

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, 2004. The consolidated results, consolidated cash flow statement and consolidated statement of changes in equity for the Group for the six months ended 30th June, 2004, and the consolidated balance sheet as at 30th June, 2004 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 7 to 16 in this half year report.

INTERIM DIVIDEND

The Board of Directors resolved not to declare an interim dividend for the six months ended 30th June, 2004 (2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business review, prospects and future plan

For the six months ended 30th June, 2004, the Group recorded a turnover of HK\$3,904,020 which was less than the same period of 2003 of HK\$4,859,053, and the loss attributable to shareholders was HK\$3,061,613 when compared to the same period of last year's result of HK\$2,049,900. Before taking into account of finance cost of HK\$1,163,244 (2003: HK\$1,335,929), loss of HK\$3,296,378 (2003: HK\$2,410,530) in associates which including share of operating loss of HK\$1,324,165 (2003: HK\$2,410,530) and loss of HK\$1,972,213 (2003: Nil) on disposal, the Group recorded an operating profit of HK\$1,398,009 (2003: HK\$1,272,001).

In this coming six months, the Group will maintain its business plan set out in beginning of the year to negotiate with new business partners to participate in the Cyberport Project. This is a project featuring a wedding theme and providing catering services. The Group expects this business to generate good income in the near future.

The Group anticipate the present economic growth to be sustained in the next six months. The Board is striving to produce a positive return for the shareholders. More emphasis will be placed on investments into bio-chemical products and technology. The Group are planning to increase the "Group's" exposure into this kind of potential investments so as to maximise future profits for the Group.

Financial review

Liquidity and financial resources

As at 30th June, 2004, the Group had outstanding convertible bonds of HK\$14,900,000 (2003: HK\$44,900,000). The Group has redeemed convertible bonds with an aggregate amount of HK\$15,000,000 and has converted convertible bonds of HK\$15,000,000 into a long-term installment loan during the current period. The Group intends to repay all outstanding convertible bonds and loan before the end of December 2005. The Group had available funds of HK\$10,003,114 (2003: HK\$14,278,246) 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\$137,631,650 at 30th June, 2004 compared to HK\$140,689,417 at 31st December, 2003.

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 22% (2003: 32%) 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, 2004.

Capital Structure

There was no significant change in the Group's capital structure for the six months ended 30th June, 2004. Prior to the expiration of the 2004 warrants on 30th June, 2004, 3,846 of these warrants were exercised and 3,846 ordinary shares were issued at a subscription price of HK\$1 per share resulting in HK\$3,077 being credited to the share premium account.

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.

Significant investments held and their performance

In view of the increasing needs for bio-chemical products and as people are paying more attention to personal healthcare, the Board has made an initial, moderate investment of HK\$778,000 in bio-chemical products and technology development. In the past six months, the Group benefited an unrealised gain of HK\$1,234,249 from its listed securities amidst rising market. However, the Group suffered a loss of HK\$1,115,000 on disposal of an unlisted investment in a subsidiary. In addition, in view of the continuous unfavourable operating result in Teddy Bear Kingdom, a provision of HK\$1,324,165 was made by the Group during the period. On 4th June, 2004, all shareholders of Teddy Bear Kingdom agreed in a restructuring exercise, whereby individual shareholding were increased by capitalising part of its liabilities. Thus the equity held by the Group in Teddy Bear Kingdom was diluted from an associate status to an investment security and a loss of HK\$1,972,213 arose from the effect of disposal.

During the period, the Group received a cash dividend of HK\$1,308,548 from other listed and unlisted investments. Interest income of HK\$298,361 was received from the convertible bonds held and HK\$2,296,358 was received from a short term loan.

There has not been any significant change in the investment portfolio during the period under review except for redemption of a convertible bond of HK\$10,000,000 which was issued by a furniture trading company in Hong Kong.

SEGMENT INFORMATION

No analysis of the Group's turnover and contribution to the operating loss for the period 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, results and assets 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.