



Harmony Asset Limited

(Incorporated in the Cayman Islands with limited liability)

HKEX – Stock Code: 428

TSX – Stock code: HAR

Unaudited condensed consolidated interim financial statements

Three-month and nine-month periods ended 30th September, 2007

Harmony Asset Limited – Third Quarterly Report 2007

NOTICE TO READER

The management of Harmony Asset Limited is responsible for the preparation of the accompanying 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 financial statements have not been audited, reviewed or otherwise verified for accuracy and completeness of information by the auditors of the Company.

Harmony Asset Limited – Third Quarterly Report 2007

TABLE OF CONTENT

Unaudited condensed consolidated interim income statement for the nine months ended 30th September, 2007	4
Unaudited condensed consolidated interim balance sheet for the nine months ended 30th September, 2007	5
Unaudited condensed consolidated interim statement of changes in equity for the nine months ended 30th September, 2007	6
Unaudited condensed consolidated interim cash flow statement for the nine months ended 30th September, 2007	7
Notes to the unaudited condensed consolidated interim financial statements for the nine months ended 30th September, 2007	
1. Basic of preparation	9
2. Turnover, other revenues and gains	9
3. Operating profit	10
4. Financial costs	10
5. Income tax expenses	10
6. Earning per share	10
7. Property, plant and equipment	11
8. Accounts receivable and prepayments	11
9. Accounts payable	12
10. Share capital	12
11. Share option scheme	13
12. Related party transactions	14
13. Lease commitment	15
14. Financial risk management	15

Harmony Asset Limited – Third Quarterly Report 2007

UNAUDITED CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the nine months ended 30th September, 2007

	Note	Three months ended 30th September,		Nine months ended 30th September,	
		2007 (Unaudited) HK\$	2006 (Unaudited) HK\$	2007 (Unaudited) HK\$	2006 (Unaudited) HK\$
Turnover	2	946,926	547,003	3,571,634	1,829,811
Other revenue	2	344,594	663,769	891,799	9,767,356
Other (losses) and gains		(12,901,378)	6,661,631	19,135,331	12,020,324
		(11,609,858)	7,872,403	23,598,764	23,617,491
Operating expenses					
Depreciation of property, plant and equipment		(45,598)	(74,550)	(175,163)	(224,514)
Employee benefit expenses		(540,838)	(529,531)	(2,229,689)	(2,439,662)
Other operating expenses		(2,971,406)	(1,927,814)	(7,390,651)	(5,472,989)
Impairment loss on loans receivable		–	–	(3,308,261)	–
Operating (loss) profit	3	(15,167,700)	5,340,508	10,495,000	15,480,326
Finance costs	4	–	–	–	(139,964)
(Loss) profit before income tax		(15,167,700)	5,340,508	10,495,000	15,340,362
Income tax credit (expenses)	5	2,940,582	–	(305,931)	–
(Loss) profit for the period attributable to shareholders of the Company		(12,227,118)	5,340,508	10,189,069	15,340,362
(Loss) earnings per share	6				
Basic		(31.35) cents	18.28 cents	30.92 cents	52.50 cents
Diluted		N/A	18.06 cents	30.80 cents	52.09 cents

The notes on pages 9 to 15 form part of these financial statements.

Harmony Asset Limited – Third Quarterly Report 2007

UNAUDITED CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30th September, 2007 and 31st December, 2006

		30th September, 2007 (Unaudited) HK\$	31st December, 2006 (Audited) HK\$
	<i>Note</i>		
Non-current assets			
Property, plant and equipment	7	245,422	370,792
Available-for-sale financial assets		45,455,053	43,228,573
Loans receivable		69,095,992	71,533,757
		114,796,467	115,133,122
Current assets			
Accounts receivable and prepayments	8	23,499,553	19,278,075
Financial assets at fair value through profit or loss		73,778,791	44,868,350
Bank balances and cash		26,600,322	18,715,933
		123,878,666	82,862,358
Current liabilities			
Accounts payable	9	131,794	7,429,459
Tax payable		427,433	121,502
		559,227	7,550,961
Net current assets		123,319,439	75,311,397
Net assets		238,115,906	190,444,519
Capital and reserves			
Share capital	10	39,002,615	29,220,475
Reserves		199,113,291	161,224,044
Total equity		238,115,906	190,444,519

The notes on pages 9 to 15 form part of these financial statements.

Harmony Asset Limited – Third Quarterly Report 2007

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30th September, 2007 and 2006

	Unaudited						Total HK\$
	Share capital HK\$	Share premium HK\$	Fair value reserve HK\$	Share option reserve HK\$	Proposed dividend HK\$	Retained profits/ (accumulated losses) HK\$	
At 1st January, 2007	29,220,475	143,516,834	7,540,170	908,000	4,383,071	4,875,969	190,444,519
Profit for the period	-	-	-	-	-	10,189,069	10,189,069
Fair value changes on available-for-sale financial assets recognised in equity	-	-	766,279	-	-	-	766,279
Total recognised income for the period	-	-	766,279	-	-	10,189,069	10,955,348
Share option scheme							
– value of employee services	-	-	-	762,000	-	-	762,000
– placing agent services	-	(245,000)	-	245,000	-	-	-
Transfer of reserve upon exercise of share options	-	908,000	-	(908,000)	-	-	-
Issue of shares	9,782,140	37,806,835	-	-	-	-	47,588,975
Share issue expenses	-	(7,251,865)	-	-	-	-	(7,251,865)
Proposed dividend transferred to current liabilities upon approval of shareholders at annual general meeting	-	-	-	-	(4,383,071)	-	(4,383,071)
	9,782,140	31,217,970	-	99,000	(4,383,071)	-	36,716,039
Balance at 30th September, 2007	<u>39,002,615</u>	<u>174,734,804</u>	<u>8,306,449</u>	<u>1,007,000</u>	<u>-</u>	<u>15,065,038</u>	<u>238,115,906</u>
At 1st January, 2006	29,220,475	147,899,905	(6,034,732)	-	4,383,071	(5,809,313)	169,659,406
Profit for the period	-	-	-	-	-	15,340,362	15,340,362
Fair value changes on available-for-sale financial assets recognised in equity	-	-	1,760,875	-	-	-	1,760,875
Total recognised income for the period	-	-	1,760,875	-	-	15,340,362	17,101,237
Share option scheme							
– value of employee services	-	-	-	908,000	-	-	908,000
Proposed dividend transferred to current liabilities upon approval of shareholders at annual general meeting	-	-	-	-	(4,383,071)	-	(4,383,071)
	-	-	-	908,000	(4,383,071)	-	(3,475,071)
Balance at 30th September, 2006	<u>29,220,475</u>	<u>147,899,905</u>	<u>(4,273,857)</u>	<u>908,000</u>	<u>-</u>	<u>9,531,049</u>	<u>183,285,572</u>

The notes on pages 9 to 15 form part of these financial statements.

Harmony Asset Limited – Third Quarterly Report 2007

UNAUDITED CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

	Nine Nine months ended 30th September	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Operating activities		
Profit before taxation	10,495,000	15,340,362
Interest income	(2,441,634)	(1,694,545)
Finance cost	–	139,964
Depreciation of property, plant and equipment	175,163	224,514
Dividend income from unlisted investment	(1,130,000)	(135,266)
Share option expenses	762,000	908,000
Net realized gain on disposal of available-for-sale financial assets	(800,000)	–
Fair value changes on financial assets at fair value through profit or loss	(14,255,302)	(8,612,291)
Impairment loss on available-for-sale financial assets	3,308,261	–
Profit before working capital changes	(3,886,512)	6,170,738
Increase in financial assets at fair value through profit or loss	(14,655,139)	(16,090,117)
(Increase) Decrease in accounts receivable and prepayment	(7,395,479)	41,248,681
Decrease in accounts payable	(2,297,665)	(1,344,603)
Cash (used in) generated from operations	(28,234,795)	29,984,699
Interest paid	–	(368,901)
Net (used in) cash from operating activities	(28,234,795)	29,615,798
Investing activities		
Interest received	615,635	1,795,394
Dividend income from available-for-sale financial assets	1,130,000	135,266
Advances to investee companies	(2,182,000)	(2,286,146)
Repayments from investee companies	1,311,503	11,800,000
Purchase of property, plant and equipment	(49,793)	(27,812)
Purchase of available-for-sale financial assets	(1,460,200)	(16,629,751)
Sales proceeds from disposal of available-for-sale financial assets	800,000	–
Net cash from(used in) investing activities	165,145	(5,213,049)

Harmony Asset Limited – Third Quarterly Report 2007

UNAUDITED CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT (CONTINUED)

	Nine Nine months ended 30th September	
	2007	2006
	(Unaudited) <i>HK\$</i>	(Unaudited) <i>HK\$</i>
Financing activities		
Dividend paid	(4,383,071)	(4,379,278)
Proceeds from exercise of share options	2,794,000	–
Repayments of instalment loans	–	(7,500,000)
Payments for share issue expenses	(7,496,866)	–
Proceeds from issue of shares	45,039,976	–
	<hr/>	<hr/>
Net cash from(used in) financing activities	35,954,039	(11,879,278)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	7,884,389	12,523,471
	<hr/>	<hr/>
Cash and cash equivalents at 1st January	18,715,933	5,111,090
	<hr/>	<hr/>
Cash and cash equivalents at 30th September	26,600,322	17,634,561
	<hr/>	<hr/>
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	26,600,322	17,634,561
	<hr/>	<hr/>

The notes on pages 9 to 15 form part of these financial statements.

Harmony Asset Limited – Third Quarterly Report 2007

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation

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

The interim financial statements should be read in conjunction with the annual financial statements for the year ended 31st December, 2006. The accounting policies and basis of preparation used in the preparation of these interim financial statements are consistent with those used in the annual financial statements for the year ended 31st December, 2006.

2. Turnover, other revenue and gains

The Group principally invests in securities listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and unlisted securities, including equity securities, convertible notes, issued by corporate entities. Total revenue and other gains recognised during the period are as follows:

	Nine months ended 30th September	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Turnover:		
Interest income from		
– bank deposits	615,635	393,696
– loans receivable	1,825,999	1,207,150
– convertible notes	–	93,699
Dividend income from		
– listed investments	–	–
– unlisted investments	1,130,000	135,266
	3,571,634	1,829,811
	<u>3,571,634</u>	<u>1,829,811</u>
Other revenue:		
Reversal of impairment loss on accounts receivable	–	8,300,000
Sundry income	891,799	1,467,356
	891,799	9,767,356
	<u>891,799</u>	<u>9,767,356</u>
Other gains:		
Fair value changes on financial assets		
at fair value through profit or loss	14,255,302	8,612,291
Net realised gain on disposal of financial assets		
at fair value through profit or loss	3,817,624	3,403,625
Net realised gain on disposal of available-for-sale financial assets	800,000	–
Exchange gain, net	262,405	4,408
	19,135,331	12,020,324
	<u>19,135,331</u>	<u>12,020,324</u>
Total revenue and gains	23,598,764	23,617,491

No analysis of the Group’s turnover and contribution to operating profit for the period set out by principal activities and geographical markets is provided as the Group has only one single business segment, which is investment holding, and less than 10% of the consolidated turnover, results and assets of the Group are attributable to markets outside Hong Kong.

Harmony Asset Limited – Third Quarterly Report 2007

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS (CONTINUED)

3. Operating profit

Operating profit has been arrived at after charging the following:

	Nine months ended 30th September	
	2007 (Unaudited) HK\$	2006 (Unaudited) HK\$
Management fees	2,404,229	1,956,066
Pension costs – contributions to defined contribution plan	64,282	59,101
Operating lease in respect of land and buildings	1,870,395	1,007,224
Equity-settled share-based payment expenses	762,000	908,000
Impairment loss on loans receivable	<u>3,308,261</u>	<u>–</u>

4. Finance costs

Amount represents interest on bank overdraft and interest on interest-bearing borrowings.

5. Income tax expenses

Hong Kong profits tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits for the period.

	Nine months ended 30th September	
	2007 (Unaudited) HK\$	2006 (Unaudited) HK\$
Hong Kong profits tax	<u>305,931</u>	<u>–</u>

6. Earnings per share

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

	Nine months ended 30th September	
	2007 (Unaudited) HK\$	2006 (Unaudited) HK\$
Profit attributable to shareholders of the Company	<u>10,189,009</u>	<u>15,340,362</u>
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	32,956,784	29,220,474
Potential dilutive shares – share options	<u>121,056</u>	<u>227,853</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share calculation	<u>33,077,840</u>	<u>29,448,327</u>
	HK cents	HK cents
Basic earnings per share	30.92	52.50
Diluted earnings per share	<u>30.80</u>	<u>52.09</u>

Harmony Asset Limited – Third Quarterly Report 2007

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS (CONTINUED)

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 is calculated based on the profit attributable to shareholders, and the weighted average number of ordinary shares in issue during the period after adjusting for the number of diluted potential ordinary shares granted under the Company's share option scheme.

The calculation of earnings per share for the nine months ended 30th September, 2007 has been adjusted for 5-for-1 share consolidation which took place on 14th December, 2006.

7. Property, plant and equipment

	As at 30th September, 2007 (Unaudited) HK\$	As at 31st December, 2006 (Audited) HK\$
Furniture and fixture	422,144	403,246
Motor vehicle	528,200	528,200
Office equipment	446,140	428,044
Leasehold improvements	1,292,428	1,279,630
	2,688,912	2,639,120
Accumulated Depreciation	2,443,490	2,331,748
Carrying amount	<u>245,422</u>	<u>307,372</u>

8. Accounts receivable and prepayments

	As at 30th September, 2007 (Unaudited) HK\$	As at 31st December, 2006 (Audited) HK\$
Accounts receivable	9,860,112	6,471,880
Loan receivable, secured	8,000,000	8,000,000
Interests receivable	4,373,147	2,547,148
Other receivables	120,000	8,000
	22,353,259	17,027,028
Deposits	804,846	469,790
Prepayments	341,448	1,781,257
	<u>23,499,553</u>	<u>19,278,075</u>

The loan receivable is interest-bearing.

The ageing analysis of the receivables is as follows:

	Current HK\$	30-60 days HK\$	61-90 days HK\$	Over 90 days HK\$	Total HK\$
Balance at 30th September, 2007	<u>913,939</u>	<u>7,778,103</u>	<u>217,785</u>	<u>14,589,725</u>	<u>23,499,553</u>
Balance at 31st December, 2006	<u>5,393,818</u>	<u>284,021</u>	<u>421,842</u>	<u>10,927,347</u>	<u>17,027,028</u>

Harmony Asset Limited – Third Quarterly Report 2007

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS (CONTINUED)

9. Accounts payable

	As at 30th September, 2007 (Unaudited) HK\$	As at 31st December, 2006 (Audited) HK\$
Accounts payable	–	5,000,000
Accruals	126,808	2,427,501
Unclaimed dividend payable	4,986	1,958
	131,794	7,429,459

The ageing analysis of the accounts payable is as follows:

	Current HK\$	30-60 days HK\$	61-90 days HK\$	Over 90 days HK\$	Total HK\$
Balance at 30th September, 2007	102,573	–	–	29,221	131,794
Balance at 31st December, 2006	7,402,038	–	–	27,421	7,429,459

10. Share capital

	Number of shares HK\$	Amount
Authorised:		
Ordinary shares of HK\$0.2 each at 1st January, 2006	500,000,000	100,000,000
Share consolidation on 14th December, 2006 (Note a)	(400,000,000)	–
Ordinary shares of HK\$1 each at 31st December, 2006 and 30th September, 2007	100,000,000	100,000,000
	Number of shares HK\$	Amount
Issued and fully paid:		
Ordinary shares of HK\$0.2 each at 1st January, 2006	146,102,374	29,220,475
Share consolidation on 14th December, 2006 (Note a)	(116,881,900)	–
Ordinary shares of HK\$1 each at 31st December, 2006	29,220,474	29,220,475
Issue of shares of HK\$1 each (Note b)	9,782,140	9,782,140
Ordinary shares of HK\$1 each at 30th September, 2007	39,002,614	39,002,615

Note:

- (a) Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 13th December, 2006, 5 shares (issued and unissued) of the Company of HK\$0.2 each were consolidated into 1 new share of the Company of HK\$1 each with effect on 14th December, 2006.
- (b) Pursuant to an agency agreement with a placing agent dated 31st May, 2007, the Company agreed to place through the placing agent an aggregate of 8,766,140 placing shares, to five placees, at a price of CDN\$0.70 per share. On 18th June, 2007, such placing shares were issued and fully paid.

On 22nd June, 2007, the directors and employees exercised 1,016,000 share options granted at exercise price of HK\$2.75 per share which resulted in 1,016,000 new shares issued by the Company.

Harmony Asset Limited – Third Quarterly Report 2007

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS (CONTINUED)

11. Share Option Scheme

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

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

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

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

The terms and conditions of the unexpired and unexercised share options at 30th September, 2007 are as follows:

	Date of grant	Exercise period	As at 1st January, 2007	Number of options Granted during the period	Exercise during the period	As at 30th September, 2007 HK\$	Exercise price
Director							
Lee Fong Lit David	17/1/2006	17/1/2006 – 16/1/2009	28,000	–	28,000	–	2.75
	30/4/2007	30/4/2007 – 29/4/2010	–	28,000	–	28,000	4.29
Chow Pok Yu Augustine	17/1/2006	17/1/2006 – 16/1/2009	28,000	–	28,000	–	2.75
	30/4/2007	30/4/2007 – 29/4/2010	–	28,000	–	28,000	4.29
Lam Andy Siu Wing, JP	17/1/2006	17/1/2006 – 16/1/2009	292,000	–	292,000	–	2.75
	30/4/2007	30/4/2007 – 29/4/2010	–	292,000	–	292,000	4.29
Chan Shuen Chuen Joseph	30/4/2007	30/4/2007 – 29/4/2010	–	28,000	–	28,000	4.29
Tong Kim Weng Kelly	17/1/2006	17/1/2006 – 16/1/2009	28,000	–	28,000	–	2.75
	30/4/2007	30/4/2007 – 29/4/2010	–	28,000	–	28,000	4.29
Ho Man Kai Anthony	17/1/2006	17/1/2006 – 16/1/2009	28,000	–	28,000	–	2.75
	30/4/2007	30/4/2007 – 29/4/2010	–	28,000	–	28,000	4.29
Wong Yun Kuen	17/1/2006	17/1/2006 – 16/1/2009	28,000	–	28,000	–	2.75
	30/4/2007	30/4/2007 – 29/4/2010	–	28,000	–	28,000	4.29
Sub-total			432,000	460,000	432,000	460,000	
Contracted employees in aggregate	17/1/2006	17/1/2006 – 16/1/2009	584,000	–	584,000	–	2.75
	30/4/2007	30/4/2007 – 29/4/2010	–	584,000	–	584,000	4.29
Sub-total			1,016,000	1,044,000	1,016,000	1,044,000	
Maison Placements Canada Inc	18/6/2007	18/6/2007 – 17/6/2009	–	290,000	–	290,000	6.03
Grand-total			<u>1,016,000</u>	<u>1,334,000</u>	<u>1,016,000</u>	<u>1,334,000</u>	

Harmony Asset Limited – Third Quarterly Report 2007

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS (CONTINUED)

Notes:

1. The weighted average closing price of the share immediately before the date on which the options were exercised was HK\$5.86.
2. The closing price of share immediately before the dates of grant on 30th April, 2007 and 18th June, 2007 were HK\$4.23 and HK\$6.02 respectively.
3. During the period, no share options were lapsed or cancelled under the Share Option Scheme.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the options is measured based on the Black-Scholes Options Pricing Model.

The variables of the options served as inputs into the model are listed as follows:

Grant date/Date of valuation	30th April, 2007	18th June, 2007
Option type	American	American
Stock asset price (closing on the date of valuation) (HK\$)	4.29	6.01
Option exercise price (HK\$)	4.29	6.03
Exercise period	30th April, 2007 to 29th April, 2010	18th June, 2007 to 17th June, 2009
Maturity (Year)	Three	Two
Assumed life of option from the date of valuation (years)	1.5	1
Risk-free interest rate (Note a)	3.942%	4.17%
Annualised volatility (Note b)	35.3%	35.46%
Indicated option value (HK\$/share)	0.7297	0.8449
Volume (No. of share, before share consolidation), if exercise	1,044,000	290,000
Fair value of options granted (HK\$)	762,000	245,000

Note:

- (a) Risk-free rate: The applicable risk-free interest rate was the yield of one year and two years Hong Kong Monetary Authority exchange fund notes quoted at the date of valuation.
- (b) Volatility: The conventional measure for systemic risk, or price volatility, is the standard deviation, which is a measure of price dispersion or variation. This variable is just the average of the square of the difference between share price and mean price over time.

The estimated fair values of HK\$762,000 (2006: HK\$908,000) and HK\$245,000 (2006: nil) with respect to share options granted to directors and employees, and the placing agent, were charged to income statement and share premium respectively during the period.

12. Related party transactions

	Nine months ended 30th September	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Management fees paid to:		
– Harmony Asset Management Limited (“HAML”)	<u>2,404,229</u>	<u>1,289,067</u>

The Company has entered into an investment management agreement with HAML, a company which is wholly-owned by a director of the Company, Dr. Chow Pok Yu Augustine. Under the agreement, HAML has agreed to assist the Board with the day-to-day management of the Group until 31st May, 2010. In accordance with the investment management agreement, HAML is entitled to a monthly fee calculated at 1.5% per annum on the net asset value of the Company 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). Dr. Chow Pok Yu Augustine, being a beneficial shareholder of HAML, was interested in this agreement.

Harmony Asset Limited – Third Quarterly Report 2007

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS (CONTINUED)

13. Lease commitments

As at 30th September, 2007, the Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	As at 30th September, 2007 (Unaudited) HK\$	As at 31st December, 2006 (Audited) HK\$
Within one year	2,659,294	727,739
In the second to fifth years inclusive	3,299,067	309,873
	<u>5,958,361</u>	<u>1,037,612</u>

The Group leases an office and an incubation centre under operating leases. The leases typically run from an initial period of three years, with an option to renew the lease after that date at which time all terms are renegotiated. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

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.