnings per share and diluted earnings per share | <u>39,058,614</u> | <u>39,058,614</u> |
| | HK\$ | HK\$ |
| Basic earnings per share | 0.12 | 0.18 |
| Diluted earnings per share | 0.12 | 0.18 |

Basic earnings per share is calculated by dividing the profit attributable to shareholders by the weighted average number of the ordinary shares in issue during the period.

Diluted earnings per share for the period is the same as the basic earnings per share as the Company has no outstanding share options during the period.

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Notes to the Unaudited Consolidated Financial Statements (Continued)

6. Property, plant and equipment

| | As at March 31, 2012 (Unaudited) HK\$ | As at December 31, 2011 (Audited) HK\$ |
|--------------------------|---|--|
| Furniture and fixture | 538,808 | 538,808 |
| Motor vehicle | 1,444,000 | 1,444,000 |
| Office equipment | 493,377 | 493,377 |
| Leasehold improvements | 1,090,699 | 1,090,699 |
| | <hr/> | <hr/> |
| | 3,566,884 | 3,566,884 |
| Accumulated Depreciation | 2,029,281 | 1,860,390 |
| | <hr/> | <hr/> |
| Carrying amount | <u>1,537,603</u> | <u>1,706,494</u> |

7. Interest in an associate

As at March 31, 2012, the Group reclassified the amount of HK\$6,681,887 of interest in an associate into available-for-sale financial assets. The reclassification occurred due to no involvement in the board of the investee company during the period.

8. Accounts receivable and prepayments

| | As at March 31, 2012 (Unaudited) HK\$ | As at December 31, 2011 (Audited) HK\$ |
|---|---|--|
| Accounts receivable | 1,906,250 | 1,906,250 |
| Loans receivable, unsecured | 10,116,955 | – |
| Interests receivable | 327,783 | 163,706 |
| Other receivables | 3,407,853 | 3,404,295 |
| | <hr/> | <hr/> |
| Receivables after allowance for impairment losses | 15,758,841 | 5,474,251 |
| Deposits | 3,760,008 | 741,994 |
| Prepayments | 123,296 | 198,048 |
| | <hr/> | <hr/> |
| | <u>19,642,145</u> | <u>6,414,293</u> |

The secured loans receivable and unsecured loans receivable are interest-bearing.

The ageing analysis of the receivables is as follows:

| | As at March 31, 2012 (Unaudited) HK\$ | As at December 31, 2011 (Audited) HK\$ |
|--|---|--|
| Balances neither past due nor impaired | | |
| Current | 15,758,841 | 5,474,251 |
| Balance past due between 1 to 180 days but not impaired | – | – |
| | <hr/> | <hr/> |
| Balance not impaired and receivables after allowance for impairment losses | <u>15,758,841</u> | <u>5,474,251</u> |

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Notes to the Unaudited Consolidated Financial Statements (Continued)

9. Accounts payable and accruals

| | As at March 31, 2012 (Unaudited) HK\$ | As at December 31, 2011 (Audited) HK\$ |
|-----------------------------|---|--|
| Accruals and other payables | 6,221,064 | 6,664,918 |
| Unclaimed dividend payable | 159,570 | 159,570 |
| | 6,380,634 | 6,824,488 |

The ageing analysis of the accounts payable is as follows:

| | As at March 31, 2012 (Unaudited) HK\$ | As at December 31, 2011 (Audited) HK\$ |
|-------------|---|--|
| Current | 6,306,104 | 6,749,958 |
| Over 1 year | 74,530 | 74,530 |
| | 6,380,634 | 6,824,488 |

10. Share capital

| | Number of shares | Amount HK\$ |
|---|---------------------|--------------------|
| Authorised: | | |
| Ordinary shares of HK\$1 each at December 31, 2011 (audited) and March 31, 2012 (unaudited) | 100,000,000 | 100,000,000 |
| | 100,000,000 | 100,000,000 |
| Issued and fully paid: | | |
| Ordinary shares of HK\$1 each at December 31, 2011 (audited), and March 31, 2012 (unaudited) | 39,058,614 | 39,058,615 |
| | 39,058,614 | 39,058,615 |

11. Share Option Scheme

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

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

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

The Share Option Scheme will remain in force for a period of ten years from June 28, 2005.

No share options were granted by the Company or exercised during the three months ended March 31, 2012 and 2011.

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Notes to the Unaudited Consolidated Financial Statements (Continued)

11. Share Option Scheme (Continued)

On August 18, 2011, 522,047 share options expired and lapsed. Movement of the share options under Share Option Scheme during the period ended March 31, 2012 and 2011 are as follows:

2012

During the period from January 1, 2012 to March 31, 2012, there were no outstanding options under the Share Option Scheme.

2011

| | Date of grant | Exercise period | Number of options | | | Exercise price HK\$ |
|------------------------------|---------------|-----------------------|-----------------------------------|------------------------------------|----------------------------------|------------------------|
| | | | Outstanding as at January 1, 2011 | Lapsed/cancelled during the period | Outstanding as at March 31, 2011 | |
| Other employees in aggregate | 18/8/2008 | 18/8/2008 – 17/8/2011 | 522,047 | – | 522,047 | 5.10 |
| | | | <u>522,047</u> | <u>–</u> | <u>522,047</u> | |

12. Related party transactions

The Company entered into an investment management agreement on June 1, 1998, as amended on April 5, 2000, with Harmony Asset Management Limited (“HAML”), a company which is wholly-owned by a director of the Company, Dr. Chow Pok Yu Augustine. Under the investment management agreement, together with a supplemental agreement entered into between the Company and HAML on May 17, 2007, (the “Original Investment Management Agreement”), HAML agreed to assist the board of directors of Harmony with the day-to-day management of the Group 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 April 29, 2010, whereby HAML has agreed to provide its management services for an additional three years until May 31, 2013. In accordance with the New Investment Management Agreement, HAML is entitled to a monthly management fee calculated at 1.5% per annum on the net asset value of the Group for the preceding month and an incentive fee calculated at 10% of the audited net profit of the financial year (before accrual of the incentive fee) subject to an aggregate cap of HK\$18,391,986 for the year ending December 31, 2012.

Dr. Chow Pok Yu Augustine, being a beneficial shareholder of HAML, had an interest in the Original Investment Management Agreement and the New Investment Management Agreement during the period ended March 31, 2012 and 2011. The management fee paid to HAML is as follows:

| | Three months ended March 31, | |
|---|---------------------------------|-----------------------------|
| | 2012 (Unaudited) HK\$ | 2011 (Unaudited) HK\$ |
| Management fees paid to: | | |
| – Harmony Asset Management Limited (“HAML”) | <u>979,417</u> | <u>1,105,954</u> |

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Notes to the Unaudited Consolidated Financial Statements (Continued)

13. Lease commitments

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

As at March 31, 2012, the Group and the Company had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

| | As at March 31, 2012 (Unaudited) HK\$ | As at December 31, 2011 (Audited) HK\$ |
|--|--|---|
| Within one year | 2,777,112 | 2,777,112 |
| In the second to fifth years inclusive | 2,082,834 | 2,777,112 |
| | 4,859,946 | 5,554,224 |

14. Financial risk management

(a) Financial risk factors

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

(i) Market risk

– Foreign exchange risk

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

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

– Price risk

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

(ii) Credit risk

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

(iii) Liquidity risk

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

15. Approval of the unaudited interim financial statements

The unaudited interim financial statements were approved and authorised for issue by the Board on May 14, 2012