

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

SHK 新工投資有限公司
Hong Kong Industries Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 666)

**CONTINUING CONNECTED TRANSACTIONS
CONTINUED APPOINTMENT OF
YU MING INVESTMENT MANAGEMENT LIMITED
AS INVESTMENT MANAGER**

On 26th July, 2018, the Company entered into the New Management Agreement with YMIM in relation to the appointment of YMIM as the Company's investment manager for the Management Period. The New Management Agreement is conditional upon the approval of Independent Shareholders and shall, if approved at the EGM, commence on the Renewal Date.

YMIM, as the investment manager of the Company, is a connected person of the Company pursuant to Rule 14A.08 of the Listing Rules. As such, the transactions contemplated by the New Management Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the relevant percentage ratios are less than 25% but the proposed annual caps are more than HK\$10 million on an annual basis, the transactions contemplated under the New Management Agreement are subject to reporting, announcement, Independent Shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

An independent board committee of the Company comprising all of the independent non-executive Directors, namely Mr. Peter Lee Yip Wah, Mr. Albert Ho and Mr. Louie Chun Kit, has been formed to advise the Independent Shareholders in respect of the New Management Agreement and the annual caps thereunder.

Pelican Financial Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in these regards.

A circular containing, among others, further details of the New Management Agreement, the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the recommendation of the Independent Board Committee and a notice convening the EGM, will be despatched to the Shareholders as soon as practicable but no later than 2nd August 2018.

NEW MANAGEMENT AGREEMENT

On 26th July, 2018, the Company entered into the New Management Agreement with YMIM in relation to the appointment of YMIM as the Company's investment manager for the Management Period. The New Management Agreement is conditional upon the approval of Independent Shareholders and shall, if approved at the EGM, commence on the Renewal Date.

Principal terms

The principal terms of the New Management Agreement are on the same basis as the Preceding Agreement. They include:

Duration

The Management Period (3 years) i.e. from the Renewal Date to 31st December 2021. As stated in Rule 14A.52, it must not exceed three years except in special circumstances.

Services

YMIM shall provide non-exclusive investment management services and administrative services to the Company, including:

- (a) identifying and carrying out analysis or investigation of investment opportunities; and
- (b) advising on acquisitions and realizations of investments and submitting relevant proposals to the Board for approval.

Remuneration

Management Fee: 0.375% of the Gross NAV for each quarter, calculated as the arithmetical average of the published Gross NAV on the last day of each calendar month during each relevant quarter, and payable quarterly in arrears by the Company to YMIM.

Performance Fee: 20% of the amount by which the audited Net Asset Value of each year ended 31st December exceeds the High Watermark as at the relevant Financial Year, and payable annually in arrears by the Company to YMIM.

Annual caps

The maximum annual Management Fee and Performance Fee payable by the Company to YMIM under the New Management Agreement are proposed to be as follows:

Financial Year	2019	2020	2021
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Management Fee	25,000,000	30,000,000	40,000,000
Performance Fee	<u>85,000,000</u>	<u>110,000,000</u>	<u>135,000,000</u>
Proposed annual caps	<u>110,000,000</u>	<u>140,000,000</u>	<u>175,000,000</u>

The computation basis of the proposed annual caps is the same as the Preceding Agreement, which assumes that the Company will achieve approximately 35% annual increase in Net Asset Value before accrual of the Performance Fee. For convenience, the annual caps are rounded to the nearest HK\$5 million. It is determined after taking into account of (i) the latest Net Asset Value of approximately HK\$1.15 billion as at 30th June, 2018; (ii) the historical transaction amounts for the period under the Preceding Agreement as disclosed in the paragraph headed “Transaction amounts and the current annual caps” below; and (iii) the volatility of the Hang Seng Index (the “HSI”) expected to remain elevated in the coming three years.

The following table sets out the highest, lowest and the difference between the highest and lowest of HSI for each of the years from 2016 to 2018 (up to the date of the New Management Agreement), covering the previous period:

Year	Highest	Lowest	Difference
2016	24,100	18,320	5,780
2017	30,003	22,134	7,869
2018 (up to date of the New Management Agreement)	33,154	28,011	5,143

The high volatility of HSI is expected to continue. It is very likely that the Federal Reserve of the United States will continue to raise interest rate in the remainder of 2018 and 2019 amid the strong economy. On the other hand, the Chinese government continues deleveraging the economy. Being credit-driven for the past ten years, the Chinese economy and financial market have started to feel the negative impact of the deleveraging recently. The Group will keep monitoring the economic data and policy tones of the United States and China, and add more risk assets if the market corrects sharply.

Correctly taking advantage of high volatility can arguably enhance potential investment return. Therefore, the Board considers that maintaining the anticipated annual increase of 35% in the Net Asset Value is fair and reasonable.

Transaction amounts and the current annual caps

The following is a summary of the transaction amounts under the Preceding Agreement from 1st January, 2016 to 31st December, 2018, and the annual caps for each of the three years ending 31st December, 2018:

Financial Year	2016	2017	2018
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Management Fee (<i>note 1</i>)	17,424,000	19,288,000	18,200,000
Performance Fee (<i>note 2</i>)	—	1,916,000	To be computed
Total transaction amounts	<u>17,424,000</u>	<u>21,204,000</u>	<u>To be computed</u>
Annual caps	<u>85,000,000</u>	<u>135,000,000</u>	<u>170,000,000</u>

Notes:

- (1) The amount of the Management Fee for the financial year 2018 comprises the actual Management Fee accrued up to 30th June 2018 and the estimated Management Fee for the six months from July to December, 2018 calculated by reference to the published Net Asset Value as at 30th June, 2018.
- (2) The Company will not make an estimate of the amount of the Performance Fee for the financial year 2018 (which is calculated by reference to the audited Net Asset Value as at the financial year end of 2018) as it may be inaccurate and misleading.

Condition of the New Management Agreement

The New Management Agreement is conditional upon the approval of Independent Shareholders at the EGM. If the condition is not satisfied on or before 31st December, 2018, the New Management Agreement shall lapse and none of the parties thereto shall have any obligations and liabilities thereunder.

REASONS FOR ENTERING INTO THE NEW MANAGEMENT AGREEMENT

YMIM has provided investment management services to the Company since 5th March, 1997. The Group mainly invests in securities listed on the Stock Exchange.

In the past ten years, the net assets value of the Group increased from approximately HK\$598.2 million as at 31st December 2008 to approximately HK\$1,343.5 million as at 31st December 2017, representing a compounded annual growth rate (“CAGR”) of 9.41%, which outperformed the CAGR of the Hang Seng Index of 8.47% during the same period. The Board is of the view that obtaining continued investment management services from YMIM is in the best interest of the Company and its Shareholders.

LISTING RULE IMPLICATIONS

YMIM, as the investment manager of the Company, is a connected person of the Company pursuant to Rule 14A.08 of the Listing Rules. As such, the transactions contemplated by the New Management Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the relevant percentage ratios are less than 25% but the proposed annual caps are more than HK\$10 million on an annual basis, the transactions contemplated under the New Management Agreement are subject to reporting, announcement, Independent Shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

VOTING ABSTENTION

YMIM is a wholly-owned subsidiary of Allied Group Limited, a substantial Shareholder holding 3,082,889,606 Shares, representing approximately 74.97% of the total issued Shares.

Therefore, Allied Group Limited and its associates have material interests in the transactions contemplated under the New Management Agreement and shall abstain from voting at the EGM.

To the best knowledge of the Directors, other than Allied Group Limited and its associates, no Shareholder is required to abstain from voting at the EGM.

VIEWS OF DIRECTORS

The Directors (excluding Mr. Warren Lee Wa Lun, Mr. Arthur George Dew and Mr. Mark Wong Tai Chun, who are deemed interested in the New Management Agreement) are of the view that the transactions contemplated by the New 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.

Mr. Warren Lee Wa Lun is the chairman of the Company and a director of YMIM. Mr. Arthur George Dew is a non-executive director of each of the Company and Allied Group Limited. Mr. Mark Wong Tai Chun is an executive director of the Company and a director of investment and senior management of Allied Group Limited. To avoid any possible conflict of interest, Mr. Warren Lee Wa Lun, Mr. Arthur George Dew and Mr. Mark Wong Tai Chun will not express their views on the New Management Agreement and the annual caps thereunder.

INFORMATION IN RESPECT OF THE COMPANY AND YMIM

The Company is an investment company listed under Chapter 21 of the Listing Rules. The Company principally invests in listed and unlisted financial instruments. YMIM is a licensed corporation permitted to carry out types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities under the SFO. YMIM provides investment management services and corporate finance services in relation to listing matters to the Company.

ESTABLISHMENT OF INDEPENDENT BOARD COMMITTEE AND APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER

An independent board committee comprising all of the independent non-executive directors, namely Mr. Peter Lee Yip Wah, Mr. Albert Ho and Mr. Louie Chun Kit, has been formed to advise the Independent Shareholders in respect of the New Management Agreement and the annual caps thereunder.

Pelican Financial Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in these regards.

The EGM will be convened at which ordinary resolution(s) will be proposed to consider and, if thought fit, approve the New Management Agreement and the annual caps thereunder by way of a poll.

A circular containing, among others, further details of the New Management Agreement, the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the recommendation of the Independent Board Committee and a notice convening the EGM, will be despatched to the Shareholders as soon as practicable but no later than 2nd August 2018.

DEFINITIONS

“associates”	shall have the same meaning as is provided in the Listing Rules
“Board”	the board of Directors
“China”	The People’s Republic of China
“Company”	SHK Hong Kong Industries Limited, a company incorporated in Hong Kong with limited liability and whose shares are listed on the Main Board of the Stock Exchange
“Directors”	the directors of the Company

“EGM”	an extraordinary general meeting of the Company to be convened to approve the New Management Agreement and the annual caps thereunder
“Financial Year”	the financial year of the Company during the Management Period, being the period of twelve months from 1st January to 31st December, or as otherwise determined by the Board
“Gross NAV”	the consolidated Net Asset Value at the relevant date, without deduction of Management Fees attributable to the relevant quarter
“Group”	the Company and its subsidiaries
“High Watermark”	during the term of the New Management Agreement, (a) if a Performance Fee has been paid during the Management Period or in accordance with the Preceding Agreement, the audited Net Asset Value as at 31st December of the latest Financial Year in which YMIM was entitled to a Performance Fee; or (b) if no Performance Fee has been paid during the term of the Management Agreement or in accordance with the Preceding Agreement during that term, the Net Asset Value on the Renewal Date
“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. Peter Lee Yip Wah, Mr. Albert Ho and Mr. Louie Chun Kit (all being independent non-executive Directors) to advise the Independent Shareholders in respect of the New Management Agreement and the annual caps thereunder
“Independent Financial Adviser”	Pelican Financial Limited, a corporation licensed by the Securities and Futures Commission to conduct type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser in respect of the New Management Agreement and the annual caps thereunder

“Independent Shareholders”	the Shareholders other than Allied Group Limited (a substantial Shareholder holding 3,082,889,606 Shares representing 74.97% of the issued share capital of the Company as at the date of the New Management Agreement and a company listed on the main board of the Stock Exchange) and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Management Fee”	the fee payable to YMIM in respect of the management of the Company pursuant to the New Management Agreement
“Management Period”	the period from the Renewal Date to 31st December 2021
“New Management Agreement”	an investment management agreement entered into between the Company and YMIM on 26th July, 2018, in relation to the provision of the Services with effect from the Renewal Date, the terms of which shall be subject to approval by the Independent Shareholders
“Net Asset Value”	the consolidated net asset value of the Group attributable to the owners of the Company
“Performance Fee”	the fee payable to YMIM in respect of the performance of the Company pursuant to the New Management Agreement
“Preceding Agreement”	the investment management agreement made between the Company and YMIM dated 20th November 2015
“Renewal Date”	1st January, 2019
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Services”	the services to be provided by YMIM to the Company pursuant to the New Management Agreement (including investment management services and administrative services)
“Shares”	ordinary shares of the Company

“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“United States”	The United States of America
“YMIM”	Yu Ming Investment Management Limited, a company incorporated in Hong Kong with limited liability and a licensed corporation under the SFO permitted to carry out regulated activities of type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management)
“%”	per cent.

By Order of the Board
SHK Hong Kong Industries Limited
Warren Lee Wa Lun
Chairman

Hong Kong, 26th July 2018

As at the date of this announcement, the composition of the Board is as follows: Mr. Warren Lee Wa Lun (Chairman) and Mr. Mark Wong Tai Chun are Executive Directors; Mr. Arthur George Dew is Non-Executive Director; and Mr. Albert Ho, Mr. Peter Lee Yip Wah and Mr. Louie Chun Kit are Independent Non-Executive Directors.