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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or otherwise transferred all your shares in Harmony Asset Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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**HARMONY ASSET LIMITED****亨亞有限公司****(Incorporated in the Cayman Islands with limited liability)*

(HKEX Stock Code: 428)

(TSX Trading Symbol: HAR)

CONTINUING CONNECTED TRANSACTION

**Independent Financial Adviser to the Independent Board Committee and
the Independent Shareholders**

**普頓資本有限公司
PROTON CAPITAL LIMITED**

A letter from the Independent Board Committee containing its advice and recommendation to the Independent Shareholders is set out on page 11 of this circular. A letter from Proton Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 12 to 25 of this circular.

A notice convening an extraordinary general meeting of Harmony Asset Limited to be held at Room 1902, Cheung Kong Centre, 2 Queen's Road Central, Hong Kong on 31st day, May 2013 at 9:15 a.m. (or as soon thereafter as the annual general meeting convened at the same place and date at 9:00 a.m. shall have concluded or adjourned) is set out on pages 37 to 38 of this circular. Whether or not you intend to attend the meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and deposit the same to either (i) Computershare Hong Kong Investor Services Ltd., the branch share registrar of the Company in Hong Kong at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong or (ii) Computershare Investor Services Inc., the branch share registrar of the Company in Canada at 100 University Ave., Toronto, Ontario, M5J 2Y1, as soon as possible and in any event not less than 24 hours before the time of the meeting or any adjourned meeting.

* for identification purpose only

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“associates”	shall have the same meaning as is provided in the Listing Rules
“Board”	the board of directors of the Company
“Company”	Harmony Asset Limited, a company incorporated in Cayman Islands with limited liability and whose shares are listed on the main board of the Stock Exchange and TSX
“Directors”	the directors of the Company
“EGM”	an extraordinary general meeting of the Company to be convened to approve the Investment Management Agreement and the Supplemental Agreement and the annual caps thereunder
“Financial Year”	the financial year of the Company during the Management Period, being the period of twelve (12) months from 1 January to 31 December or as otherwise determined by the Board
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent board committee of the Company comprising Mr. Tong Kim Weng, Kelly, Dr. Wong Yun Kuen and Mr. Ho Man Kai, Anthony (all being independent non-executive Directors) to make recommendation to the Independent Shareholders in respect of the Investment Management Agreement and the annual caps thereunder
“Independent Shareholders”	Shareholders other than the Investment Manager, Dr. Chow Pok Yu, Augustine, Mr. Lee Fong Lit, David and their respective associates
“Investment Manager”	Harmony Asset Management Limited, a company wholly-owned by Dr. Chow Pok Yu, Augustine, executive Director
“Investment Management Agreement”	the investment management agreement dated 11 April 2013 and entered into between the Company and the Investment Manager as amended by the Supplemental Agreement in relation to the provision of services with effect from the Renewal Date, the terms of which shall be subject to approval by the Independent Shareholders

DEFINITIONS

“Latest Practicable Date”	7 May 2013, the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Management Period”	the period from the Renewal Date to 31 May 2016
“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
“Previous Agreement”	the investment management agreement dated 8 April 2010 made between the Company and the Investment Agreement
“Proton Capital” or “Independent Financial Adviser”	Proton Capital Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Investment Management Agreement (as amended by the Supplemental Agreement) and the annual caps thereunder
“Renewal Date”	1 June 2013
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholders”	holders of Shares
“Shares”	ordinary shares in the issued share capital of the Company of a nominal value of HK\$1.00 each
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the supplemental agreement dated 24 April 2013 and entered into between the Company and the Investment Manager to amend the calculation method of the incentive fee payable by the Company to the Investment Manager under the Investment Management Agreement
“TSX”	Toronto Stock Exchange
“%”	per cent

LETTER FROM THE BOARD



HARMONY ASSET LIMITED

亨亞有限公司*

(Incorporated in the Cayman Islands with limited liability)

(HKEX Stock Code: 428)

(TSX Trading Symbol: HAR)

Executive Directors:

Mr. LEE Fong Lit, David (*Chairman*)

Dr. CHOW Pok Yu, Augustine (*Chief Executive Officer*)

Mr. CHAM Sheun Chuen, Joseph

Mr. CHENG Ming Shun (*Chief Financial Officer*)

Registered Office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Independent Non-Executive Director

Mr. TONG Kim Weng, Kelly

Dr. WONG Yun Kuen

Mr. HO Man Kai, Anthony

Principal place of business:

Room 1902

Cheung Kong Centre

2 Queen's Road Central

Hong Kong

10 May 2013

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTION

INTRODUCTION

On 11 April 2013, the Board announced that the Company entered into the Investment Management Agreement with the Investment Manager in relation to the appointment of the Investment Manager for the Management Period, immediately following the expiry date of the Previous Agreement, which is to be 31 May 2013.

On 24 April 2013, the Board announced that the Company entered into the Supplemental Agreement with the Investment Manager to amend the calculation method of the incentive fee payable by the Company to the Investment Manager under the Investment Management Agreement.

* for identification purpose only

LETTER FROM THE BOARD

The purpose of this circular is to provide you with further details of the Investment Management Agreement as amended by the Supplemental Agreement, the recommendation of the Independent Board Committee, the advice of Proton Capital, and the notice convening the EGM, at which ordinary resolution will be proposed to consider and, if thought fit, approve the Investment Management Agreement, the Supplemental Agreement and the annual caps thereunder.

INVESTMENT MANAGEMENT AGREEMENT

Principal terms

The principal terms of the Investment Management Agreement (as amended by the Supplemental Agreement) among others, include:

- Duration: From the Renewal Date until 31 May 2016
- Services: The Investment Manager shall provide investment management services to the Company which includes identifying and analyzing investment opportunities, structuring and monitoring and supervising investments.
- Remuneration: *Management Fee:* 1.5% per annum on the Net Asset Value as per the management account of the Company in the preceding month and payable by the Company monthly in advance. The management fee shall be calculated on the actual number of days elapsed in the month during which investment management services are provided.
- Incentive Fee:* In respect of each Financial Year, 10% of the audited net profit of the Company in the Financial Year and for the purpose of the calculating the audited net profit of the Financial Year, (i) any audited net loss of the Company in any Financial Year commencing 1 January 2013 shall be carried forward and set off against the audited net profit of the Company in subsequent Financial Years, and (ii) the audited net profit of the Financial Year shall be calculated before accrual of any incentive fee that will be payable.

LETTER FROM THE BOARD

Annual caps

The annual maximum remuneration payable by the Company to the Investment Manager in terms of management fee and incentive fee under the Investment Management Agreement is limited as follows:

	Management fee <i>(HK\$)</i>	Incentive Fee <i>(HK\$)</i>	Total Annual Cap <i>(HK\$)</i>
For the period from the Renewal Date to 31 December 2103	2,911,523	2,830,502	5,742,025
For the year ended 31 December 2014	5,690,073	4,827,726	10,517,799
For the year ended 31 December 2015	6,414,232	4,827,726	11,241,958
For the period from 1 January 2016 to 31 May 2016	2,769,570	1,991,767	4,761,337

Computation of the annual caps is based on the assumption that the Company will achieve approximately a 17% increase in net asset value before accrual of the incentive fee by reference to the historical record of average audited net profit of the Company during the year ended 31 December 2007, 2009, 2010 and 2012.

The following is the net profits and net assets of the Company for the years ending 31 December 2006 to 31 December 2012, and the changes in percentage in the respective years.

	Net profits <i>(HK\$)</i>	Change in <i>%</i>	Net Assets <i>(HK\$)</i>	Change in <i>%</i>
For the year ended 31 December 2006	10,685,282	-50.44%	190,444,519	+12.25%
For the year ended 31 December 2007	50,907,356	+376.43%	288,047,095	+51.25%
For the year ended 31 December 2008	(88,590,514)	-274.02%	183,541,764	-36.38%
For the year ended 31 December 2009	84,954,963	+195.90%	277,500,594	+51.19%
For the year ended 31 December 2010	35,274,924	-58.48%	309,289,512	+11.46%
For the year ended 31 December 2011	(48,045,466)	-236.20%	268,697,349	-13.12%
For the year ended 31 December 2012	9,530,972	+119.78%	282,783,731	+5.24%

The Company's results on investments are materially influenced and affected by the global economic and investment environments. In order to come to a reasonable assumption for the calculation of the annual cap of for the remuneration of the Investment Manager which include management fee as well as incentive fee and the latter will only be payable if the Company had made a net profit, hence, the Company considers it is meaningful to adopt the average figures for the financial years in which the Company had made net profits for the years ended 31 December 2007 to 2012 (including the Financial Years ended 31 December 2007, 2009, 2010 and 2012) to give the estimated result of 17% increase in net asset value for the year ended 31 December 2103. The Board (excluding Dr. Chow Pok Yu, Augustine and Mr. Lee Fong Lit, David) considers the approach in adopting the average figures of the net profits making Financial Years for the estimated increase in the net asset value of the Company for the year ending 31 December 2013 fair and reasonable.

LETTER FROM THE BOARD

Historical transaction amounts and the current annual caps

The following is a summary of the historical transaction amounts for the period commencing from 1 January 2010 to 31 December 2012 (both dates inclusive):–

	Management fee	Incentive Fee	Total Transaction
	<i>(HK\$)</i>	<i>(HK\$)</i>	Amount
			<i>(HK\$)</i>
For the period from 1 January 2010 to 31 December 2010	4,417,468	3,928,169	8,345,637
For the period from 1 January 2011 to 31 December 2011	4,342,743	–	4,342,743
For the period from 1 January 2012 to 31 December 2012	3,915,231	1,058,997	4,974,228

The following is a summary of the annual caps under the Previous Agreement for the periods commencing from 1 January 2010 to 31 December 2012 (both dates inclusive):–

	Management fee	Incentive Fee	Total
	<i>(HK\$)</i>	<i>(HK\$)</i>	Annual Cap
			<i>(HK\$)</i>
For the period from 1 January 2010 to 31 December 2010	6,032,699	9,796,299	15,828,998
For the period from 1 January 2011 to 31 December 2011	7,106,539	9,813,432	16,919,971
For the period from 1 January 2012 to 31 December 2012	8,578,553	9,813,432	18,391,986

Set out in Appendix I is a summary of the historical performance of the Company's investments for each of the three years ended 31 December 2012 including (i) details of the top 10 investments as at the year-end date and brief description of each of their performance; (ii) top 3 investments acquired during the year; (iii) realized gain for top 3 investments; (iv) realized loss for top 3 investments and the reasoning for the disposal; and (v) to 3 investments impairment loss and the reasoning for making impairment.

Condition of the Investment Management Agreement and the Supplemental Agreement

The Investment Management Agreement and the Supplemental Agreement are conditional upon the approval by the Independent Shareholders at the EGM. If the condition is not satisfied on or before 31 May 2013, the Investment Management Agreement and the Supplemental Agreement shall lapse and none of the parties shall have any obligations and liabilities thereunder save for antecedent breaches of terms thereof.

LETTER FROM THE BOARD

Reasons for entering into the Investment Management Agreement

The Investment Manager has provided investment management services to the Company since 1 June 1998. The Board is of the view that continuity for provision of investment management services by the Investment Manager is important for the management of the Company.

INFORMATION ON THE COMPANY AND INVESTMENT MANAGER

The Company is an investment company listed under Chapter 21 of the Listing Rules. The Company principally invests 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, executive Director, and is a licensed corporation to carry out 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). The Investment Manager is principally engaged in investment advisory and asset management.

The Company has appointed the investment Manager since 1 June 1998. The Investment Manager provides investment management services to the Company, which includes identifying and analyzing investment opportunities, structuring and monitoring and supervising investments.

The Investment Manager has two executive directors, namely Dr. Chow Pok Yu, Augustine and Mr. Lee Fong Lit, David who are responsible for the operations of the Investment Manager, they are also the licensed Responsible Officer of the Investment Manager under the SFO.

Dr. Chow Pok Yu, Augustine joined the Investment Manager as an executive director on 5 February 1998. He is the responsible officer of the Investment Manager. He holds a MSc Degree from London Business School and Ph.D from University of South Australia and Engineering Doctorate from City University of Hong Kong. Dr. Chow has vast experience in managing public listed companies that are involved in manufacturing, marketing and financial services and specializing in mergers and acquisitions. He has been an executive director of the Investment Manager and has been managing the investments of the Company since 1998.

Mr. Lee Fong Lit David joined the Investment Manager as an executive director on 5 February 1998. He is the responsible officer of the Investment Manager. He obtained his BSc degree from McGill University in Montreal and his MBA degree from Columbia University, New York. Mr. Lee has over 29 years of experience in the international finance and investment management industry. He is involved in investing in equity markets of Singapore, Malaysia and Hong Kong. He has been an executive director of the Investment Manager and has been managing the investments of the Company since 1998.

The Investment Manager has one non-executive director. Mr. Cho Chi Ming joined the Company as a director on 2 January 2013. He has over 40 years of economic research and commentary experience as Executive Director of the Hong Kong Economic Journal (“HKEJ”) and is currently the Chief Consultant to HKEJ and continues to be a member of Lingnan University’s Investment Committee. He is the author of numerous articles and books on investment and macro-economic analysis and views.

LETTER FROM THE BOARD

The Company has adopted internal controls procedure over the investments of the Company that:–

- (i) for investments of HK\$3 million or less, it shall be approved by all members of the Investment Committee of the Company. As at 31 December 2012, the members of Investment Committee of the Company comprises of Mr. Chow Pok Yu Augustine, Mr. Lee Fong Lit David and Mr. Cheng Ming Shun;
- (ii) for investments of more than HK\$3 million up to HK\$10 million, it shall be approved by the Investment Committee of the Company and by any one of Independent Non-executive Directors; and
- (iii) for investment of more than HK\$10 million, it shall be approval by all members of the Board.

and to avoid conflict of interest, before the approval of any investment by the Company, each Director has to declare his interest in the investment under consideration and to abstain from voting if any Director shall have a material interest therein.

The Investment Manager also acts as an investment advisor to a third party investment manager of a fund set up in Cayman Islands (the “Third Party Client”). The role of the Investment Manager towards the Third Party Client is passive in nature and limited to providing advices on potential investments considered by the Third Party Client when being consulted upon, Whereas the Investment Manager’s role towards the Company under the Investment Management Agreement is proactive involving the actual identification and analyzing investment opportunities for the Company and the arrangement and implementation of a decision to invest by the Company. The Company considers the chance of the interests of Company and the Third Party Client come to conflict over the same investment is minimal and should the unlikely event the interests of Company and the Third Party Client come to conflict over the same investment arises, the Investment Manager will be under a duty to both the Company and the Third Party Client to disclose the potential conflict of interest and under the term of its appointment with the Third Party Client, the Investment Manager will elect to refrain from providing any advice to the Third Party Client.

LISTING RULE IMPLICATIONS

The Investment Manager, as the investment manager of the Company under the Previous Agreement, is a connected person of the Company pursuant to Rule 21.13 of the Listing Rules. Moreover, the Investment Manager being a company wholly-owned by Dr. Chow Pok Yu, Augustine, executive Director of the Company, is a connected person of the Company pursuant to Rule 14A.11 of the Listing Rules. Accordingly, the transactions contemplated by the Investment Management Agreement and the Supplemental Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As the relevant percentage ratio will exceed 25% in respect of each of the proposed annual caps, the transactions contemplated by the Investment Management Agreement and the Supplemental Agreement are subject to the reporting and announcement requirements and the Independent Shareholders’ approval by way of poll at an EGM.

LETTER FROM THE BOARD

VOTING ABSTENTION

The Investment Manager is a company wholly-owned by Dr. Chow Pok Yu, Augustine, executive Director who is also an executive director of the Investment Manager. Mr. Lee Fong Lit, David, Chairman and executive Director of the Company is also an executive director of the Investment Manager. Therefore, the Investment Manager, Dr. Chow Pok Yu, Augustine, Mr. Lee Fong Lit, David and their respective associates have material interests in the transactions contemplated under the Investment Management Agreement and the Supplemental Agreement and shall abstain from voting at the EGM.

To the best knowledge of the Directors, other than the Investment Manager, Dr. Chow Pok Yu, Augustine, Mr. Lee Fong Lit, David and their respective associates, no Shareholder is required to abstain from voting at the EGM.

VIEWS OF DIRECTORS

The Directors (excluding Dr. Chow Pok Yu, Augustine and Mr. Lee Fong Lit, David) are of the view that the transactions contemplated by the Investment Management Agreement, the Supplemental Agreement and the annual caps under the Investment Management Agreement are (a) fair and reasonable and in the interests of the Company and the Shareholders as a whole; (b) in the ordinary and usual course of business of the Company; and (c) on normal commercial terms which have been negotiated on an arm's length basis.

As disclosed above, Dr. Chow Pok Yu, Augustine, executive Director and Mr. Lee Fong Lit, David, chairman of the Company and executive Director, were considered having material interests in the transaction contemplated by the Investment Management Agreement, the Supplemental Agreement and the annual caps and they have abstained from voting on the Board resolution approving the Investment Management Agreement, the Supplemental Agreement and the annual caps.

EXTRAORDINARY GENERAL MEETING

A notice of the EGM, to be held at 31st day, on May 2013 at 9:15 a.m. (or so soon thereafter as the annual general meeting convened for the same place and date at 9:00 a.m. shall have concluded or adjourned) for the purposes of considering and, if thought fit, approving the Investment Management Agreement, the Supplemental Agreement and the annual caps thereunder, is set out on page 37 of this circular. Shareholders are encouraged to attend the EGM.

A form of proxy for use at the EGM is enclosed. Whether or not you intend to attend the meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and deposit the same to either (i) Computershare Hong Kong Investor Services Ltd., the share registrar of the Company, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong or (ii) Computershare Investor Services Inc., the branch share registrar of the Company in Canada at 100 University Ave., Toronto, Ontario, M5J 2Y1, as soon as possible and in any event not less than 24 hours before the time of the EGM or any adjourned meeting. The completion and return of the form of proxy will not preclude you from attending and voting in person should you so wish.

LETTER FROM THE BOARD

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee comprising Mr. Tong Kim Weng, Kelly, Dr. Wong Yun Kuen and Mr. Ho Man Kai, Anthony has been formed to advise the Independent Shareholders in respect of the Investment Management Agreement, the Supplemental Agreement and the annual caps thereunder. Proton Capital has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Investment Management Agreement, the Supplemental Agreement and the annual caps thereunder.

RECOMMENDATION

Your attention is drawn to the letters from the Independent Board Committee and Proton Capital as set out on pages 11 to 25 of this circular. As set out in the letter from the Independent Board Committee, members of the Independent Board Committee, having taken into account the advice of Proton Capital, consider that the terms of the Investment Management Agreement and the Supplemental Agreement including the annual caps thereunder are fair and reasonable so far as the interests of the Independent Shareholders are concerned and that the entering into of the Investment Management Agreement and the Supplemental Agreement are in the interests of the Company and the Independent Shareholders. Accordingly, the Directors (excluding Dr. Chow Pok Yu, Augustine) recommend that all Independent Shareholders should vote in favour of the resolution proposed at the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in Appendix II to this circular.

By Order of the Board
HARMONY ASSET LIMITED
Lee Fong Lit David
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



HARMONY ASSET LIMITED

亨亞有限公司*

(Incorporated in the Cayman Islands with limited liability)

(HKEX Stock Code: 428)

(TSX Trading Symbol: HAR)

To the Independent Shareholders

10 May 2013

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTION

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the Investment Management Agreement, the Supplemental Agreement and the annual caps thereunder, details of which are set out in the letter from the Board in the circular dated 10 May 2013 (the “Circular”) to the Shareholders. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Proton Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Investment Management Agreement, the Supplemental Agreement and the annual caps thereunder.

Your attention is drawn to the “Letter from the Board” set out on pages 3 to 10 of the Circular which contain, inter alia, information about the terms of the Investment Management Agreement, the Supplemental Agreement and the annual caps thereunder and the “Letter from Proton Capital” set out on pages 12 to 25 of the Circular which contains its advice in respect of the terms of the Investment Management Agreement, the Supplemental Agreement and the annual caps thereunder.

Having considered, the general market practices of other investment companies listed under Chapter 21 of the Listing Rules and the expectation of the Shareholders that any net loss the Company may suffer should be taken into account when calculating the remuneration to the Investment Manager in term of incentive fee and the opinion of Proton Capital, we consider that the terms of the Investment Management Agreement, the Supplemental Agreement and the annual caps thereunder are fair and reasonable so far as the interests of the Independent Shareholders are concerned and that the entering into of the Investment Management Agreement, the Supplemental Agreement is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Investment Management Agreement, the Supplemental Agreement and the annual caps thereunder.

Yours faithfully,

INDEPENDENT BOARD COMMITTEE

HARMONY ASSET LIMITED

Mr. Tong Kim Weng, Kelly

Dr. Wong Yun Kuen

Mr. Ho Man Kai, Anthony

* for identification purpose only

LETTER FROM PROTON CAPITAL

Set out below is the text of a letter received from Proton Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding the Investment Management Agreement (as amended by the Supplemental Agreement) for the purpose of inclusion in this circular.



普頓資本有限公司
PROTON CAPITAL LIMITED

Suite 06-07, 28/F.
Shui On Centre
6-8 Harbour Road
Wanchai, Hong Kong

10 May 2013

*To: The independent board committee and the independent shareholders
of Harmony Asset Limited*

Dear Sirs,

CONTINUING CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Investment Management Agreement (as amended by the Supplemental Agreement) and the annual caps thereunder (the “**Annual Caps**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 10 May 2013 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 11 April 2013, the Company entered into the Investment Management Agreement with the Investment Manager in relation to the appointment of the Investment Manager for the Management Period and pursuant to which, the Company shall pay to the Investment Manager a management fee of 1.5% per annum on the Net Asset Value as per the management account of the Company in the preceding month and an incentive fee of 10% of the audited net profit of the Company in the Financial Year before accrual of the incentive fee.

On 24 April 2013, the Company and the Investment Manager entered into the Supplemental Agreement to amend the calculation method of the incentive fee under the Investment Management Agreement. After entering of the Supplemental Agreement, the incentive fee payable by the Company to the Investment Manager under the Investment Management Agreement (as amended by the Supplemental Agreement) in respect of each Financial Year shall be 10% of the audited net profit of the Company in the Financial Year and for the purpose of the calculating the audited net profit of the Financial Year, (i) any audited net loss of the Company in any Financial Year commencing 1 January 2013 shall be carried forward and set off against the audited net profit of the Company in subsequent Financial Years, and (ii) the audited net profit of the Financial Year shall be calculated before accrual of any incentive fee that will be payable.

LETTER FROM PROTON CAPITAL

As at the Latest Practicable Date, the Investment Manager was a company wholly-owned by Dr. Chow Pok Yu, Augustine, an executive Director. Accordingly, the Investment Manager is a connected person of the Company under the Listing Rules. The transactions contemplated by the Investment Management Agreement (as amended by the Supplemental Agreement) therefore constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules (the “CCT”) and are subject to the approval of the Independent Shareholders by way of poll at the EGM.

An Independent Board Committee comprising Mr. Tong Kim Weng, Kelly, Dr. Wong Yun Kuen and Mr. Ho Man Kai, Anthony (all being independent non-executive Directors) has been formed to advise the Independent Shareholders on (i) whether the terms of the Investment Management Agreement (as amended by the Supplemental Agreement) are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the CCT and the Annual Caps are in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the relevant resolution(s) to approve the Investment Management Agreement and the Supplemental Agreement, the CCT and the Annual Caps at the EGM. We, Proton Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, that having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Investment Manager, or their subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of entering into of the Investment Management Agreement and the Supplemental Agreement. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information

LETTER FROM PROTON CAPITAL

made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of Proton Capital is to ensure that such information has been correctly extracted from the relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Investment Management Agreement (as amended by the Supplemental Agreement) and the Annual Caps, we have taken into consideration the following principal factors and reasons:

(1) Background of the CCT

Business overview of the Group

As referred to in the Board Letter, the Company is an investment company listed under Chapter 21 of the Listing Rules. The Company principally invests in securities listed on the Stock Exchange and unlisted investments with a potential for earning growth and capital appreciation.

Set out below are the audited financial information of the Group for the two years ended 31 December 2012 as extracted from the Company's annual report for the year ended 31 December 2012 (the "Annual Report"):

	For the year ended 31 December 2012 <i>(audited)</i> HK\$	For the year ended 31 December 2011 <i>(audited)</i> HK\$	% change from 2011 to 2012
– Turnover	10,275,453	16,157,407	(36.40)
– Other revenue	136,592	27,575	395.35
– Other gains and (losses)	16,550,330	(44,507,917)	N/A
	<u>26,962,375</u>	<u>(28,322,935)</u>	<u>N/A</u>
Profit/(Loss) before income tax	9,530,972	(45,704,441)	N/A
Profit/(Loss) for the year attributable to owners of the Company	9,530,972	(48,045,466)	N/A

LETTER FROM PROTON CAPITAL

	As at 31 December 2012 <i>(audited)</i> HK\$	As at 31 December 2011 <i>(audited)</i> HK\$	% change from 2011 to 2012
Net assets	282,783,731	268,697,349	5.24

From the above table, we noted that the Group's turnover for the year ended 31 December 2012 reduced by approximately 36.40% as compared to the prior year and recorded a substantial other gains of approximately HK\$16.55 million for the year ended 31 December 2012 as compared to other losses in prior year. As referred to in the Annual Report, the reduction in turnover was due to lower interest and dividend received during the year. As further advised by the Directors and with reference to the Annual Report, with the Euro Zone euro debt crisis stabilizing after actions taken by the European Central Bank and European authorities, the global stock markets trended upwards in the fourth quarter of 2012 and the share prices of several publicly traded securities held by the Group recovered from their lows. Accordingly, the Group's recorded significant fair value gains on financial assets at fair value through profit or loss for the year ended 31 December 2012. The net asset value of the Group also increased by approximately 5.24% as compared to the prior year.

According to the Annual Report and as confirmed by the Directors, the Group will maintain focus on China as the government speeds up capital flows between China and Hong Kong.

Set out below are the net profits and net assets of the Company for each of the seven years ended 31 December 2012 as extracted from the Board Letter:

For the year ended	Net profits/(loss) <i>(audited)</i> HK\$	Net assets <i>(audited)</i> HK\$
31 December 2006	10,685,282	190,444,519
31 December 2007	50,907,356	288,047,095
31 December 2008	(88,590,514)	183,541,764
31 December 2009	84,954,963	277,500,594
31 December 2010	35,274,924	309,289,512
31 December 2011	(48,045,466)	268,697,349
31 December 2012	9,530,972	282,783,731

We noted from the above table that except for the year ended 31 December 2008 (when there was continuing turmoil in the global financial markets due to financial tsunami) and the year ended 31 December 2011 (when there was unfavorable price fluctuation of the Group's invested shares which may be caused by the uncertainty of sovereign debt crisis in the European Union and the slowdown in the economic growth of the PRC), the Group recorded net profits for each of the seven years ended 31 December 2012. In addition, we noted that the net assets value of the Group increased by approximately 48.49% from 31 December 2006 to 31 December 2012.

LETTER FROM PROTON CAPITAL

Information on the Investment Manager

With reference to the Board Letter, the Investment Manager is a company wholly-owned by Dr. Chow Pok Yu, Augustine, executive Director, and is a licensed corporation to carry out 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). The Investment Manager is principally engaged in investment advisory and asset management.

Reasons for entering into the Investment Management Agreement

According to in the Board Letter, the Investment Manger has provided investment management services to the Company since 1 June 1998. The previous agreement made between the Company and the Investment Manager dated 1 June 1998 has been renewed continuously by the supplemental agreements dated 5 April 2000, 17 May 2007 and 8 April 2010 respectively. As the Previous Agreement will expire on 31 May 2013, the Company entered into the Investment Management Agreement (as amended by the Supplemental Agreement) with the Investment Manager in relation to the CCT for the Management Period.

As disclosed in the Board Letter, the Company is an investment company listed under Chapter 21 of the Listing Rules. The Company principally invests in securities listed on the Stock Exchange and unlisted investments with a potential for earning growth and capital appreciation. The Directors (excluding Dr. Chow Pok Yu Augustine and Mr. Lee Fong Lit, David) are of the view that the CCT and the Annual Caps are in the ordinary and usual course of business of the Company. In this relation, the Board is of the view that continuity for provision of investment management services by the Investment Manager is important for the management of the Company as well as the continuity of the principal investment business of the Company.

Having considered that (i) the Investment Manager has provided investment management services to the Company since 1 June 1998; (ii) the Company is an investment company listed under Chapter 21 of the Listing Rules and the CCT are conducted in the ordinary and usual course of business of the Company as advised by the Directors; (iii) the CCT will likely to contribute to the management of the Company as well as the continuity of the principal business of the Company as represented by the Directors; and (iv) the historical financial performance of the Company as illustrated above, we concur with the Directors that it would be beneficial for the Company to enter into the Investment Management Agreement (as amended by the Supplemental Agreement) with the Investment Manager and to carry out the CCT. For this reason, we consider the CCT to be in the interests of the Company and the Shareholders as a whole.

LETTER FROM PROTON CAPITAL

(2) Principal terms of the Investment Management Agreement (as amended by the Supplemental Agreement)

The following table tabulates a summary of the major terms of the Investment Management Agreement (as amended by the Supplemental Agreement, details of which are contained under the section headed “Investment Management Agreement” of the Board Letter):

Duration: From the Renewal Date until 31 May 2016 (both days inclusive)

Services: The Investment Manager shall provide investment management services to the Company which includes identifying and analyzing investment opportunities, structuring and monitoring and supervising investments.

Remuneration: *Management Fee*

1.5% per annum on the Net Asset Value as per the management account of the Company in the preceding month and payable by the Company monthly in advance. The management fee shall be calculated on the actual number of days elapsed in the month during which investment management services are provided.

Incentive Fee

In respect of each Financial Year, 10% of the audited net profit of the Company in the Financial Year and for the purpose of the calculating the audited net profit of the Financial Year, (i) any audited net loss of the Company in any Financial Year commencing 1 January 2013 shall be carried forward and set off against the audited net profit of the Company in subsequent Financial Years, and (ii) the audited net profit of the Financial Year shall be calculated before accrual of any incentive fee that will be payable.

Annual Caps:	Management fee (HK\$)	Incentive fee (HK\$)	Total Annual Cap (HK\$)
Periods			
From the Renewal Date to 31 December 2013	2,911,523	2,830,502	5,742,025
For the year ended 31 December 2014	5,690,073	4,827,726	10,517,799
For the year ended 31 December 2015	6,414,232	4,827,726	11,241,958
For the five months ended 31 May 2016	2,769,570	1,991,767	4,761,337

LETTER FROM PROTON CAPITAL

To assess the fairness and reasonable of the remuneration under the Investment Management Agreement (as amended by the Supplemental Agreement), we have identified, according to the Stock Exchange Fact Book 2012, 24 investment companies listed under Chapter 21 of the Listing Rules (excluding the Company) (the “**Investment Companies**”) at the end of 2012 (the “**Comparables**”) and reviewed the fee structures of them. Shareholders should note that the asset size, financial performance, businesses, operations and prospects of the Company are not completely the same as the Comparables and we have not conducted any in-depth investigation into their businesses and operations. The Comparables are hence only being used to provide a general reference for the common fee structure of the Investment Companies and could not serve for direct comparison on the rate of the management fee and incentive fee payable to the Investment Manager under the Investment Management Agreement (as amended by the Supplemental Agreement). The table below summarises our relevant findings:

Company	Management fee	Incentive fee/Performance bonus
The Company	1.5% per annum on the Net Asset Value	In respect of each Financial Year, 10% of the audited net profit of the Company in the Financial Year and for the purpose of the calculating the audited net profit of the Financial Year (i) any audited net loss of the Company in any Financial Year commencing 1 January 2013 shall be carried forward and set off against the audited net profit of the Company in subsequent Financial Years, and (ii) the audited net profit of the Financial Year shall be calculated before accrual of any incentive fee that will be payable.
China Assets (Holdings) Ltd. (170)	(i) 2.75% per annum on the aggregate cost to the company of the investments held by it from time to time; and (ii) 1% per annum on the value of the uninvested net assets of the company	(i) on the first 10% of return on net assets – nil; (ii) on the next 10% of return on net assets – 15% x net profit after tax minus 10% of net assets; (iii) on the excess over 20% return on net assets – 20% x net profit after tax minus 20% of net assets; and (iv) 20% of the net capital gains of the company if the net asset value of the Company as at a quarter day would be equal to or greater than 100% of the aggregate of the original subscription price of all shares in the company which then remain outstanding

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Company	Management fee	Incentive fee/Performance bonus
Capital VC Ltd. (2324)	Fixed fee of HK\$40,000 per month	N/A
China Development Bank International Investment Ltd. (1062)	Fixed fee of HK\$400,000 per annum	N/A
China Financial International Investments Ltd. (721)	0.75% per annum of the market value of the portfolio	5% of the appreciation in the market value of the portfolio above a 10% hurdle rate per annum.
China Financial Leasing Group Ltd. (2312)	Fixed fee of HK\$70,000 per month	N/A
China Innovation Investment Ltd. (1217)	Fixed fee of HK\$960,000 per annum	N/A
China Investment and Finance Group Ltd. (1226)	Fixed fee of HK\$960,000 per annum	N/A
China Investment Development Ltd. (204)	Fixed fee of HK\$720,000 per annum	N/A
China Investment Fund Co. Ltd. (612)	Fixed fee of HK\$80,000 per month	N/A

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Company	Management fee	Incentive fee/Performance bonus
China Merchants China Direct Investments Ltd. (133)	<ul style="list-style-type: none"> (i) on the invested portion of the assets of the company represented by unlisted securities or interests: 2.25% of the book value (net of taxes); (ii) on the invested portion of the assets of the company represented by securities listed on a recognized stock exchange: <ul style="list-style-type: none"> (a) during the lockup period following listing: 2.25% of the book value (net of taxes); (b) for the one year after the lockup period lapses: 1.75% of the book value (net of taxes); (c) thereafter: 1.50% of the book value (net of taxes); and (d) in respect of listed securities purchased from the secondary market: 1.50% of the book value (net of taxes); and (iii) on the un-invested portion of the assets of the Company: 0.75% of the book value 	8% of the amount by which the net asset value of the company as at the end of the relevant financial year (as adjusted) exceeds the high watermark
China New Economy Fund Ltd. (80)	Annual rate of 1.8% of the net asset value of the company	20% of any net appreciation (after deduction of the management fees for therelevant period) in the net asset value per share on the immediately preceding valuation date, above the previous highest net asset value per share on any preceding valuation date in respect of which a performance fee was last paid (or where no performance has been paid, the aggregate placing price of the shares subscribed at the listing date) multiplied by the number of shares in issue at the time of calculating the performance fee
Earnest Investments Holdings Ltd. (339)	Fixed fee of HK\$30,000 per month	N/A
Grand Investment International Ltd. (1160)	Fixed fee of HK\$288,000 per annum	N/A
Incutech Investments Ltd. (356)	Fixed fee of HK\$600,000 per annum	N/A
Mastermind Capital Ltd. (905)	Fixed fee of HK\$500,000 per annum	N/A

LETTER FROM PROTON CAPITAL

Company	Management fee	Incentive fee/Performance bonus
National Investments Fund Ltd. (1227)	Fixed fee of HK\$100,000 per month	N/A
OP Financial Investments Ltd. (1140)	1.5% per annum (based on a 360-day year) of the net asset value as at the immediately preceding valuation date	10% of the appreciation in the net asset value per share
Opes Asia Development Ltd. (810)	2% per annum of the net asset value on each valuation date	15% of any net appreciation in the net asset value of the company on the immediately preceding valuation date, which is above the previous net assets value the company on any preceding valuation date in respect of which a performance fee was last paid (or where no performance fee has been paid, the net asset value of the company on any valuation date on 30 June or 31 December (as the case may be) whichever is immediately before the commencement of the investment management agreement)
Prosperity Investment Holdings Ltd. (310)	Fixed fee of HK\$300,000 per month (exclusive of disbursements)	A discretionary bonus in such amount as the board of directors of the company may at its discretion determine provided that the audited consolidated net asset value of the group as at the end of a financial year exceeds that in the previous financial year and the total management fee for such financial year is less than 1.9% of the audited consolidated net asset value of the group. However, the aggregate amount of such discretionary bonus (if any) and the annual management fee shall not in any event exceed 1.9% of the audited consolidated net asset value of the group as at the end of such financial year. In the event that the total management fee for a financial year exceeds 1.9% of the audited consolidated net asset value of the group at the end of that financial year, there will be no discretionary bonus for that financial year.
Radford Capital Investment Ltd. (901)	HK\$1,200,000 for the year ended 31 December 2012	N/A

LETTER FROM PROTON CAPITAL

Company	Management fee	Incentive fee/Performance bonus
Shanghai International Shanghai Growth Investment Ltd. (770)	0.5% per quarter of the net asset value on each quarter day	(i) the incentive fee will be calculated as follows: <ul style="list-style-type: none"> (a) for year ended on 31 December 2011, the incentive fee equals to 15% of the amount by which the net asset value as at 31 December 2011 exceeds 115% of the net asset value as at 31 December 2010, net of the actual special dividend paid in 2011; (b) effective for the year ended 31 December 2012, the incentive fee shall equal to 20% of the amount by which the net asset value as at 31 December of each year during the term of the investment management agreement (as supplemented) exceeds 108% of the net asset value of the immediate preceding year, net of special dividends (if any) paid by the company in the relevant year; (c) in the event that the company raises new capital in the relevant year, for the purpose of determining the incentive fee, such new capital shall be deducted from the net asset value as at 31 December of the relevant year (ii) no incentive fee shall be payable to the investment manager if the net asset value per share is less than US\$1.40. Such threshold shall be adjusted annually (or such other period as the board deems appropriate) according to the actual amount of special dividend paid in the relevant year subject to the board's approval
SHK Hong Kong Industries Ltd. (666)	0.375% of the consolidated gross net asset value for each quarter	20% of the amount by which the audited net asset value of each year ended 31 December exceeds the high watermark as at the relevant financial year
UBA Investments Ltd. (768)	1.5% per annum of the net asset value	20% of net profit of the group before taxation and before deduction of the management fee payable for each financial year
Unity Investments Holdings Ltd. (913)	Monthly fee at a flat rate of HK\$100,000 up to 31 December 2012	N/A

Source: the Stock Exchange's web-site (www.hkex.com.hk)

LETTER FROM PROTON CAPITAL

Based on the above analysis, we note that the management fee of 9 over 24 of the Comparables were determined as a percentage on the net asset value or market value of the investment portfolio of the Comparables while others were set at a fixed rate per annum/month. Given the nature of the management fee payable by the Group under the Investment Management Agreement (as amended by the Supplemental Agreement), we consider that the determination of the management fee as a percentage on the Net Asset Value of the Company is fair and reasonable and in line with the market practice.

As for the incentive fee, we note that the basis of determination of incentive fee/performance bonus of the Comparables varies, with calculations either referencing to profit, appreciation in the market value of the portfolio, increase in net asset value or net asset value. We concur with the Directors that the basis of determination of the incentive fee under the Investment Management Agreement (as amended by the Supplemental Agreement), which is based on audited net profit of the Company, is in line with the market practice in general.

Furthermore, we noted that save as and except for the basis of calculating the audited net profit of the Financial Year (which provide further hurdle for obtaining the incentive fee), the rate and structure of the management fee and incentive fee payable to the Investment Manager under the Investment Management Agreement are the same with those under the Previous Agreement for the period from 1 June 2010 to 31 May 2013. Given the above, we are of the view that the rate and structure of the management fee and incentive fee payable to the Investment Manager under the Investment Management Agreement are fair and reasonable and in the interest of the Shareholders and the Company as a whole.

Based on the terms of the Investment Management Agreement (as amended by the Supplemental Agreement) as summarised above, in particular that the management fee and the incentive fee are determined in line with the market practice, we are of the view that the terms of the Investment Management Agreement (as amended by the Supplemental Agreement) are fair and reasonable so far as the Independent Shareholders are concerned.

(3) Basis of the Annual Caps

In assessing the fairness and reasonableness of the Annual Caps, we have discussed with the Directors regarding the basis and assumptions underlying the computation of the Annual Caps (the “**Computation**”) as set out under the section headed “Annual caps” of the Board Letter and were advised that such computation based on the assumption that the Company will achieve approximately a 17% increase in net asset value before accrual of the incentive fee by reference to the average net profits that the Company had made during the year ended 31 December 2007, 2009, 2010 and 2012 (being the years when the Group recorded net profits) to give the estimated result of approximately 17% increase in net asset value for the year ended 31 December 2012. For our due diligence purpose, we have reviewed (i) the Computation; and (ii) the calculation basis of the projected management fee and incentive fee, and we concur with the Directors that the Annual Caps were determined with the aforementioned basis.

LETTER FROM PROTON CAPITAL

Having taken into account (i) that the management fee under the Investment Management Agreement (as amended by the Supplemental Agreement) is strongly correlated with the Net Asset Value; (ii) that the incentive fee under Investment Management Agreement (as amended by the Supplemental Agreement) is strongly correlated to the net profit of the Group (if any); and (iii) aforementioned basis and assumptions of determining the Annual Caps under the Investment Management Agreement (as amended by the Supplemental Agreement), we consider that the annual caps under the Investment Management Agreement (as amended by the Supplemental Agreement) are fair and reasonable so far as the Independent Shareholders are concerned.

(4) Listing Rules implication

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.37 to 14A.41 of the Listing Rules pursuant to which (i) the values of the transactions contemplated under the Investment Management Agreement (as amended by the Supplemental Agreement) must be restricted by the Annual Caps for the period from the Renewal Date until 31 May 2016; (ii) the terms of the transactions contemplated under the Investment Management Agreement (as amended by the Supplemental Agreement, together with the Annual Caps) must be reviewed by the independent non-executive Directors annually; and (iii) details of the independent non-executive Directors' annual review on the terms of the transactions contemplated under the Investment Management Agreement (as amended by the Supplemental Agreement, together with the Annual Caps) must be included in the Company's subsequent published annual reports and financial accounts. Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, that the transactions contemplated under the Investment Management Agreement (as amended by the Supplemental Agreement) are carried out in accordance with the relevant agreement governing the transactions, and the Annual Caps are not being exceeded. In the event that the total amounts of the transactions contemplated under the Investment Management Agreement (as amended by the Supplemental Agreement) exceed the Annual Caps, or that there is any material amendment to the terms of the Investment Management Agreement (as amended by the Supplemental Agreement), the Company, as confirmed by the Directors, shall comply with the applicable provisions of the Listing Rules governing continuing connected transactions.

With the stipulation of the above requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the transactions contemplated under the Investment Management Agreement (as amended by the Supplemental Agreement, together with the Annual Caps) and hence the interest of the Independent Shareholders would be safeguarded.

LETTER FROM PROTON CAPITAL

RECOMMENDATION

Having considered the above factors and reasons, we are of the opinion that (i) the terms of the Investment Management Agreement (as amended by the Supplemental Agreement) are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned; (ii) the CCT is in the ordinary and usual course of business of the Company; and (iii) the CCT and the Annual Caps are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve the Investment Management Agreement and the Supplemental Agreement), the CCT and the Annual Caps and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Proton Capital Limited
Josephine Lau
Director - Corporate Finance

APPENDIX I**SUMMARY OF THE HISTORICAL PERFORMANCE
OF THE COMPANY'S INVESTMENTS FOR EACH OF
THE THREE YEARS ENDED 31 DECEMBER 2012****A. For the year ended 31 December 2010**

(i) The top 10 investments of the Company are as follows:–

Name of Investee Company	Principal activities	Equity held in %	Investment cost (HK\$'000)	Fair value or market value (HK\$'000)	Performance of Investee companies
Mainco Limited	Trading of electronic products	30%	19,021	26,845	Profit after tax for the nine months ended 31 December 2010 was HK\$16 million. The Group received a cash dividend during the year of 2010 was HK\$1.5 million.
One Tel Holdings Limited	Tele-communication	20%	3,240	6,558	Loss for the six months ended 31 December 2010 was HK\$1.6 million.
Bartan Limited	Real estate development	16.5%	2,950	3,725	Properties were under development.
Glory Wing International Limited	Exploitation and sale of mineral products	2.5%	5,000	N/A	Iron ore was on production.
Eastern Hero Development Limited	Real estate development	10%	1,145	6,256	Properties were under development.
Kaisun Energy Group Limited	Mining, sales and processing of coking coal	0.9%	24,817	9,354	Listed on HKSE (Stock code: 8203), share price as at 31 December 2010 was HK\$0.49 per share.
Hong Kong Exchanges and Clearing Limited	Operating the stock exchange and future exchange	0.01%	16,214	15,867	Listed on HKSE (stock code: 388), the share price as at 31 December 2010 was HK\$176.3 per share.
Standard Chartered Bank	Retail and commercial banking, and financial services	0.001%	7,047	6,354	Listed on HKSE (stock code: 2888), the share price as at 31 December 2010 was HK\$211.8 per share.
Kingdee International Software Group Co. Limited	Online management and e-commerce services	0.07%	5,910	5,930	Listed on HKSE (stock code: 268), share price as at 31 December 2010 was HK\$4.36 per share.
HengSeng Bank	Retail banking and related financial services	0.004%	7,352	8,690	Listed on HKSE (stock code: 11), share price as at 31 December 2010 was HK\$127.8 per share.

APPENDIX I**SUMMARY OF THE HISTORICAL PERFORMANCE
OF THE COMPANY'S INVESTMENTS FOR EACH OF
THE THREE YEARS ENDED 31 DECEMBER 2012**

(ii) The Company did not acquire any investment.

(iii) The top 3 realized investment gains of the Company were as follows:–

Name of investee company	Realized gain (HK\$'000)
Prosperity Materials (International) Limited	9,972
Champion Minerals Inc. – listed on TSX.V (stock code: CHM.V)	9,038
Kaisun Energy Group Limited – listed on HKSE (stock code: 8203)	4,842

(iv) The only 1 realized investment loss of the Company was as follows:–

Name of investee company	Realized loss (HK\$'000)	Reason for realized loss
North Asia Resources Holdings Limited (listed on HKSE stock code: 61)	739	Reduction of investment portfolio due to Euro Debt Crisis

(v) The top 3 impairment losses of the investment of the Company were as follows:–

Name of investee company	Impairment loss (HK\$'000)	Reason for making impairment loss
WinDirect Investment Limited (“WinDirect”)	7,500	No value was retained in the investment after WinDirect paid out all cash to shareholders. As at 31 December 2010, the Company received the cash dividend of HK\$25.8 million from WinDirect
Getchance Holdings Limited (“Getchance”)	2,000	No value was retained in the investment after Getchance paid out all cash to shareholders. As at 31 December 2010, the Company received the cash dividend of HK\$3.8 million from Getchance
TenMoon Technology (HK) Limited (“TenMoon”)	1,300	As there was doubt to the title of TenMoon’s title to its equity interest in its PRC subsidiary, the Company’s auditors was unable to assess the value of the Company’s investment in TenMoon

APPENDIX I**SUMMARY OF THE HISTORICAL PERFORMANCE
OF THE COMPANY'S INVESTMENTS FOR EACH OF
THE THREE YEARS ENDED 31 DECEMBER 2012****B. For the year ended 31 December 2011**

(i) The top 10 investments of the Company are as follows:–

Name of Company	Principal activities	Equity held in %	Investment cost (HK\$'000)	Fair value or market value (HK\$'000)	Performance of Investee companies
Mainco Limited	Trading of electronic products	30%	19,021	32,961	Investment was valued by an independent external valuer. Profit after tax for the nine months ended 31 December 2011 was HK\$13 million. The Group received a cash dividend during the year of 2011 was HK\$5.1 million.
One Tel Holdings Limited	Tele-communication	20%	3,240	6,586	Profit for the six months ended 31 December 2011 was HK\$0.16 million.
Bartan Limited	Real estate development	16.5%	2,950	11,740	Investment was valued by an independent external valuer and the estate project is to be completed by 2014.
Glory Wing International Limited	Exploitation and sale of mineral products	2.5%	5,000	5,700	Investment was valued by an independent external valuer.
Eastern Hero Development Limited	Real estate development	10%	1,145	4,240	Properties were under development.
Kaisun Energy Group Limited	Mining, sales and processing of coking coal	2.49%	40,951	18,302	Listed on HKSE (Stock code: 8203), share price as at 31 December 2011 was HK\$0.29 per share.
Tai Sing International Holdings Limited	Professional services, training and technical support services	0.4%	3,829	2,325	Listed on HKSE (Stock code: 8103), share price as at 31 December 2011 was HK\$0.191 per share.
Real Nutriceutical Group Limited	Producing health-related products	0.09%	3,275	2,540	Listed on HKSE (Stock code: 2010), share price as at 31 December 2011 was HK\$2.54 per share.

APPENDIX I**SUMMARY OF THE HISTORICAL PERFORMANCE
OF THE COMPANY'S INVESTMENTS FOR EACH OF
THE THREE YEARS ENDED 31 DECEMBER 2012**

Name of Company	Principal activities	Equity held in %	Investment cost (HK\$'000)	Fair value or market value (HK\$'000)	Performance of Investee companies
MBMI Resources Inc.	Explores and develops nickel mining assets	12.74%	30,372	4,454	Listed on TSX.V (Stock code: MBR.V), the share price as at 31 December 2011 was CAD0.025 per share.
Century Iron Mines Corp.	Exploring for iron ore	0.39%	7,934	5,298	Listed on TSX.V (Stock code: FER.V), the share price as at 31 December 2011 was CAD0.33 per share.

(ii) The Company did not acquire investment.

(iii) The top 3 realized investment gains of the Company were as follows:–

Name of investee company	Realized gain (HK\$'000)
Fullpower Holdings Limited	3,420
Augyva Mining Resources Inc. – listed on TSX.V (stock code: AUV.V)	2,519
Enternite International Limited – listed on HKSE (stock code: 8351)	1,155

(iv) The top 3 realized investment losses of the Company were as follows:–

Name of investee company	Realized loss (HK\$'000)	Reason for making realized loss
Hong Kong Exchanges and Clearing Limited (listed on HKSE stock code: 388)	1,174	Reduction of investment portfolio due to Euro Debt Crisis
Standard Chartered Bank (listed on HKSE stock code: 2888)	393	Reduction of investment portfolio due to Euro Debt Crisis
Phenitron Holdings Limited (listed on HKSE stock code: 8066)	381	Reduction of investment portfolio due to Euro Debt Crisis

APPENDIX I**SUMMARY OF THE HISTORICAL PERFORMANCE
OF THE COMPANY'S INVESTMENTS FOR EACH OF
THE THREE YEARS ENDED 31 DECEMBER 2012**

(v) The only 2 impairment losses of the investment of the Company were as follows:-

Name of investee company	Impairment loss (HK\$'000)	Reason for making impairment loss
Bright Genius Industries Limited	1	Cease of business
Hong Kong Brew House Limited	114	Negative financial position as retained with accumulated loss in the account of the investee company.

C. For the year ended 31 December 2012

(i) The top 10 investments of the Company are as follows:-

Name of Company	Principal activities	Equity held in %	Investment cost (HK\$'000)	Fair value or market value (HK\$'000)	Performance of Investee companies
Mainco Limited	Trading of electronic products	30%	19,021	28,561	Investment was valued by an independent external valuer. Profit after tax for the nine months ended 31 December 2012 was HK\$12 million. The Group received a cash dividend during the year of 2012 was HK\$1.5 million.
One Tel Holdings Limited	Tele-communication	20%	3,240	5,760	Loss for the six months ended 31 December 2012 was HK\$1.6 million.
Bartan Limited	Real estate development	16.5%	2,950	18,000	Investment was valued by an independent external valuer and the project to be completed by 2014.
Avtrace (HK) Limited	Trading of electronic product	30%	672	5,494	Investment holding of an associate of a PRC company which having a net profit of RMB9.2 million for the year ended 31 December 2012.
Legend Picture LLC	Production of motion pictures	0.07%	2,982	6,287	Loss for the year ended 31 December 2012 was US\$41.3 million.

APPENDIX I
**SUMMARY OF THE HISTORICAL PERFORMANCE
OF THE COMPANY'S INVESTMENTS FOR EACH OF
THE THREE YEARS ENDED 31 DECEMBER 2012**

Name of Company	Principal activities	Equity held in %	Investment cost (HK\$'000)	Fair value or market value (HK\$'000)	Performance of Investee companies
China High Growth Investment Limited	Long short equity fund	13.33%	7,797	8,163	Increase in net asset value as at 31 December 2012 was 4.4%.
Kaisun Energy Group Limited	Mining, sales and processing of coking coal	3.32%	37,658	15,651	Listed on HKSE, share price as at 31 December 2012 was HK\$0.18 per share.
Medifocus Inc.	Development of life science products	15.7%	19,284	35,952	Listed on TSX.V, the share price as at 31 December 2012 was CAD0.3 per share.
Celsion Corporation	Oncology drug development	0.33%	3,902	7,463	Listed on NASDAQ, the share price as at 31 December 2012 was US\$8.19 per share.
Prosperity Minerals Holdings Limited	Supplies cement and iron ore to China	0.61%	10,562	7,036	Listed on AIM, share price as at 31 December 2012 was GBP0.62 per share. The Group received a cash dividend during the year of 2012 was HK\$0.62 million.

(ii) The only 2 investments acquired by the Company were as follows:–

Name of Company	Principal activities	Equity held in %	Original investment cost (HK\$'000)	Fair value or market value (HK\$'000)
China High Growth Investment Limited	Long short equity fund	13.33%	7,797	8,163
Baanto International Limited	Touchscreen technology development	1.9%	2,729	2,729

APPENDIX I**SUMMARY OF THE HISTORICAL PERFORMANCE
OF THE COMPANY'S INVESTMENTS FOR EACH OF
THE THREE YEARS ENDED 31 DECEMBER 2012**

(iii) The top 3 realized investment gains of the Company were as follows:-

Name of investee company	Realized gain <i>(HK\$'000)</i>
Esprit Holdings Limited – listed on HKEX (stock code: 330)	2,663
New Heritage Holdings Limited. – listed on HKEX (stock code: 95)	1,301
Art Textile International Company Limited – listed on HKEX (stock code: 565)	1,179

(iv) The top 3 realized investment losses of the Company were as follows:-

Name of investee company	Realized loss <i>(HK\$'000)</i>	Reason for making realized loss
Century Iron Mines Corp. (listed on TSX.V stock code: FER.V)	932	Reduction of loss on investment.
Eloro Resources Limited (listed on TSX.V stock code: ELO.V)	760	Reduction of loss on investment.
Colt Resources Inc. (listed on TSX.V stock code: ELO.V)	397	Reduction of loss on investment.

(v) The top 3 impairment losses of the investment of the Company were as follows:-

Name of investee company	Impairment loss <i>(HK\$'000)</i>	Reason for making impairment loss
Glory Wing International Limited	3,900	Decrease in fair value of iron ore mine as reported by an in-dependent external valuer.
Gold China Development Limited	2,351	Negative financial position as retained with accumulated loss in the account of the investee company.
Guce Technology Park Limited	2,033	Negative financial position as retained with accumulated loss in the account of the investee company.

1. RESPONSIBILITY STATEMENT

This document, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and the short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or were required pursuant to section 352 of the SFO to be entered in the register referred to therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Ordinary shares of HK\$1 each in the Company

Name of Director	Capacity	Number of Shares held	Approximate % of
			issued share capital as at the Latest Practicable Date
Lee Fong Lit, David	Interest of controlled corporation	7,200,315 (Note)	18.43%
Ho Man Kai, Anthony	Beneficial owner	60,000	0.15%

Note: These 7,200,315 shares are held by Sino Path Consultants Limited in the capacity of beneficial owner, a company which is held 70% by Mr. Lee Fong Lit, David and 30% by Dr. Chow Pok Yu, Augustine. Mr. Lee Fong Lit, David and Dr. Chow Pok Yu, Augustine are executive directors of the Company.

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had or was deemed to have any interests or short position in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or were required pursuant to section 352 of the SFO to be entered in the register referred to therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

3. SUBSTANTIAL SHAREHOLDERS

So far as was known to any Director or chief executive of the Company, as at the Latest Practicable Date, the following persons, other than a Director or chief executive of the Company, had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of shareholder	Capacity	Shares held	Approximate % of issued share capital as at the Latest Practicable Date
ABC Dirt-Cheap Stock Fund	Beneficial Owner	4,042,500	10.35%
Dynamic Global Value Class Fund	Beneficial Owner	2,339,500	5.99%

Save as disclosed above, the Directors and chief executive of the Company are not aware that there is any party who, as at the Latest Practicable Date, had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

4. DIRECTORS' INTERESTS IN CONTRACTS

The Company has entered into the Previous Agreement with the Investment Manager, a company which is wholly-owned by a director of the Company, Dr. Chow Pok Yu, Augustine who is also an executive Director and Mr. Lee Fong Lit, David, Chairman and executive Director of the Company are also executive directors of the Investment Manager. Under the Previous Agreement, the Investment Manager has agreed to assist the Board with the day-to-day management of the Group for three years from 1 June 2010 until 31 May 2013. In accordance with the Previous Agreement, the Investment Manager is entitled to a monthly management fee calculated at 1.5% per annum on the net asset value of the Group of the preceding month and an incentive fee is calculated at 10% of the audited net profit of a financial year (before accrual of the incentive fee) subject to an annual caps of HK\$9,057,158 for the period from 1 June 2010 to 31 December 2010, HK\$16,919,971 for the year ending 31 December 2011, HK\$18,391,986 for the year ending 31 December 2012 and HK\$7,860,760 for the period from 1 January 2103 to 31 May 2013 respectively. Dr. Chow Pok Yu Augustine, being a beneficial shareholder and an executive director of the Investment Manager and Mr. Lee Fung Lit, David being an executive director of the Investment Manager, were interested in these contracts during the period.

Save as disclosed above, the Directors confirm that there is no other contract or arrangement subsisting as at the Latest Practicable Date in which any Director is materially interested and which is significant in relation to the business of the Group.

5. DIRECTORS' INTERESTS IN ASSETS

The Directors confirm that none of the Directors has any interests, direct or indirect, in any assets which have been, since 31 December 2012, being the date the latest published audited accounts of the Group were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

6. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any service contracts with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

7. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors nor their respective associates had any interests, directly or indirectly, in a business which competes or is likely to compete with the business of the Group.

8. MATERIAL CONTRACTS

None of the member of the Group entered into any material contracts, not being contracts entered into in the ordinary course of business, during the two years preceding the Latest Practicable Date.

9. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2012 (being the date to which the latest published audited accounts of the Group were made up).

10. LITIGATION

As at the Latest Practicable Date, so far as was known to the Directors, no member of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

11. EXPERT'S DISCLOSURE OF INTEREST AND CONSENT

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

Name	Qualification
Proton Capital	a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO

As at the Latest Practicable Date, Proton Capital:

- (a) did not have any direct or indirect interests in any assets which have been, since 31 December 2012 (being the date to which the latest published audited accounts of the Group were made up) acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group; and
- (b) did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Proton Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it appears in this circular.

12. MISCELLANEOUS

- (a) The principal place of business of the Company in Hong Kong is at Room 1902, Cheung Kong Building, 2 Queen's Road Central, Hong Kong.
- (b) The registered office of the Company is Cricket Square, Hutchins Drive, P. O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.
- (c) The company secretary of the Company is Ms. Mui Ngar May, Joel.
- (d) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours on any weekday (public holidays excepted) at the principal place of business of the Company in Hong Kong at Room 1902, Cheung Kong Building, 2 Queen's Road Central, Hong Kong up to and including 31 May 2013 and at the EGM:

- (a) the Investment Management Agreement;
- (b) the memorandum of association and articles of association of the Company;
- (c) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (d) the letter from Proton Capital, the text of which is set out in this circular; and
- (e) the written consent of Proton Capital referred to in the section headed "Expert's disclosure of interest and consent" in this Appendix.

NOTICE OF EXTRAORDINARY GENERAL MEETING



HARMONY ASSET LIMITED

亨亞有限公司*

(Incorporated in the Cayman Islands with limited liability)

(HKEX Stock Code: 428)

(TSX Trading Symbol: HAR)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Harmony Asset Limited (the “Company”) will be held at Room 1902, Cheung Kong Centre, 2 Queen’s Road Central, Hong Kong on 31st day, May 2013 at 9:15 a.m. for the purposes of considering and, if thought fit, passing (with or without amendments) the following resolution:

ORDINARY RESOLUTION

“**THAT:**

- (a) the Investment Management Agreement and the Supplemental Agreement (as defined in the circular dated 10 May 2013 (the “Circular”) despatched to the shareholders of the Company together with this notice of extraordinary general meeting), copies of which has been produced to the meeting marked “A” and “B” respectively and signed by the chairman of the meeting for identification purpose, and the transactions contemplated therein be and are hereby generally and unconditionally approved and the directors of the Company be and are hereby authorized to do such acts and things and deliver all documents under the common seal of the Company, if necessary, as they may consider necessary, desirable or expedient in connection with the transactions contemplated under the Investment Management Agreement and the Supplemental Agreement ; and

* for identification purpose only

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (b) the annual caps for the remuneration payable by the Company to Harmony Asset Management Limited under the Investment Management Agreement and the Supplemental Agreement is limited as follows:

	Management fee <i>(HK\$)</i>	Incentive Fee <i>(HK\$)</i>	Total <i>(HK\$)</i>
For the period from the Renewal Date to 31 December 2103	2,911,523	2,830,502	5,742,025
For the year ended 31 December 2014	5,690,073	4,827,726	10,517,799
For the year ended 31 December 2015	6,414,232	4,827,726	11,241,958
For the period from 1 January 2016 to 31 May 2016	2,769,570	1,991,767	4,761,337

By Order of the Board
HARMONY ASSET LIMITED
Lee Fong Lit David
Chairman

Hong Kong, 10 May 2013

Notes:

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and on a poll, vote in his stead. A proxy need not be a member of the Company.
2. In order to be valid, a form of proxy, together with any power of attorney or other authority (if any) under which it is signed, or a notorially certified copy of such power or authority, must be deposited with either (i) at Computershare Hong Kong Investor Services Ltd., the share registrar of the Company, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong or (ii) Computershare Investor Services Inc., the branch share registrar of the Company in Canada at 100 University Ave., Toronto, Ontario, M5J 2Y1, not less than 24 hours before the time appointed for holding the meeting or any adjournment thereof.
3. As at the date of this notice, the Board comprises three executive directors, namely, Mr. Lee Fong Lit, David, Dr. Chow Pok Yu, Augustine, Mr. Chan Shuen Chuen, Joseph and Mr. Cheng Ming Shun; and three independent non-executive directors, namely, Mr. Tong Kim Weng, Kelly, Mr. Ho Man Kai, Anthony and Dr. Wong Yun Kuen.