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HARMONY ASSET LIMITED

亨亞有限公司*

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 428)

CONTINUING CONNECTED TRANSACTION

The Board announces that on 17 May 2007, the Company entered into the Supplemental Agreement with the Investment Manager whereby the amount of incentive fees payable by the Company to the Investment Manager under the Investment Management Agreement shall be amended to the effect that in respect of each Financial Year, the Company shall pay to the Investment Manager within six months thereafter an incentive fee equivalent to 10% of the audited net profit of the Company in the Financial Year before accrual of the incentive fee.

As the Investment Manager is a company wholly-owned by Dr. Chow Pok Yu, Augustine, an executive Director, the Investment Manager is a connected person of the Company under the Listing Rules. In addition, as the applicable percentage ratios (as defined in the Listing Rules) in respect of the proposed annual caps of the management fee and incentive fee payable by the Company to the Investment Manager will exceed 25%, the Transaction constitutes a non-exempt continuing connected transaction for the Company under Rule 14A.35 of the Listing Rules. As such, the Transaction is subject to the approval by the Independent Shareholders by way of poll at the EGM.

The Company will convene the EGM to seek Independent Shareholders' approval or ratification (as the case may be) in respect of the Transaction, the cap amount for each of the periods ending 31 May 2010, the proposed renewal of the term of the Investment Management Agreement for a further 3 years and adoption of the New Method for the Financial Year of 2006. A circular containing particulars of the Transaction, a letter from the Independent Board Committee, a letter from the independent financial adviser and the notice convening the EGM, will be despatched to the Shareholders as soon as practicable.

An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Transaction, the cap amount for each of the periods ending 31 May 2010, the proposed renewal of the term of the Investment Management Agreement for a further three years and adoption of the New Method for the Financial Year of 2006 and an announcement will be made as soon as possible after the appointment is made.

SUPPLEMENTAL AGREEMENT

Date: 17 May 2007

Parties The Company and the Investment Manager

The Investment Manager is wholly-owned by Dr. Chow Pok Yu, Augustine, an executive Director.

Terms

Amendment to the Investment Management Agreement

Reference is made to the announcements of the Company dated 11 February 1998 and 5 April 2000 in respect of the entering into of an investment management agreement dated 1 June 1998 and a supplemental agreement dated 5 April 2000 by the Company and the Investment Manager, respectively. Pursuant to the Investment Management Agreement, the Company has appointed the Investment Manager to provide investment management services to the Company, which include identifying and analyzing investment opportunities, structuring and monitoring and supervising investments. The term of the Investment Management Agreement is for an initial fixed period of six years commencing from 1 June 1998 and, unless terminated by the Company at that time, shall thereafter continue for successive periods of three years each. The current three-year term commenced from 1 June 2004 and will expire on 31 May 2007. The Company proposes to renew the term of the Investment Management Agreement for a further 3 years commencing from 1 June 2007 to 31 May 2010, which will be subject to the Independent Shareholders' approval at the EGM.

Under Clause 12.04 of the Investment Management Agreement, the Investment Manager is receiving an incentive fee equivalent to 10% of the surplus in the Net Asset Value as at the Latest Incentive Date over the Net Asset Value as at the First Incentive Date in the same financial year (the "Existing Method"). Pursuant to the Supplemental Agreement, Clause 12.04 of the Investment Management Agreement shall be deleted in its entirety and will be amended to the effect that in respect of each Financial Year, the Company shall pay to the Investment Manager within six months thereafter an incentive fee equivalent to 10% of the audited net profit of the Company in the Financial Year before accrual of the incentive fee (the "New Method").

The basis of the calculation of the management fee payable by the Company to the Investment Manager monthly in advance shall remain unchanged throughout and is on the same basis as the ones provided under the Investment Management Agreement, which is equivalent to 1.5% per annum on the Net Asset Value as per the management account of the preceding month. The management fee shall be calculated on the actual number of days elapsed in the month during which investment management services are provided.

The Directors believe that the proposed changes to the structure of the incentive fee is more in line with market practices/norms by reference to the management fee and incentive fee arrangement adopted by other companies in the same industry and as such consider the change to be fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Effective Date

The Company proposes to apply the New Method retrospectively to calculate the incentive fee payable by the Company for the Financial Year of 2006. The incentive fee calculated based on the New Method has been accrued in the book of the Company for the Financial Year of 2006. The Company will at the EGM seek the Independent Shareholders' approval or ratification (as the case may be) of the adoption of the New Method to calculate the incentive fee for the Financial Year of 2006. The New Method will become effective upon the approval of the Independent Shareholders at the EGM. If the Company cannot obtain the Independent Shareholders' approval at the EGM, the Company will apply the Existing Method to calculate the incentive fee for the Financial Year of 2006.

The amount of incentive fee payable by the Company under the Existing Method and the New Method for the Financial Year of 2006 is HK\$2,197,237 and HK\$1,187,254, respectively. As such, if the New Method applies retrospectively for the Financial Year of 2006, the amount of incentive fee payable by the Company will be reduced.

Other terms of the Investment Management Agreement

The Company and the Investment Manager agree that all other terms of the Investment Management Agreement, save and except as amended by the Supplemental Agreement, will remain in full force and effect.

CAP AMOUNT

The Company has no approved annual cap in respect of the management fee and incentive fee during the period from 1 June 2004 to 31 May 2007. As such, the Company did not comply with the reporting, announcement and independent shareholders' approval requirements for continuing connected transactions as required under the Listing Rules during the period from 1 June 2004 to 31 May 2007 in relation to approved annual caps for continuing connected transactions.

The management fee and incentive fee paid by the Company to the Investment Manager pursuant to the Investment Management Agreement for the years ended 31 December 2004, 31 December 2005 and 31 December 2006 were as follows:

	Year ended 31 December 2004 (HK\$)	Year ended 31 December 2005 (HK\$)	Year ended 31 December 2006 (HK\$)
Incentive fee	911,185	1,400,508	1,187,254
Management fee	2,166,444	2,205,760	2,657,352
Total fees paid	<u>3,077,629</u>	<u>3,606,268</u>	<u>3,844,606</u>

As at the date of this announcement, the Company has paid a management fee in the sum of HK\$943,788 to the Investment Manager for the financial year of 2007.

The Company recorded an aggregate net profit in the amount over HK\$40 million in the past three years of 2004 to 2006 and the net asset value of the Company had been increased by HK\$49.8 million comparing with that in 2003. The Directors are of the view that the performance of the Investment Manager is satisfactory.

For the purpose of Rule 14A.35(2) of the Listing Rules, the annual cap in respect of the management fee and incentive fee payable by the Company to the Investment Manager under the Investment Management Agreement (as amended by the Supplemental Agreement) will be as follows:

	Year ended 31 December 2007 (HK\$)	Year ended 31 December 2008 (HK\$)	Year ended 31 December 2009 (HK\$)	Period ended 31 May 2010 (HK\$)
Incentive fee	1,424,700	1,709,640	2,051,568	1,018,477
Management fee	3,427,995	4,113,594	4,936,313	2,450,575
Total fees payable	<u>4,852,695</u>	<u>5,823,234</u>	<u>6,987,881</u>	<u>3,469,052</u>

In determining the above annual caps, the Company has taken into account that (a) the Company projects approximately 20% increase in net asset value assuming that the proposed offering of new shares of the Company by way of placing in Canada as part of the secondary listing of the Company as disclosed in the announcement and the circular of the Company dated 16 November 2006 and 17 November 2006, respectively has been completed and increase in net profit before accrual of the incentive fee by reference to the financial performance of the Company during the latest 4 months for the Financial Years of 2007 to 2010; (b) the net asset value of the Company as at 31 December 2006 was HK\$190,444,519 and (c) the net profit of the Company before accrual of the incentive fee as at 31 December was HK\$11,872,536.

INFORMATION ON THE COMPANY AND INVESTMENT MANAGER

The Company is an investment company and is principally engaged in investments in securities listed on the Stock Exchange and unlisted investments with a potential for earning growth and capital appreciation. The Investment Manager is a company wholly-owned by Dr. Chow Pok Yu, Augustine, an executive Director, and a licensed corporation to perform type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

REASONS FOR THE TRANSACTION

The entering into of the Supplemental Agreement will benefit the Shareholders as a whole as such amendment to the Investment Management Agreement will render fair compensation to the Investment Manager as the incentive fee will only be paid when the Company has net profit in the Financial Year.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Supplemental Agreement are on normal commercial terms and are fair and reasonable and that the entering into of the Transaction is in the interests of the Company and the Shareholders as a whole and in the ordinary and usual course of business of the Company.

CONTINUING CONNECTED TRANSACTION

As the Investment Manager is a company wholly-owned by Dr. Chow Pok Yu, Augustine, an executive Director, the Investment Manager is a connected person of the Company under the Listing Rules. In addition, as the applicable percentage ratios (as defined in the Listing Rules) in respect of the proposed annual caps of the management fee and incentive fee payable by the Company to the Investment Manager will exceed 25%, the Transaction constitutes a non-exempt continuing connected transaction for the Company under Rule 14A.35 of the Listing Rules. As such, the Transaction is subject to the approval by the Independent Shareholders by way of poll at the EGM.

The Company will convene the EGM to seek Independent Shareholders' approval or ratification (as the case may be) in respect of the Transaction, the cap amount for each of the periods ending 31 May 2010, the proposed renewal of the term of the Investment Management Agreement for a further three years and adoption of the New Method for the Financial Year of 2006. In view of the interest of the Investment Manager and its associates (as defined in the Listing Rules) in the Transaction, the Investment Manager, Dr. Chow Pok Yu, Augustine and their respective associates (as defined in the Listing Rules) will abstain from voting at the EGM on the resolution(s) relating to the Transaction. The votes to be taken at the EGM will be taken by poll, the results of which will be announced after the EGM.

An Independent Board Committee will be appointed to advise the Independent Shareholders whether or not to vote in favour of the Transaction. An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders on whether the Transaction, the cap amount for each of the periods ending 31 May 2010, the proposed renewal of the term of the Investment Management Agreement for a further three years and adoption of the New Method for the Financial Year of 2006 is fair and reasonable and in the interests of the Company and the Shareholders as a whole. An announcement will be made as soon as possible after the appointment is made.

A circular containing particulars of the Transaction, a letter from the Independent Board Committee, a letter from the independent financial adviser and the notice convening the EGM, will be despatched to the Shareholders as soon as practicable.

The Transaction will also be subject to the annual review requirement and the reporting requirement respectively under Rules 14A.37 to 14A.41, and Rules 14A.45 and 14A.46 of the Listing Rules.

DEFINITIONS

In this announcement, unless otherwise defined, terms used herein shall have the following meanings:

“Board”	the board of Directors of the Company;
“Company”	Harmony Asset Limited, a company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Stock Exchange;
“Directors”	the directors of the Company;
“EGM”	the extraordinary general meeting of the Company to be held to consider and approve the Transaction;
“Financial Year”	a period of 12 months from 1 January to 31 December in the same calendar year;
“First Incentive Date”	in respect of the financial year in which the Investment Management Agreement comes into effect, the day on which the Investment Manager commences to provide investment management services to the Company pursuant to the Investment Management Agreement and, in respect of any other financial year, 1 January;
“Independent Board Committee”	the independent board committee of the Company comprising Mr. Tong Kim Weng, Kelly, Dr. Wong Yuan Kuen and Mr. Ho Man Kai, Anthony, all of whom are independent non-executive Directors;
“Independent Shareholders”	Shareholders other than Dr. Chow Pok Yu, Augustine together with his associates;
“Investment Manager”	Harmony Asset Management Limited, a company wholly-owned by Dr. Chow Pok Yu, Augustine, an executive Director;
“Investment Management Agreement”	the investment management agreement dated 1 June 1998 as amended by the supplemental agreement dated 5 April 2000 entered into between the Company and the Investment Manager;

“Last Incentive Date”	in respect of the financial year in which the Investment Management Agreement comes into effect, the day on which the Investment Manager commences to provide investment management services to the Company pursuant to the Investment Management Agreement prior to its termination and, in respect of any other financial year, 31 December;
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange;
“Net Asset Value”	the net asset value of the Company calculated in accordance with the articles of association of the Company in force from time to time;
“Shareholder(s)”	shareholder(s) of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Supplemental Agreement”	the supplemental agreement dated 17 May 2007 entered into on between the Company and the Investment Manager to amend the Investment Management Agreement;
“Transaction”	the entering into of the Supplemental Agreement by the Company and all the transactions contemplated thereunder;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“%”	per cent.

By Order of the Board
Harmony Asset Limited
Peter Lee Yip Wah
Secretary

Hong Kong, 17 May 2007

** for identification purpose only*

As at the date of this announcement, the executive directors are Mr. Lee Fong Lit, David, Dr. Chow Pok Yu, Augustine, Dr. Lam Andy Siu Wing, JP and Mr. Chan Shuen Chuen, Joseph. The independent non-executive directors are Mr. Tong Kim Weng, Kelly, Dr. Wong Yun Kuen and Mr. Ho Man Kai, Anthony.

Please also refer to the published version of this announcement in The Standard.