

The Board of Directors of Harmony Asset Ltd takes pleasure in presenting to you the audited and consolidated results of the Group for the year 2003.

BUSINESS REVIEW

For the year ended 31st December, 2003, our total revenue showed a favourable improvement against the loss to which the Group had succumbed one year earlier. This better performance was due mainly to higher turnover from interests and dividends received from investments, as well as, from gains realised on disposal of investments, both listed and unlisted. The former contributed HK\$9.5 million to the coffers, while the latter, HK\$3.6 million respectively. Commissions, arrangement fees and sundries earned during the year added a further HK\$1.9 million, thus, bringing the total revenue to HK\$14,917,956 for the entire year.

As a result of stringent control over administration costs and expenses, the Group achieved an operating profit of HK\$2,482,138. This amount was net of loan to an investee company written off of HK\$429,625 and provision for impairment of assets totalling HK\$14,677,186 which included: provisions for investment losses of HK\$10,477,600 and provisions for loans granted to associates of HK\$4,199,586.

To arrive at the operating profit, an unrealised gain of HK\$11,099,581 was taken into account on revaluation of investments in the share trading portfolio while a sum of HK\$501,962 was written off as bad debt from profits. At the bottom line, the Group sustained HK\$2,536,284 net loss before taxation, after adjusting for finance costs of HK\$2,607,892 and the Group's share of losses from associates which amounted to HK\$2,410,530. An one-off tax credit adjustment of HK\$449,631 pared the net loss for the year to HK\$2,086,653 or HK1.78 cents loss on a per share basis.

On 11th November, 2002, the "Board" announced that the "Company" would formulate a capital restructuring exercise involving an allotment of rights. In this exercise, three rights shares were issued for every two shares owned. The rationale was to raise HK\$27,945,994 after expenses, to strengthen the shareholders' funds, and to expand the Group's operations. Subsequently, at an extraordinary general meeting held on 23rd January, 2003, shareholders' approval were given for the consolidation of shares based on two criteria: 1) Consolidating 20 shares into 1 new share and, 2) Size of a board lot changed from 1,000 shares to 10,000 of the newly consolidated shares. Dealing in these newly consolidated changes commenced on 24th January, 2003. As a result, shareholders' funds amounted to HK\$140,689,417 at the end of December 2003 whilst funds at the end of December 2002 amounted to HK\$114,830,076.

The Group has no non-current liabilities as of year end, while HK\$39.9 million has become due within one year and HK\$5 million has been due before year end. The Group anticipates no difficulty in repayment of this portion of convertible bond either from internal cash or by conversion into new shares by bond holders.

04 Chairman's Statement

PROSPECTS

Year 2004 will remain another challenging year for the Group. In Hong Kong, both the economy and market sentiment have improved since the middle of last year, aided by closer economic ties with China and the influx of visitors from the mainland. We feel that the local economy will not deviate from this path of recovery, but it is crucial that interest rates, particularly those of the United States, shall remain stable and low so as to provide stimulus to consumption, and strong corporate earnings growth. In the United States, we feel that the DJII is already trading at its upper end of valuation, given that the cyclically adjusted PE of the S&P500 index is 70% above its long-term mean; the Price-to-Book ratio is 3.2 times book value and that the yield of the S&P500 is lower than the 10 year treasury bill rates.

Looking forward, we feel that most financial assets are overvalued at present as a result of the reflationary measures implemented by the central banks. Once interest rates move up, share markets worldwide will suffer.

Against this backdrop, the Board of Directors will take precautionary measure and will be most selective in examining investment opportunities presented from time to time. There will be more thrust in seeking out projects that are health sciences or bio-remedial related. As the baby boomers age, there will be more consumption and spending in this field. Your directors will endeavour to seek out growth areas worthy of investing your money for superior returns.

FINAL DIVIDEND

The Board of Directors resolved not to declare a final dividend.

APPRECIATION

The Board welcomed the appointment of a new Director, Mr. Lam Andy Siu Wing, JP on 23rd March, 2004. With Mr. Lam's professional expertise, the Group believes that he will bring more efficiency on financial reporting as well as help in the strengthening of the Group's internal control.

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, 2004