

Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31st December, 2002.

PRINCIPAL ACTIVITIES

The principal activities of the Company and its subsidiaries during the year are investments in securities listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and unlisted investments with a potential for earnings growth and capital appreciation. The activities of the principal subsidiaries are set out in Note 12 to the accounts.

The Group’s turnover for the year comprised dividends from listed and unlisted investments, and interest earned from investments in convertible bonds, bank deposits and other sources.

SEGMENT INFORMATION

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 17.

The directors do not recommend payment of a dividend.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in Note 20 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in Note 10 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 19 to the accounts.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st December, 2002 are set out in Note 20 to the accounts.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Memorandum and Articles of Association or the laws of the Cayman Islands.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 60.

CONVERTIBLE BONDS

Details of the convertible bonds issued by a subsidiary of the Group are set out in Note 22 to the accounts.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

SHARE OPTIONS

Share options were granted to directors and employees under a share option scheme ("Share Option Scheme") approved by shareholders at an Annual General Meeting on 22nd May, 2000, which would remain in force for a period of three years commencing on 22nd May, 2000. The Share Option Scheme was adopted as an incentive to the employees and the directors may, at their discretion, invite full time employees including executive directors of the Group, to take up options to subscribe for shares of the Company at a price to be determined by the directors which will not be less than 80 per cent of the average closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of grant of the option or the par value of the shares, whichever is the higher.

Pursuant to the original terms of the Share Option Scheme, each share option entitled the holder to subscribe for one share in the Company and the exercisable period of the option should not exceed a period of three years from the date of grant of the option. The maximum number of shares in respect of which options could be granted (together with shares issued pursuant to options exercised and shares in respect of which any options remain outstanding) under the Share Option Scheme of the Company could not exceed 10 per cent of the issued share capital of the Company from time to time, excluding for this purpose shares issued on exercise of options granted pursuant to the Share Option Scheme. Each share option entitled the holder to subscribe for one share in the Company. The exercisable period for an option should not exceed a period of three years from the date of grant of the option.

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No option could be granted to any one employee which, if exercised in full, would result in the total number of shares already issued or issuable to him under all options granted to him exceeding 25 per cent of the aggregate number of shares for the time being issued and are issuable under the Share Option Scheme. The offer of a grant of other option could be accepted within 28 days from the date of offer with a payment of consideration of HK\$1.00 by the grantee.

Details of the movement of share options in the financial year 2002 which have been granted under the Share Option Scheme are as follows:

	Held at 1st January, 2002	Number of options		Held at 31st December, 2002	Exercise price HK\$
		Granted during the year	Lapsed/ terminated during the year		
Director Mr. Lee Fong Lit, David	18,000,000	-	18,000,000	-	0.24
Director Dr. Chow Pok Yu, Augustine	18,000,000	-	18,000,000	-	0.24
Directors of the Group's subsidiaries	17,000,000	-	17,000,000	-	0.22
Existing employees	13,500,000	-	13,500,000	-	0.22
Former employees	8,000,000	-	8,000,000	-	0.22
	<u>74,500,000</u>	<u>-</u>	<u>74,500,000</u>	<u>-</u>	

All of these options were granted under the Share Option Scheme on 1st August, 2000 at a consideration of HK\$1 for each grantee which were originally exercisable from 1st August, 2000 to 31st July, 2003. At the date before the options were granted, 1st August, 2000, the market value per share was HK\$0.227.

All of the outstanding share options were cancelled on 5th November, 2002. The termination of Share Option Scheme was approved by the shareholders at the extraordinary general meeting of the Company held on 19th December, 2002.

DIRECTORS

The directors during the year and up to the date of this report were:

Lee Fong Lit, David

Chow Pok Yu, Augustine

Tong Kim Weng, Kelly

Ong Hong Hoon (appointed on 31st December, 2002)

Ho Man Kei, Norman (resigned on 31st December, 2002)

In accordance with the Company's Articles of Association, Mr. Tong Kim Weng, Kelly and Mr. Ong Hong Hoon will retire at the forthcoming annual general meeting but, being eligible, offer themselves for re-election.

Mr. Ong Hong Hoon and Mr. Tong Kim Weng, Kelly are independent non-executive directors.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with any member of the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Details of Dr. Chow Pok Yu, Augustine's interest in contracts of significance in relation to the Group's business are set out in Note 24 to the accounts.

Save as disclosed above, no other contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of directors are set out below:

Executive Directors:

Mr. Lee Fong Lit, David, aged 56, obtained his BSc degree from McGill University in Montreal and his MBA degree from Columbia University, New York. He assumed the Chairmanship of the Board of Directors of Harmony Asset Limited in February 1998. Mr. David Lee has over 28 years experience in the international finance and investment management industry. He is involved in investing in equity markets of Singapore, Malaysia and Hong Kong.

Dr. Chow Pok Yu, Augustine, aged 50, is also the Chief Executive Officer of the Company. He holds a MSc from London Business School and Ph.D from University of South Australia. Dr. Chow has vast experience in managing public listed companies that are involved in manufacturing, marketing and financial services and specialising in mergers and acquisitions.

Non-executive Directors:

Mr. Tong Kim Weng, Kelly, aged 54, obtained his BA(Hons) in Political Science from Victoria University, New Zealand. He was a former senior officer of the New Zealand Trade Department. After leaving the public sector, he served in various capacities as a consultant involved in merger and acquisition work, marketing, promotion, sourcing and arranging private equity for a variety of projects. He joined the Board as a non-executive Director in November 1998 and was appointed a member of the Audit Committee in December 1998.

Mr. Ong Hong Hoon, aged 54, is the chief executive of Gp Nano Technology Group Limited. He has over 25 years of experience in the banking industry and is specialised in retail banking, credit analysis, risk management and strategic planning. He was elected as an associate of The Institute of Bankers in London in 1980. He is presently the vice chairman of the Licensed Money Lenders Association Limited. He was appointed as the chief executive of the Hong Kong office of the Public Bank Berhad of Malaysia in 1990 and was seconded to Winton Holdings (Bermuda) Limited as an executive director in 1995 and later as its chief executive officer. He had been approved by the People's Bank of China to be a chief representative of the Public Bank Berhad of Malaysia in Beijing between 1993 and 1995. He was also a director of JCG Finance Company Limited from 1995 to 1997. Mr. Ong holds a diploma in management from the Malaysian Institute of Management and a masters degree in business administration from Golden Gate University in USA.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 31st December, 2002, the interests of the directors and chief executive in the shares of the Company and its associated corporations (within the meaning of the Securities (Disclosures of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

(a) Ordinary shares of HK\$0.01 each in the Company

Name of director	Number of shares				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Lee Fong Lit, David	-	-	288,012,608*	-	288,012,608*

(b) 2004 warrants in the Company

Name of director	Number of warrants				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Lee Fong Lit, David	-	-	57,602,521*	-	57,602,521*

The above 2004 warrants carry rights to subscribe for shares in the Company at a subscription price of HK\$0.08 per share during the period from 21st June, 2002 to 30th June, 2004.

**Note:* These 288,012,608 shares and 57,602,521 warrants are held by Sino Path Consultants Limited, a company which is held 70% by Mr. Lee Fong Lit, David and 30% by Dr. Chow Pok Yu, Augustine. As at the date of this report, the number of shares and warrants held by Sino Path Consultants Limited ("Sino Path") are 36,001,576 and 4,608,201 respectively. The changes were due to adjustment made pursuant to the rights issue and the share consolidation which took place on 23rd January, 2003 and 24th January, 2003 respectively as explained in Note 26 to the accounts. The percentage of Sino Path's interests in the Company remained unchanged before and after these subsequent events.

(c) Share option of the Company

Details of the share options granted to the directors are disclosed in the preceding section named "Share Option".

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Save as disclosed herein and the share options held by the directors as disclosed above, none of the directors or chief executives of the Company had any interest in the equity or debt securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) as recorded in the register required to be kept under section 29 of the SDI Ordinance.

At no time during the year did the directors and chief executive (including their spouses and children under 18 years of age) have any interest in, or been granted, or exercised, any rights to subscribe for shares or warrants of the Company and its associated corporations (within the meaning of the SDI Ordinance).

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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SUBSTANTIAL SHAREHOLDERS

At 31st December, 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company has not been notified of any substantial shareholders' interests, being 10% or more of the Company's issued share capital, other than those of the directors and chief executive as disclosed above.

MANAGEMENT CONTRACTS

Details of significant management contracts in relation to the Company's business are set out in Note 24 in the accounts.

Save as disclosed above, no other contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group earned less than 30% of its turnover from its five largest customers.

The Group is an investment holding company. In the opinion of the directors, it is therefore of no value to disclose details of the Group's suppliers.

CONNECTED TRANSACTIONS

Significant related party transactions entered by the Group during the year ended 31st December, 2002, which also constitute connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), are disclosed in Note 24 to the accounts.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules except that independent non-executive directors of the Company were not appointed for a specific term as they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group's audit. It also reviews the effectiveness of the external audit and internal controls and risk evaluation. The Committee now comprises two independent non-executive directors, namely Mr. Ong Hong Hoon and Mr. Tong Kim Weng, Kelly. Two meetings of the audit committee were held during the current financial year.

SUBSEQUENT EVENTS

Details of the rights issue, the share consolidation and extension of maturity dates of convertible bonds of the Company are set out in Note 26 to the accounts.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

By order of the Board
Lee Fong Lit, David
Chairman

Hong Kong, 16th April, 2003