Chairman's Statement

The Board of Directors of Harmony Asset Limited presents to you the audited consolidated results of the Group for the year 2002.

REVIEW OF BUSINESS ACTIVITIES

Review of results

For the year ended 31st December, 2002, the Group's turnover declined to HK$3,055,635 from HK$13,434,723 due to lower interest and dividend incomes received from investments. Sale of other investments and investment securities resulted in a loss of HK3,123,191, which together with the former, led to a negative total revenue of HK$67,556.

Earnings was also adversely affected by taking into account the unrealized loss on other investments of HK$9,876,739 which represents contraction in value of the listed shares due to bearish market conditions.

The year 2002 was indeed a very difficult year for investment companies in general. The Board considers that it's prudent and necessary to increase the provision for impairment losses on the Groups' investments in IT related projects and other business. As a result, a sum of HK$33,270,932 was provided for against impairments in investments in some investee companies. The impairment losses comprised provision of HK$20,523,991 for the investments in advanced technology companies and HK$12,746,941 for the investments in other business.

The performance of our associated companies did not fare well either in such choppy waters. Our share of their losses amounted to HK$2,765,420 (2001: HK$1,283,675).

The management, however, was able to control other operating costs and finance costs without increases at HK$7,460,066 and HK$2,694,000 respectively.

After deduction of the current year tax charge of HK$40,055, the total loss attributable to the shareholders widened to HK$58,862,002, as compared with a profit attributable to shareholders of HK$13,537,884 in 2001.

Net asset value per share after the rights issue and the consolidation of shares in January 2003 was HK$0.94. The net asset value per share based on the number of outstanding shares as at 31st December, 2002 was HK$0.12.

FINANCIAL REVIEW

Liquidity and financial resources

As at 31st December, 2002, the Group had no other borrowing except for the outstanding convertible bonds issued in 2000. The Group had cash on hand of HK$4,625,947 and a bank overdraft amounted to HK$106,201. The Group had unutilized banking facilities of HK$15 million (2001: HK$15 million).

The gearing ratio for the Group was 44% (2001: 29%) as at 31st December, 2002 which represents the ratio of the Group's borrowings to the net asset value of the Group. The decrease in net asset value for the Group is attributable to a loss of HK$58,862,002. This resulted in the increase in the gearing ratio by 15% compared to last year.

Capital structure

In 2002, 1,568 warrants were exercised and 1,568 ordinary shares were issued at an exercise price of HK$0.39 per ordinary share. In addition, 1,160,647 warrants were exercised and 1,160,647 shares were issued at an exercise price of HK$0.08 per ordinary share. The nominal value of the outstanding warrants as at 31st December, 2002 is HK$15,478,789 with subscription right at the price of HK$0.08 per share on or before 30th June, 2004. If the warrants are fully exercised, the Company will be required to issue a further 193,484,868 shares at an exercise price of HK$0.08 (equivalent to 15,478,789 shares at an exercise price of HK$1.00, adjusted after the rights issue and consolidation of shares). For the year ended 31st December, 2002, no share options were granted or exercised under the Company's Share Option Scheme.

Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 19th December, 2002, a rights issue scheme which offered three rights shares for every two existing shares to the existing shareholders was approved and adopted. New shares of 1,461,582,337 of HK$0.01 each were issued at HK$0.02 per share for cash on 23rd January, 2003 under the rights issue scheme. These shares rank pari passu to the existing shares. The fund raised by the Company net of share issuance expenses amounted to HK$28 million which will be used as the Group's working capital and for future investment purposes.

Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 23rd January, 2003, 20 shares of the Company of HK$0.01 each were consolidated into 1 new share of the Company of HK$0.2 each with effect on 24th January, 2003.

Charge on Group assets

As at 31st December, 2002, the Group's other investments with an aggregate market value of HK$7,831,086 were pledged to a bank for the banking facilities provided. In addition, a subsidiary has issued convertible bonds of HK$10 million in 2000 with a floating charge on the subsidiary's assets.

Significant investments and performance

In view of continuous unfavorable results incurred by some technology companies, the Group has added a further provision of HK$20,523,991 (2001: HK$12,368,250) for impairment losses on those investment securities.

During the year ended 31st December, 2002, the Group has focused on investing in traditional business. The Group made a total investment of HK$38,279,000 (31st December, 2001: HK$35,464,000) into Chief Finance Limited, a licensed financing company in Hong Kong. A further amount of HK$36,745,000 was invested in Capital Venture Limited, an unlisted company principally engaged in corporate financing business in Hong Kong.

In addition, the Group acquired two associated companies. The Group has acquired 22% interests in Teddy Bear Kingdom Holdings Limited ("Teddy Bear Kingdom"). This investment amounted to HK$12 million in the Teddy Bear Kingdom which is the first and largest indoor theme park in Hong Kong. The theme park occupies an area of over 60,000 square feet, comprising of various educational and recreational facilities such as a teddy bear museum, an entertainment centre, an educational centre, a picnic place and a merchandise shop. The Group also invested in another associated company, Waltin (HK) Limited ("Waltin") which holds an investment in a Chinese medicine health care centre (known as "Chinese Medicine Valley") in Zhuhai of the People's Republic of China ("PRC"). The Group has invested HK$5 million in this project.

During the year ended 31st December, 2002, the Group received cash dividends of HK$2,719,525 in total which included dividends of HK$1,375,000 from One.Tel Holdings Limited, HK$750,000 from Modern Market Management Limited and HK$594,525 from other investments. Looking forward, the Group anticipates that its investments in Chief Finance Limited and Capital Venture Limited, will yield higher returns from financing business in the coming year. Challenger Services Limited, another major investment of the Group, has recaptured its market share in the vehicle beauty service industry and has made improvements in its operating performance this year. For the period from 1st April, 2002 to 31st December, 2002, Challenger reported unaudited profit before taxation of HK$1,749,738 (For the period from 21st March, 2001 (date of incorporation) to 31st December, 2001: HK$851,337).

Employment and remuneration policies

As at 31st December, 2002, the Group had six employees who were paid at market remuneration. The Group provides various employee benefits such as insurance and retirement benefit.

FUTURE PROSPECTS

Looking ahead, the global economy, being in the throes of anxieties and uncertainties over the war in Iraq, offers no clear light at the end of the tunnel. The Board believes consumers will spend less and, businesses will be cautious with little or no expansions and investors will likely stay on the side lines until a clearer picture emerges. The outcome of the war in Iraq, and in particular oil prices, will continue to impact the global and the regional economy. International terrorism is still lurking somewhere. And when the war in Iraq eventually ends, investors will refocus on the huge twin deficits of the USA which are alarming and do not augur well for investors.

All these unfavourable factors require the management of the Group to be cautious in the coming year. The Board will be more stringent in its choice of investment opportunities and strive harder to turn the Group profitable for shareholders.

APPRECIATION

During the year, the Board welcomed the appointment of a new Director, Mr. Ong Hong Hoon, who will inject into the Group a wealth of experience he has in Asia capital and financial markets. The Board also takes this opportunity to thank Mr. Ho Man Kei, Norman, who resigned in 2002, for his invaluable guidance and numerous services rendered during his term of office.

On behalf of the Board of Directors, I thank the management team and our staff for their continued and dedicated efforts and wish to offer as well our sincere appreciation to our banks and shareholders for their support during the year.

Lee Fong Lit, David
Chairman

Hong Kong, 16th April, 2003