INTERIM RESULTS

The Board of Directors ("the Board") of Harmony Asset Limited (the "Company") is pleased to present the interim report and condensed accounts ("interim accounts") of the Company and its subsidiaries ("the Group") for the six months ended 30th June, 2003. The consolidated results, consolidated cash flow statement and consolidated statement of changes in equity for the Group for the six months ended 30th June 2003, and the consolidated balance sheet as at 30th June, 2003 of the Group, all of which are unaudited and condensed, along with selected explanatory notes are set out on pages 9 to 20 of these interim accounts.

INTERIM DIVIDEND

The Board of Directors resolved not to declare an interim dividend for the six months ended 30th June, 2003 (2002: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW, PROSPECTS AND FUTURE PLAN

In comparison to the previous year, the first six months of 2003 was an extremely difficult period. With the war in the Middle East and the outbreak of SARS, these incidents led to a further decline in Hong Kong's economy. One can imagine the social, political and definitely economic effects these events caused worldwide. As such, Hong Kong suffered and is still experiencing a 8.7% unemployment rate, the highest percentage she has ever seen. In an attempt to predict how these events might have affected the country's economic future, the Government of the Hong Kong Special Region announced that its financial budget would continue to deplete and possibly result in a number of arrears in the coming years. Hong Kong at the present time is trying to recover from these unfortunate events. However, continuing global terrorism and political unrest in the rest of the world is demonstrating to be hindrances to Hong Kong's recuperation. The confidence in business and investment was at a low point and was spreading rapidly throughout the Asian Pacific region. Similar to many investment companies, most of our investments were also adversely affected by the recession in this region.

On 11th November, 2002, the "Board" announced that the "Company" would formulate a rights issue whereby, three new shares were to be issued for every two existing shares held . The rationale behind this was to raise HK$27,945,994 after expenses, to strengthen the shareholders' fund, and to expand in its operations. Subsequently, extraordinary general meetings were held where shareholders respectively approved the rights issue and also consolidation of 20 shares into 1 consolidated share. Board Lot size was changed from 1,000 shares to 10,000 consolidated shares. Dealing in consolidated shares commenced on 24th January, 2003. After the rights issue, shareholders' funds amounted to HK$140,726,170 at the end of 30th June, 2003 whilst funds at the end of December 2002 amounted to HK$114,830,076.

The "Group" recorded a turnover of HK$4,859,053 for the six months ending 30th June, 2003. When compared to the same period in 2002: HK$1,002,500, the higher the turnover was attributable to higher interest and dividend income. Albeit the difference, all costs were and still are under the managements' control. As of 30th June, 2003, staff salaries and other operating expenses amounted to HK$3,299,584 (in 2002: HK$4,013,163). Due to the unstable market condition, the "Group" prudently made an additional provision for impairment losses on its investment securities which came to a total of HK$3,322,600 (in 2002: HK$2,467,090). In addition, the "Group" recorded an unrealized gain of HK$2,301,950 (in 2002: loss of HK$1,934,561) from the revaluation of other investments. Overall, the "Group" reported a loss of HK$2,049,900 (in 2002: HK$13,125,952) after taxation for the six months.

We are anticipating and preparing for the next six months although the economic market will be slow in picking itself up due to global dynamics and uncertainties. The "Board" is striving to produce a positive return for the shareholders by becoming more conservative in selecting investments. At the same time, the "Board" will reduce their short-term investments in listed shares. More emphasis will now be placed on investments into bio-chemical products and technology, as the "Board" feels the increasing need of medical services by individuals worldwide. It is our intention to increase the "Group's" exposure into this particular kind of investment and to maximize the future profit for the shareholders.

FINANCIAL REVIEW

Liquidity and financial resources

As at 30th June, 2003, the Group had no borrowing, except for the outstanding convertible bonds of HK$49,900,000. Of this total, HK$39,900,000 will mature within one year and HK$10,000,000 due for repayment. The Group is negotiating with the bondholder to reschedule the repayment, while HK$2,000,000 has already been paid. The Group had available funds of HK$2,400,269 which were mainly placed with banks as time deposits. Cash and bank balances held by the Group are mainly denominated in Hong Kong dollars.

The shareholders' fund increased from HK$114,830,076 as at 31st December, 2002 to HK$140,726,170 at 30th June, 2003 due to inflow of funds from the rights issue.

The Group has unutilized banking facilities of HK$15,000,000 and has no significant funding requirements for investment and capital expenditure commitments at present. The interest rate charged on the banking facilities is 2% per annum over the Prime Lending Rate or 2% per annum over the prevailing overnight Hong Kong Interbank Offered Rate, whichever is higher.

The gearing ratio for the Group was 36% (2002: 44%) which represents the ratio of the Group's borrowings to the net asset value of the Group.

The Group did not have any capital expenditure commitment as at 30th June, 2003.

Capital structure

Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 19th December, 2002, a rights issue scheme on the basis of three rights shares for every two existing shares to the existing shareholders was approved and adopted. 1,461,582,337 new shares 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 with the existing shares. The fund raised by the Company net of share issue expenses amounted to HK$27,945,994 which has been 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.

If all of the outstanding 2004 warrants are fully exercised, the Group will be required to issue additional 15,478,789 shares at an exercise price of HK$1.00 per share (after the adjustment for the rights issue and the consolidation of shares).

The Group's borrowings are at fixed interest rates and denominated in Hong Kong dollars. The Group has not used any financial instrument to hedge the interest rate risk.