

**INTERIM RESULTS**

The Board of Directors of Harmony Asset Limited (the "Company") presents the interim report and unaudited, condensed, consolidated accounts ("interim accounts") of the Company and its subsidiaries ("the Group") for the six months ended 30th June, 2002. The Group's results, cash flow statement, statement of changes in equity for the six months ended 30th June, 2002, and balance sheet as at 30th June, 2002 are all consolidated, unaudited and condensed. They are set out on pages 10 to 24 of these interim accounts, along with selected explanatory notes.

**INTERIM DIVIDEND**

The Board of Directors resolved not to pay an interim dividend for the six months ended 30th June, 2002.

**MANAGEMENT DISCUSSION AND ANALYSIS****BUSINESS REVIEW AND PROSPECTS**

First half of the year 2002 turned out to be an even more difficult period than last year. Weak global economy, aggravated by political and terrorists threats, stalled the fragile recovery of Hong Kong. Amid fading optimism there was wide spread loss of business confidence and investor sentiment in Hong Kong. Major world market indexes spiraled downwards and the share market in Hong Kong was not spared. Like many investment companies, our Group was adversely affected by the recession in the region.

As a result of lower contribution from interest and dividend received due to the deteriorating market condition, turnover, for the six months ended 30th June, 2002 at HK\$1 million, declined by 84% when compared to HK\$6.2 million for the same period last year. The sales of investment securities and other investments resulted in a total loss of HK\$3.7 million. The management was able to contain costs, inclusive of staff salaries and management fees to HK\$4.3 million. In view of the worsening and volatile market condition, the Group resolved to make an additional provision of HK\$2.5 million for impairment losses on its investment securities. The Group also recorded an unrealised loss of HK\$1.9 million from revaluation of other investments. Earnings before interest, tax, depreciation and amortisation was negative for the six months period in 2002. With the inclusion of depreciation, amortisation and finance costs, the loss widened to HK\$12.8 million. Adding the losses from the associated companies of HK\$0.3 million, the Group recorded at bottom line a disappointing loss attributable to shareholders of HK\$13.1 million or HK1.35 cent per share in the first half of the year. This is in contrast to the profit of HK\$9.9 million for the same period in 2001.

Shareholders funds declined from HK\$173.6 million at 31st December, 2001 to HK\$160.5 million at 30th June, 2002 due to the loss for the current period. Consequently, the Group's net tangible asset value per share fell to HK16 cents from HK18 cents at 31st December, 2001.

From the balance sheet perspective, there has not been any significant change in the investment portfolio and capital structure of the Group for the period under review apart from the reduction in other investments held and a few investments made during the period. One of the notable investments which the Group embarked upon is the joint investment with New World Development Group and other investors for a new investment project, in the Teddy Bear Kingdom, a theme park, a first of its kind, in Hong Kong. The Directors believe that this project will generate income and profit in the near future.

For the next 6 months the outlook for the market will continue to be clouded by economic uncertainties. The Directors will strive to achieve a positive return for the shareholders by being more conservative in selecting investments while, at the same time, reducing short term investments in listed shares. The Board will focus more on investments in debt instruments to counter the present downturn in economic cycle. It is our intention to increase the Group's exposure to this type of investment while exercising utmost discipline.

## FINANCIAL REVIEW

### Liquidity and Financial resources

As at 30th June, 2002, the Group had no borrowing, except the outstanding convertible bonds of HK\$49.9 million issued in 2000. The Group had available funds of HK\$7.7 million which were mainly placed with banks as time deposits. Cash and bank balances held by the Group are mainly denominated in Hong Kong dollars.

Net current assets declined from HK\$74.9 million as at 31st December, 2001 to HK\$40.1 million at 30th June, 2002 due to disposal of other investments and use of cash and bank balances to finance new investments in an associated company and to invest in securities.

The Group had unutilized banking facilities of HK\$15 million and has no significant funding requirements for investment and capital expenditure commitments at present. The interest rate of the borrowing from the bank 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 is 31% (2001: 29%) which represents the ratio of the Group's borrowings to the net asset value of the Group.

### **Capital Structure**

There was no significant change in the Group's capital structure for the six months ended 30th June, 2002. Prior to the expiration of the 2002 warrants on 31st May, 2002, 1,568 of the 2002 warrants were exercised and 1,568 ordinary shares were issued at a subscription price of HK\$0.39 per share resulting in HK\$596 being credited to the share premium account.

At the extraordinary general meeting of the Company held on 18th June, 2002, the shareholders of the Company had approved the bonus issue made on the basis of one warrant for every five existing shares held by the shareholders whose names appear on the register of members of the Company on 18th June, 2002. The nominal value of the new warrants ("2004 warrants") outstanding at 30th June 2002 is HK\$15,571,641 with subscription right at the price of HK\$0.08 per share on or before 30th June, 2004. If the 2004 warrants are fully exercised, the Company will be required to issue a further 194,645,515 shares.

The Group's borrowings, such as convertible bonds, are borne by simple interest charges and no financial instrument or cash deposit of the Group is pledged for the borrowings.

### **CHARGE ON GROUP ASSETS**

Pursuant to a bank facility agreement between the Group and a bank, the Group can pledge its listed securities to the bank for a loan up to 20% of the market value of the pledged securities. During the period, the Group has not pledged any securities to the bank.

Of the convertible bonds of HK\$49.9 million issued by IT Star Holding Limited, a subsidiary of the Group, only one convertible bond of HK\$9.9 million is secured by a floating charge on the subsidiary's assets.