

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, 2005. The consolidated results, consolidated cash flow statement and consolidated statement of changes in equity for the Group for the six months ended 30th June, 2005, and the consolidated balance sheet as at 30th June, 2005 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 9 to 22 in this half year report.

INTERIM DIVIDEND

The Board resolved not to declare an interim dividend for the six months ended 30th June 2005 (2004: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business review, prospects and future plan

For the six months ended 30th June, 2005, the Group recorded a turnover of HK\$1,316,612 which was less than the same period of 2004 of HK\$3,904,020, and the loss attributable to shareholders was HK\$4,198,208 when compared to the same period of last year's result of HK\$3,061,613. Before taking into account of finance cost of HK\$434,903 (2004: HK\$1,163,244), loss in operation was HK\$3,763,305 (2004: profit of HK\$1,398,009).

We saw a continuous economic recovery in Hong Kong during the last year. With this improving economic condition, people consumption is also increasing. This situation has resulted in the Group focusing their attention on investments in the catering and entertainment business. In the beginning of the year, the Group has lined up several partners to participate in the business venture featuring a wedding and catering service located in Cyberport. It is anticipated that this business is to generate good income in the near future.

The Group predicts that the present economic growth will be influenced by increasing interest rates as well as increasing oil prices. Under these circumstances of an inflation cycle, the Group intends to control risks effectively and prudently before any decisions of investments are made. The Group also endeavors to generate high returns on equity within acceptable risks. Following a challenging and demanding discipline, we hope we can deliver superior returns to our shareholders.

Financial review

Liquidity and financial resources

As at 30th June, 2005, the Group had no outstanding convertible bonds (31st December, 2004: HK\$9,900,000). The Group has redeemed convertible bonds with an aggregate amount of HK\$7,400,000 and has converted convertible bonds of HK\$2,500,000 into a short-term loan during the current period. The Group intends to repay all outstanding loan before the end of December 2005. The Group had available funds of HK\$11,657,727 (31st December, 2004: HK\$15,923,448) 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 Group had shareholders' fund of HK\$143,195,200 at 30th June, 2005 compared to HK\$148,812,454 at 31st December, 2004.

The Group has unutilised banking facilities of HK\$6,000,000 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 5% (31st December, 2004: 13%) 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, 2005.

Capital Structure

There was no significant change in the Group's capital structure for the six months ended 30th June, 2005 except 24,300,000 new shares were placed to third parties through a placing agent. On 1st March, 2005, the Board approved the placement of shares at a price of HK\$0.35 per placement share. After the completion of the placement of shares, a total sum of HK\$8,242,375 was received by the Company in which an amount of HK\$4,860,000 and HK\$3,382,375 was credited to the share capital account and share premium account respectively.

At the Company's Annual General Meeting on 28th June, 2005, shareholders approved the adoption of share option scheme. As at 30th June, 2005, there is no share option granted to the Company's directors or employees.

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

Significant investments held and their performance

In the past six months, the Group recorded a realised gain of HK\$2,740,483 while suffered an unrealised loss of HK\$2,893,022 from its listed securities. The amount of provision for bad and doubtful debts of HK\$1,744,208 was made for loan receivables.

During the period, the Group received a cash dividend of HK\$429,176 from listed and unlisted investments. Interest income of HK\$96,713 was received from the bank and HK\$790,723 was received from loan receivables.

Regarding to the investment activities for the past six months under review, the Group had made further deposit of HK\$4,369,641 into the project of wedding theme and catering services in Cyberport. During the period, the Group increased the portfolio of convertible bonds of HK\$1,193,103 in the biodegradable products. Besides that, the Group also invested in the logistic and food trading business by subscription of a convertible bond in the principal amount of HK\$2,000,000.

SEGMENT INFORMATION

No analysis of the Group's turnover and contribution to operating loss 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 and less than 10% of the consolidated results of the Group are attributable to markets outside Hong Kong.

SEASONALITY/CYCLICALITY OF INTERIM OPERATIONS

The management is not aware of any significant seasonal and cyclical factors which affect the Group's interim operations and results.