

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

**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 **SHK Hong Kong Industries Limited**, you should at once hand this circular and the accompanying proxy form 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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**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**

**Independent financial adviser to the Independent Board Committee and  
the Independent Shareholders**

**Beijing Securities**

Beijing Securities Limited

北京證券有限公司

A letter from the Independent Board Committee containing its advice and recommendation to the Independent Shareholders is set out on pages 11 to 12 of this circular. A letter from Beijing Securities, 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 13 to 27 of this circular.

A notice convening an extraordinary general meeting of SHK Hong Kong Industries Limited to be held at 10:00 a.m. on 29th December, 2015 at Plaza 3, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong is set out on pages 39 to 40 of this circular. Whether or not you are able to attend at the meeting, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to Tricor Secretaries Limited, the share registrar of the Company, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time of the extraordinary general meeting or any adjourned meeting. Completion and return of the proxy form will not preclude you from attending and voting in person at the meeting or any adjournment thereof if you so wish.

11th December, 2015

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## DEFINITIONS

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

“associates”	shall have the same meaning as is provided in the Listing Rules
“Beijing Securities”	Beijing Securities Limited, a licensed corporation under the SFO permitted to carry out regulated activities of type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance), being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the New Management Agreement and the annual caps thereunder
“Board”	the board of Directors
“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
“Distribution”	any declaration, distribution or payment of dividend or return of capital to Shareholders by the Company other than scrip issue or bonus issue of shares or securities
“EGM”	an extraordinary general meeting of the Company to be convened to approve the New Management Agreement and the annual caps thereunder
“Executive Committee”	the executive committee established by the Board, comprising Messrs. Warren Lee Wa Lun and Mark Wong Tai Chun, or such individuals as approved by the Board from time to time, being the executive Directors of the Company which has been authorised to make investment decisions on behalf of the Group and operate normal course of business of the Group
“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

## DEFINITIONS

“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 Previous 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 New Management Agreement or in accordance with the Previous 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
“HSI”	Hang Seng Index
“Independent Board Committee”	the independent board committee of the Company comprising Mr. Albert Ho, Mr. Peter Lee Yip Wah 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 Shareholders”	the Shareholders other than Allied Group Limited and its associates
“Latest Practicable Date”	8th December, 2015, 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 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, 2018
“Net Asset Value”	the consolidated net asset value of the Group attributable to the owners of the Company

## DEFINITIONS

“New Management Agreement”	an investment management agreement entered into between the Company and YMIM on 20th November, 2015, 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
“Performance Fee”	the fee payable to YMIM in respect of the performance of the Company pursuant to the New Management Agreement
“Previous Agreement”	the investment management agreement made between the Company and YMIM dated 19th November, 2012
“Renewal Date”	1st January, 2016
“Services”	the services to be provided by YMIM to the Company pursuant to the New Management Agreement (including investment management services and administrative services)
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shares”	ordinary shares of the Company from time to time
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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.

**LETTER FROM THE BOARD**

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

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 666)**

*Executive Directors:*

Mr. Warren Lee Wa Lun  
Mr. Mark Wong Tai Chun

*Non-Executive Director:*

Mr. Arthur George Dew

*Independent Non-Executive Directors:*

Mr. Albert Ho  
Mr. Peter Lee Yip Wah  
Mr. Louie Chun Kit

*Registered Office:*

Room 1801, 18th Floor  
Allied Kajima Building  
138 Gloucester Road  
Wanchai  
Hong Kong

11th December, 2015

*To the Independent Shareholders*

Dear Sir or Madam,

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

**INTRODUCTION**

On 20th November, 2015, the Board announced that 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 approval of Independent Shareholders and shall, if approved in the EGM, commence on the Renewal Date.

The purpose of this circular is to provide you with further details of the New Management Agreement, the recommendation of the Independent Board Committee, the advice of Beijing Securities and the notice convening the EGM, at which an ordinary resolution will be proposed to consider and, if thought fit, approve the New Management Agreement and the annual caps thereunder.

## LETTER FROM THE BOARD

### NEW MANAGEMENT AGREEMENT

#### Principal terms

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

- Duration: The Management Period (3 years)
- Services: YMIM shall provide non-exclusive investment management services and administrative services to the Company, including:
- (a) to identify and carry out analysis or investigation of investment opportunities; and
  - (b) to advise 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, disregard any new issue of securities and/or Distribution, 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 is proposed to be as follows:

<b>Financial Year</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Management Fee	20,000,000	30,000,000	35,000,000
Performance Fee	<u>65,000,000</u>	<u>105,000,000</u>	<u>135,000,000</u>
<b>Proposed annual caps</b>	<u><u>85,000,000</u></u>	<u><u>135,000,000</u></u>	<u><u>170,000,000</u></u>

## LETTER FROM THE BOARD

The computation basis of the proposed annual caps is the same as the Previous 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 proposed annual caps are rounded to the nearest HK\$5 million. It is determined after taking into account of (i) the Net Asset Value appreciation of the Group as at 31st October, 2015; (ii) the historical transaction amounts for the period under the Previous Agreement as disclosed in the paragraph headed “Transaction amounts and the current annual caps” below; and (iii) the volatility of the HSI expected to remain elevated in the coming three years as compared with the year 2015 (up to the date of the New Management Agreement).

The following table shows the year-on-year percentage change of HSI for the past 10 years:

<b>Year</b>	<b>Year-on-year percentage increase/(decrease) (%)</b>
2005	4.5
2006	34.2
2007	39.3
2008	(48.3)
2009	52.0
2010	5.3
2011	(20.0)
2012	22.9
2013	2.9
2014	1.3
2015 (up to the date of the New Management Agreement)	(3.7)
<i>Average</i>	8.2
<i>Highest</i>	52.0
<i>Lowest</i>	(48.3)

The estimated annual growth rate of the Net Asset Value of 35% is within range of the year-on-year percentage change of HSI for the past 10 years from 2005 to 2015 (up to the date of the New Management Agreement), which is ranged from a negative of 48.3% to a positive of 52.0%.

## LETTER FROM THE BOARD

In addition, it is anticipated that the volatility of the HSI in the coming three years will remain elevated. The following table sets out the highest, the lowest and the difference between the highest and the lowest of the HSI for each of the years from 2013 and 2015 (up to the date of the New Management Agreement), covering the Previous Agreement period:

Year	Highest	Lowest	Difference	Difference/ Lowest
2013	24,039	19,814	4,225	21.3%
2014	25,318	21,182	4,136	19.5%
2015 (up to the date of New Management Agreement)	28,443	20,557	7,886	38.4%

The Directors believe that one of the major reasons for the increase in volatility of the HSI in 2015 (up to the date of the New Management Agreement) is the intensifying divergence of global monetary policy directions. In particular, Federal Reserve of the United States is expected to increase interest rate in the near future, while People's Bank of China is on the path of cutting interest rate. Hong Kong's liquidity will be in a tug of war in coming years, conducive to higher volatility of the HSI. High volatility can enhance potential investment return albeit with higher risks.

Based on the above, the Board considers that maintaining the anticipated annual increase of 35% in the Net Asset Value is fair and reasonable.

The growth rates of the Net Asset Value were estimated with reference to the historical performance of the HSI as described above and is merely assumed for the purpose of determining the annual caps and shall not be taken as any indication directly or indirectly as to the performance of the Company on the profitability or the Net Asset Value.

### Transaction amounts and the current annual caps

The following is a summary of the transaction amounts under the Previous Agreement from 1st January, 2013 to 31st December, 2015 and the annual caps for each of the three years ending 31st December, 2015:

Financial Year	2013 HK\$	2014 HK\$	2015 HK\$
Management Fee (note 1)	19,254,000	20,361,000	20,469,000
Performance Fee (note 2)	<u>23,013,000</u>	<u>21,444,000</u>	<u>To be computed</u>
<b>Total transaction amounts</b>	<u><u>42,267,000</u></u>	<u><u>41,805,000</u></u>	<u><u>To be computed</u></u>
<b>Annual caps</b>	<u><u>75,000,000</u></u>	<u><u>125,000,000</u></u>	<u><u>155,000,000</u></u>

## LETTER FROM THE BOARD

*Notes:*

- (1) The amount of the Management Fee for the financial year 2015 comprises the actual Management Fee accrued up to 31st October, 2015 and the estimated Management Fee for the two months of November and December, 2015 calculated by reference to the published Net Asset Value as at 31st October, 2015.
- (2) The Company will not make an estimate of the amount of the Performance Fee for the financial year 2015 (which is calculated by reference to the audited Net Asset Value as at the financial year end of 2015) 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, 2015, 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. The following table sets out the comparison between the year-on-year percentage change in the Net Asset Value and the HSI since Financial Year 2008:

<b>Financial Year</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Year-on-year percentage (decrease)/increase	%	%	%	%	%	%	%
Net Asset Value	(39.7)	60.2 <sup>Note</sup>	10.3	(16.1)	16.9	7.9	3.4
HSI	(48.3)	52.0	5.3	(20.0)	22.9	2.9	1.3

*Note:* The percentage isolated the net rights issue proceeds received during the year.

Save for the year 2012, the Group's investment has outperformed the HSI six out of seven years since 1st January, 2008. 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 RULES 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 constitutes 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 transaction contemplated under the New Management Agreement is subject to reporting, announcement, Independent Shareholders' approval and annual review requirement under Chapter 14A of the Listing Rules.

## **LETTER FROM THE BOARD**

### **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 respective 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.

### **GENERAL**

An independent board committee comprising Mr. Albert Ho, Mr. Peter Lee Yip Wah 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. Beijing Securities has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the New Management Agreement and the annual caps thereunder.

## LETTER FROM THE BOARD

### EGM

A notice of the EGM to be held at 10:00 a.m. on 29th December, 2015 at Plaza 3, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong for the purposes of considering and, if thought fit, approving the New Management Agreement and the annual caps thereunder, is set out on pages 39 to 40 of this circular. Shareholders are encouraged to attend the EGM.

A proxy form for use at the EGM is enclosed. Whether or not you are able to attend the meeting, you are requested to complete the proxy form in accordance with the instructions printed thereon and return the same to Tricor Secretaries Limited, the share registrar of the Company, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time of the EGM or any adjourned meeting. Completion and return of the proxy form will not preclude you from attending and voting in person at the meeting or any adjournment thereof if you so wish.

Pursuant to the Listing Rules, any vote of Shareholders taken at the EGM to approve the above resolutions proposed must be taken by poll.

### RECOMMENDATION

Your attention is drawn to the letters from the Independent Board Committee and Beijing Securities set out on pages 11 to 12 and pages 13 to 27 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 Beijing Securities, consider that the terms of the New Management 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 New Management Agreement is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, 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) recommend that all Independent Shareholders should vote in favour of the ordinary resolution to be proposed at the EGM to approve the New Management Agreement and the annual caps thereunder.

### ADDITIONAL INFORMATION

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

Yours faithfully  
For and on behalf of the Board  
**SHK Hong Kong Industries Limited**  
**Warren Lee Wa Lun**  
*Chairman*

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

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 666)**

11th December, 2015

*To the Independent Shareholders*

Dear Sir or Madam,

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

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the New Management Agreement and the annual caps thereunder, details of which are set out in the letter from the Board in the circular dated 11th December, 2015 (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.

Beijing Securities has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the New Management Agreement and the annual caps thereunder.

Your attention is drawn to the “Letter from the Board” set out on pages 4 to 10 of the Circular which contains, *inter alia*, information about the terms of the New Management Agreement and the annual caps thereunder and the “Letter from Beijing Securities” set out on pages 13 to 27 of the Circular which contains its advice in respect of the terms of the New Management Agreement and the annual caps thereunder.

**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

Having considered the fact that YMIM has provided management services to the Company since 1997, the performance of YMIM during that period and the factors and reasons considered by, and the opinion of, Beijing Securities, we consider that entering into the New Management Agreement is on normal commercial terms and in ordinary and usual course of business of the Company. We also consider that the terms of the New Management 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 New Management 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 ordinary resolution to be proposed at the EGM to approve the New Management Agreement and the annual caps thereunder.

Yours faithfully,

For and on behalf of the  
Independent Board Committee of  
**SHK Hong Kong Industries Limited**

**Peter Lee Yip Wah**

**Albert Ho**

**Louie Chun Kit**

*Independent Non-Executive Directors*

## LETTER FROM BEIJING SECURITIES

*The following is the text of a letter of advice from Beijing Securities to the Independent Board Committee and Independent Shareholders in connection with the proposed continuing connected transactions which has been prepared for inclusion in this circular.*

**Beijing Securities**  
Beijing Securities Limited  
北京證券有限公司

### BEIJING SECURITIES LIMITED

14th Floor, Shanghai Industrial Investment Building, 48 Hennessy Road, Wanchai, Hong Kong

11th December, 2015

*To the Independent Board Committee and the Independent Shareholders of  
SHK Hong Kong Industries Limited*

Dear Sirs,

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

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the New Management Agreement to appoint YMIM as the investment manager of the Company for the Management Period, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 11th December, 2015 (the “**Circular**”), of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 20th November, 2015, 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 approval of Independent Shareholders and shall, if approved in 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 and 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 transaction

## LETTER FROM BEIJING SECURITIES

contemplated under the New Management Agreement is subject to reporting, announcement, Independent Shareholders' approval and annual review requirement under Chapter 14A of the Listing Rules.

The Board currently comprises two executive Directors, one non-executive Director and three independent non-executive Directors. The Independent Board Committee, comprising the three independent non-executive Directors, namely, Mr. Albert Ho, Mr. Peter Lee Yip Wah and Mr. Louie Chun Kit, has been established to advise the Independent Shareholders on the terms of the New Management Agreement and the annual caps thereunder. We have been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the New Management Agreement and the annual caps thereunder and such appointment has been approved by the Independent Board Committee.

Beijing Securities Limited is not connected with the directors, chief executive or substantial shareholders of the Company or any of their respective associates and therefore is considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby Beijing Securities Limited will receive any fees or benefits from the Company or the directors, chief executive or substantial shareholders of the Company or any of their respective associates.

Our role is to provide you with our independent opinion and recommendation as to (i) whether the terms of the New Management Agreement and the annual caps thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole; and (ii) how the Independent Shareholders should vote in respect of the relevant resolution(s) to approve the New Management Agreement and the annual caps thereunder.

### **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 provided to us by the Directors, the Company and its management.

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, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible. 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

## LETTER FROM BEIJING SECURITIES

the Circular, or the reasonableness of the opinions expressed by the Company, its management 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.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in 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 verification of the information included in the Circular and provided to us by the Directors and the management of the Group nor have we conducted any form of in-depth investigation into the business and affairs or the future prospects of the Group.

### **PRINCIPAL FACTORS TAKEN INTO CONSIDERATION**

In formulating our opinion in respect of the terms of the New Management Agreement and the annual caps thereunder to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:

#### **1. Background to and reasons for and benefits to the New Management Agreement**

##### ***Information on the Group 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. YMIM has been providing investment management services to the Company since 5th March, 1997.

YMIM is responsible for advising the Executive Committee on investments, carrying out research on investment ideas and executions of investment decisions approved by the Executive Committee in accordance with the Management Agreement and the investment policies of the Company. Investment team in YMIM carries out research and market study and originates investment ideas. The portfolio manager, the head of investment team of YMIM will then present the investment ideas by a written recommendation to the Executive Committee for approval. The Executive Committee is

## LETTER FROM BEIJING SECURITIES

responsible for making final investment decisions, setting and modifying investment strategies and policies of the Company. YMIM will execute all the final investment decisions approved by the Executive Committee.

### *Reasons for and benefits to the New Management Agreement*

We noted that YMIM has provided investment management services to the Company for over 18 years since 5th March, 1997 and the continual provision of investment management services by YMIM to the Company has the following benefits: (i) an understanding the investment objectives and the investment direction of the Company; (ii) the ability to provide consistence in identifying and carrying out analysis or investigation of investment opportunities for the Company; and (iii) provision of professional advices on acquisitions and realisations of investments and corporate finance services for the Company.

Furthermore, the Group's investment performance has outperformed the HSI six out of seven years since 1st January, 2008. In this respect, we have compared the change in Net Asset Value as extracted from the Company's annual reports with the performance of the HSI for each of the last seven years since 2008. We have reviewed the Group's investment performance from 2008 as the Group has reshuffled its investment portfolio in 2007 such as by disposing its interests in Hong Kong investment properties during that year. Furthermore, we have compared the change in the Net Asset Value with the performance of the HSI as the Group is an investment company and its Net Asset Value represents the total value of all the cash and securities in its portfolio less its liabilities and therefore the change in Net Asset Value measures the performance of its portfolio. The following is a summary of our comparison.

For the year 2014	For the year ended 31st December, 2014, the Net Asset Value increased by approximately 3.4% to approximately HK\$1,375.9 million at the end of the year. For comparison, the HSI rose approximately 1.3% during the same time period.
For the year 2013	For the year ended 31st December, 2013, the Net Asset Value increased by approximately 7.9% to approximately HK\$1,331.3 million at the end of the year. For comparison, the HSI rose approximately 2.9% during the same time period.
For the year 2012	For the year ended 31st December, 2012, the Net Asset Value increased by approximately 16.9% to approximately HK\$1,233.5 million at the end of the year. For comparison, the HSI rose approximately 22.9% during the same time period. This is the only time period the Group's performance has fallen short of the HSI since 2008.

## LETTER FROM BEIJING SECURITIES

For the year 2011	For the year ended 31st December, 2011, the Net Asset Value decreased by approximately 16.1% to approximately HK\$1,055.2 million at the end of the year. For comparison, the HSI dropped approximately 20.0% during the same time period.
For the year 2010	For the year ended 31st December, 2010, the Net Asset Value increased by approximately 10.3% to approximately HK\$1,257.9 million at the end of the year or increased by approximately 7.2% to approximately HK\$1,222.4 million at the end of the year when excluding the effects of HK\$35.5 million for the exercise of warrants into shares of the Company. For comparison, the HSI rose approximately 5.3% during the same time period.
For the year 2009	For the year ended 31st December, 2009, the Net Asset Value increased by approximately 90.7% to approximately HK\$1,140.6 million at the end of the year or increased by approximately 60.2% to approximately HK\$958.6 million at the end of the year when excluding the net proceeds of approximately HK\$182.0 million of the Company's rights issue. For comparison, the HSI rose approximately 52.0% during the same time period.
For the year 2008	For the year ended 31st December, 2008, the Net Asset Value decreased by approximately 39.7% to approximately HK\$598.2 million at the end of the year. For comparison, the HSI dropped approximately 48.3% during the same time period.

Having considered that (i) YMIM has provided investment management services to the Company for over 18 years; (ii) the Company can leverage on the expertise of YMIM; (iii) YMIM has formed an understanding of the investment objectives of the Company and is knowledgeable with the investment process of the Company; and (iv) the Group's investment has outperformed the HSI in six out of seven years (except for year 2012) since 1st January, 2008, the entering into the New Management Agreement for the continued investment management services by YMIM is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

## LETTER FROM BEIJING SECURITIES

### 2. New Management Agreement

#### *Principal terms of the New Management Agreement*

On 20th November, 2015, 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 principal terms of the New Management Agreement are determined on the same bases as the Previous Agreement. Set out below are the principal terms of the New Management Agreement.

#### *Duration*

The Management Period (3 years)

#### *Services*

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

- (a) to identify and carry out analysis or investigation of investment opportunities; and
- (b) to advise 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.

#### *Condition*

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, 2015, the New Management Agreement shall lapse and none of the parties thereto shall have any obligations and liabilities thereunder.

## LETTER FROM BEIJING SECURITIES

### *Comparison with other remuneration packages*

The fee percentage and the basis of the calculation of the Management Fee and the Performance Fee respectively under the New Management Agreement are the same as the Previous Agreement. Furthermore, to determine whether or not the proposed terms of the New Management Agreement are comparable to those remuneration packages offered by various investment management companies to other investment companies whose shares are listed on the Stock Exchange, we have reviewed the remuneration packages offered to the listed investment companies under Chapter 21 of the Listing Rules which are principally engaged in investment activities with remuneration packages which in our view, are comparable to the remuneration packages offered by the Investment Manager to the Company (the “**Comparables**”). In this regard, we have included all such listed investment companies regardless of their net asset value or nature of investments and our selection base is solely on the comparability of their remuneration packages where the remuneration packages must consist of a percentage management fee and a performance or incentive fee structure. We are of the view that the list of Comparables represents a good general overview on the structuring and payment of management fee and performance or incentive fee as sought by professional investment managers based in Hong Kong. The following is the list of the Comparables with each of their management fee and performance or incentive fee and we confirm that the list of the Comparables is an exhaustive list.

## LETTER FROM BEIJING SECURITIES

Stock code	Company	Management fee ( <i>Note</i> )	Performance/ Incentive fee ( <i>Note</i> )
133	China Merchants China Direct Investments Limited	<p>(A) 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);</p> <p>(B) on the invested portion of the assets of the company represented by securities listed on a recognized stock exchange:</p> <p style="margin-left: 20px;">(i) during the lockup period following listing: 2.25% of the book value (net of taxes);</p> <p style="margin-left: 20px;">(ii) for the one year after the lockup period lapses: 1.75% of the book value (net of taxes);</p> <p style="margin-left: 20px;">(iii) thereafter: 1.50% of the book value (net of taxes); and</p> <p style="margin-left: 20px;">(iv) in respect of listed securities purchased from the secondary market: 1.50% of the book value (net of taxes); and</p> <p>(C) on the un-invested portion of the assets of the company: 0.75% of the book value, in each case as at the last day of the relevant quarter.</p>	<p>Conditional upon the net asset value as at the end of each financial year exceeding the higher of:</p> <p style="margin-left: 20px;">(a) the net asset value for the reference year; and</p> <p style="margin-left: 20px;">(b) the net asset value of the most recent financial year after the reference year and in which a performance fee was paid,</p> <p>the company will pay an annual performance fee equal to 8% of the amount by which the net asset value of the company as at the end of the relevant financial year exceeding the high watermark.</p>

## LETTER FROM BEIJING SECURITIES

Stock code	Company	Management fee ( <i>Note</i> )	Performance/ Incentive fee ( <i>Note</i> )
170	China Assets (Holdings) Limited	(i) 2.75% per annum on the aggregate cost to the company of the investments; and  (ii) 1% per annum on the value of uninvested net assets of the company	(i) Nil on the first 10% return on net assets of the company;  (ii) return on net assets of the company on the next 10%: 15% x (net profit after tax minus 10% of net asset value of the company);  (iii) return on net assets of the company on the excess over 20%: 20% x (net profit after tax minus 20% of net asset value of the company).  In addition, the investment manager is entitled to an additional performance bonus of 20% of the net capital gains if the net asset value of the company as at the quarter day would be equal to or greater than 100% of the aggregate of the original subscription price of all outstanding shares in the company.
356	DT Capital Limited	1.5% of the gross net asset value per annum, calculated as the arithmetical average of the published gross net asset value on the last day of each calendar month during each relevant year.	15% on the amount of audited consolidated net asset value of the company exceeding the high watermark as at the relevant financial year, subject to adjustments by disregarding the effects of any new issue of securities or distribution on the gross net asset value.
428	Huge China Holdings Limited	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.	In respect of each financial year, 10% of the audited net profit of the company in the financial year.

## LETTER FROM BEIJING SECURITIES

Stock code	Company	Management fee ( <i>Note</i> )	Performance/ Incentive fee ( <i>Note</i> )
768	UBA Investments Limited	1.5% per annum of the net asset value of the company as at the immediately preceding valuation date.	20% of net profit of the company before taxation and before deduction of the management fee payable.
770	Shanghai International Shanghai Growth Investment Limited	0.5% per quarter of the net asset value of the company as at each quarter date (equivalent to 2% per annum).	20% of the amount by which the net asset value as at 31st December in the year for which the incentive fee is being calculated exceeds the high water mark.
901	Eagle Ride Investment Holdings Limited	2% per annum of the net asset value as at each valuation date.	15% per annum of any net appreciation in the net asset value at the relevant performance fee valuation date above the high watermark.
1140	OP Financial Investments Limited	1.5% per annum of the net asset value of the company as at the immediate preceding valuation date.	10% of the increase in the net asset value per share as at valuation date. The net asset value per share is calculated with reference to a base net asset value per share which shall be the greater of the net asset value per share at the commencement date and the value for the said net asset value per share as at the immediately preceding relevant performance period in relation to which a performance fee was calculated and paid.
666	The Company	<b>0.375% of the Gross NAV for each quarter (equivalent to 1.5% per annum), calculated as the arithmetical average of the published Gross NAV on the last day of each calendar month.</b>	<b>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.</b>

*Note:* based on the latest published announcements, annual reports and/or circulars up to the date of the New Management Agreement.

As noted in the table above, the annual management fee of the Comparables ranges in the region of approximately 1.5% to approximately 2% of their net asset value and the annual performance fee ranges in the region of approximately 10% to approximately 20% of their net profit and/or the increase in their net asset value. We are of the view that the

## LETTER FROM BEIJING SECURITIES

Management Fee, which is calculated on a Gross NAV basis (being calculated without deduction of Management Fees attributable to the relevant quarter), does not have significant difference to the computation of the management fee based on the net asset value and therefore the management fees offered by the Comparables are relevant to our analysis. Therefore, the 1.5% Management Fee is on the lower end when comparing it with the management fees offered by the Comparables. Whilst the 20% Performance Fee is on the high end when comparing it with the performance fees offered by the Comparables, the Performance Fee is still within industry range. Given that the Performance Fee, which is similarly adopted by some Comparables and is also calculated on the same bases as set out in the Previous Agreement, is an incentive for the Investment Manager only when it is able to exceed the High Watermark, the 20% Performance Fee is reasonable. Therefore, we are of the view that the Management Fee and Performance Fee are in line with market practice and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

In addition, we have also reviewed the other terms of the New Management Agreement which have been determined mainly on the same bases as the Previous Agreement and we are also of the view that its terms, conditions and arrangements are generally in line with market practices. Consequently, we are of the view that the terms of the New Management Agreement are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

### *Transactions amounts and the current annual caps*

The following is a summary of the transaction amounts under the Previous Agreement commencing from 1st January, 2013 to 31st December, 2015 and the annual caps for each of the three years ending 31st December, 2015:

	2013 (HK\$)	2014 (HK\$)	2015 (HK\$)
Management Fee (Note 1)	19,254,000	20,361,000	20,469,000
Performance Fee (Note 2)	23,013,000	21,444,000	<b><i>To be computed</i></b>
<b>Total transaction amounts</b>	42,267,000	41,805,000	<b><i>To be computed</i></b>
<b>Annual caps</b>	75,000,000	125,000,000	155,000,000

*Notes:*

- (1) The amount of the Management Fee for the financial year 2015 comprises the actual Management Fee accrued up to 31st October, 2015 and the estimated Management Fee for the two months of November and December, 2015 calculated by reference to the published Net Asset Value as at 31st October, 2015.

## LETTER FROM BEIJING SECURITIES

- (2) The Company will not make an estimate of the amount of the Performance Fee for the financial year 2015 (which is calculated by reference to the audited Net Asset Value as at the financial year end of 2015) as it may be inaccurate and misleading.

As at 31st October, 2015, the Net Asset Value is approximately HK\$1,250.0 million.

In addition, as noted in the table above, a Performance Fee of approximately HK\$23.0 million and HK\$21.4 million was awarded to the Investment Manager for the Financial Year 2013 and Financial Year 2014 respectively. As the last Performance Fee was awarded in the Financial Year 2014, the current High Watermark is the Net Asset Value of approximately HK\$1,375.9 million as at 31st December, 2014.

### *Proposed annual caps*

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

<b>Financial Year</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Management Fee	20,000,000	30,000,000	35,000,000
Performance Fee	<u>65,000,000</u>	<u>105,000,000</u>	<u>135,000,000</u>
<b>Proposed annual caps</b>	<u><u>85,000,000</u></u>	<u><u>135,000,000</u></u>	<u><u>170,000,000</u></u>

### *Basis for the proposed annual caps*

The proposed annual caps are determined on the same bases as the Previous 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 proposed annual caps are rounded to the nearest HK\$5 million.

The following are the factors taken into account by the Board when determining the proposed annual caps:

- (i) the Net Asset Value appreciation of the Group as at 31st October, 2015;
- (ii) the historical transaction amounts for the period under the Previous Agreement; and
- (iii) an expected increase in volatility of the HSI expected to remain elevated in the coming three years as compared with the year 2015.

## LETTER FROM BEIJING SECURITIES

As discussed with the Company, the proposed annual caps are determined on the same bases as the Previous Agreement where the Company anticipates an approximately 35% annual increase in the Net Asset Value before accrual of the Performance Fee. The Company is maintaining the anticipated 35% annual increase in the Net Asset Value as it expects the volatility of the HSI to remain high and such high volatility can enhance potential investment return albeit with higher risks.

Furthermore, as set out in the Letter from the Board, the anticipated 35% annual increase in the Net Asset Value is within range of the year-on-year percentage change of the HSI for the past 10 years from 2005 to 2015 (up to the date of the New Management Agreement), which is ranged from a negative of 48.3% to a positive of 52.0%. Therefore, the anticipated annual increase of the Net Asset Value was estimated with reference to the historical performance of the HSI as described above. We are of the view that such reference to the historical performance of the HSI is fair and reasonable. Also, such anticipated annual increase is merely assumed for the purpose of determining the proposed annual caps and shall not be taken as any indication directly or indirectly as to the performance of the Company on its profitability or its Net Asset Value.

In addition to the factors above, we have also reviewed the highest, the lowest and the difference between the highest and the lowest of the HSI (the “**Hi/Lo Difference**”) for each of the years from 2013 and 2015 up to the date of the New Management Agreement as well as the Hi/Lo Difference over the lowest of the HSI for each of the three years in percentage terms and which are set out in the following table.

<b>Year</b>	<b>Highest</b>	<b>Lowest</b>	<b>Hi/Lo Difference</b>	<b>Hi/Lo Difference/ Lowest</b>
2013	24,039	19,814	4,225	21.3%
2014	25,318	21,182	4,136	19.5%
2015 (up to the date of the New Management Agreement)	28,443	20,557	7,886	38.4%

As noted in the table above, the Hi/Lo Difference over the lowest of the HSI for the year 2015 is approximately 38.4% which indicated that the market condition is rather volatile and is also higher than the previous two years. Such volatility we understood are attributable to the collapse of China’s stock market as well as the intensifying divergence of global monetary policy directions where the Federal Reserve of the United States is expected to increase interest rate in the near future, while People’s Bank of China is on the path of cutting interest rate. These events are expected to continue and which will cause the liquidity in the Hong Kong market to be in a tug of war in coming years. This in our view is conducive to higher volatility of the HSI in the coming years.

## LETTER FROM BEIJING SECURITIES

Furthermore, as the Hi/Lo Difference over the lowest of the HSI for each of the last three years in percentage terms is in the range of 19.5% to 38.4%, in the event that the Company is able to take full advantage of the high/low volatility in the Hong Kong market to enhance its potential investment return, the anticipation of a 35% annual increase in the Net Asset Value, which falls within such range, is therefore a reasonable estimate.

In addition, the anticipated 35% annual increase in the Net Asset Value could be inferred as the performance expectation of the Investment Manager under the assumption of a very best case scenario when it is able to take full advantage of the high/low volatility to enhance the Company's potential investment return. Therefore, the anticipated 35% annual increase in the Net Asset Value used in determining the proposed annual caps is reasonable as annual caps set on the high end of the range would allow a higher return to the Independent Shareholders as opposed to one set at a lower end of the range.

In view of the above and given that (i) the Net Asset Value as at 31st October, 2015 is approximately HK\$1,250.0 million; (ii) the current High Watermark of approximately HK\$1,375.9 million; (iii) the anticipated 35% annual increase in the Net Asset Value is set on the same bases as the Previous Agreement and is also within range of the year-on-year percentage change of the HSI for the past 10 years from 2005 to 2015 (up to the date of the New Management Agreement); and (iv) in a volatile market and in view of the recent volatility of the HSI, the anticipated 35% annual increase in the Net Asset Value in the next three years is not unreasonable and in the event that it is achieved, it would also benefit the Company and the Independent Shareholders as whole, we concurred with the Board on the bases it used in determining the proposed annual caps for the three years ending 31st December, 2018 and therefore the proposed annual caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

### **3. Listing Rules requirements**

In compliance with the annual review requirements under Chapter 14A of the Listing Rules, the Company will comply, among others, with the following requirements during the Management Period. The transactions contemplated under the New Management Agreement will be subject to the annual review by the independent non-executive Directors, details of which must be included in the Company's subsequent published annual reports and accounts. In addition, pursuant to the Listing Rules, the auditors of the Company must provide a letter to the Board confirming, among others, that the transactions contemplated under the New Management Agreement are conducted in accordance with its terms and that the proposed annual caps are not being exceeded. If the Company knows or has reason to believe that the independent non-executive Directors and/or its auditors will not be able to confirm the matters as required above, the Company must promptly notify the Stock Exchange and publish an announcement. In view of the above requirements, we are of the view that appropriate measures will be in place to govern the conduct of the transactions contemplated under the New Management Agreement and to safeguard the interests of the Company and the Independent Shareholders as a whole.

## LETTER FROM BEIJING SECURITIES

#### 4. Voting abstention at the EGM and in the meetings of the Board

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 respective associates, no Shareholder is required to abstain from voting at the EGM.

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 in the relevant meetings of the Board.

#### RECOMMENDATIONS

Having considered the principal factors and reasons set out above, we consider that the terms of the New Management Agreement and the annual caps thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. We therefore advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution approving the New Management Agreement and the annual caps thereunder at the EGM.

Yours faithfully,  
For and on behalf of  
**Beijing Securities Limited**  
**Charles Li**  
*Director*

**A. ADDITIONAL INFORMATION ON YMIM****YMIM**

YMIM, 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).

**Role of YMIM**

YMIM is responsible for advising the Executive Committee on investments, carrying out research on investment ideas and executions of investment decisions approved by the Executive Committee in accordance with the New Management Agreement and the investment policies of the Company. YMIM will originate investment ideas and present to the Company by a written recommendation to the Executive Committee for approval. The Executive Committee will review the recommendation and decide on whether to proceed with the investment. The Executive Committee will evaluate the content and analysis in the recommendation from YMIM including the investee company's business background information, financial position and the investment risk involved. In evaluating the recommendations by YMIM, the Executive Committee will also take into account the composition of the current investment portfolio, the spread of investments, the Company's financial condition and the overall market condition. Only the Executive Committee is involved in reviewing the content and analysis in the recommendation from YMIM and is responsible for setting and modifying investment strategies and policies of the Company and has the final investment decisions.

**Potential conflict of interest between the Company and YMIM*****Overlapping director***

Mr. Warren Lee Wa Lun (“**Mr. Lee**”) is an executive Director and a director of YMIM and he is involved in the day-to-day operations of each of the Company and YMIM.

All major decisions of the Company will be made by the Board as a whole and not at the sole discretion of Mr. Lee. This is also applied in the approval of investment recommendations proposed by YMIM which the final investment decision will be approved by the Executive Committee that comprises of Mr. Lee and Mr. Mark Wong Tai Chun, both being executive Directors.

Furthermore, in accordance with Rule 13.44 of the Listing Rules, any Director shall not vote on any board resolution approving any contract or arrangement or any other proposal in which the Director or his associate(s) has or have a material interest.

*Allocation of investments*

Potential conflict of interest may occur when the same investment management service is to be provided by YMIM to other parties. YMIM has confirmed to the Company that its investment management service is performed only for the Company as at the Latest Practicable Date.

Pursuant to the New Management Agreement, if such investment management service is to be provided by YMIM to other parties, YMIM shall ensure a fair allocation of investment opportunities to the Company in relation to other parties to which it provides investment management services, as it reasonably considers appropriate on a case by case basis having regard to:

- (i) the nature of the relevant transactions and the investment objectives of the Company and the other parties to which YMIM provides investment management services; and
- (ii) the net asset value and liquidity of the Company from time to time.

**B. ADDITIONAL INFORMATION ON THE COMPANY'S INVESTMENTS****Investment portfolio**

- (i) Set out below are the top ten investments held by the Group as at 31st December, 2014 and 30th June, 2015:

*As at 31st December, 2014*

Name of investment	Cost as at	Market value/ fair value as at	Dividend
	31st December, 2014	31st December, 2014	received/ receivable during the year
	HK\$'000	HK\$'000	HK\$'000
(i) Grand Ming Group Holdings Limited ("Grand Ming")	16,440	114,201	1,450
(ii) Splendid Link 2016 Notes	100,000	100,288	—
(iii) China Taiping Insurance Holdings Company Limited ("Taiping Insurance")	55,117	79,243	—
(iv) Guotai Junan International Holdings Limited ("Guotai Junan")	50,456	60,017	464

Name of investment	Cost as at	Market value/ fair value as at	Dividend
	31st December, 2014	31st December, 2014	received/ receivable during the year
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
(v) Industrial and Commercial Bank of China Limited — H Shares (“ICBC”)	48,010	52,638	—
(vi) Maanshan Iron & Steel Company Limited — H Shares	39,626	50,820	—
(vii) Chief Key 2016 Bond	48,000	48,000	—
(viii) Bank of China Limited — H Shares (“Bank of China”)	39,982	47,067	—
(ix) HK Electric Investments and HK Electric Investments Limited	43,012	43,520	—
(x) Sunac China Holdings Limited	34,989	39,300	—

*As at 30th June, 2015*

Name of investment	Cost as at	Market value/ fair value as at	Dividend
	30th June, 2015	30th June, 2015	received/ receivable during the period
	HK\$'000	HK\$'000	HK\$'000
(i) Grand Ming	15,277	99,407	—
(ii) Ping An Insurance (Group) Company of China, Ltd — H Shares (“Ping An Insurance”)	98,878	95,793	—
(iii) Guotai Junan	29,234	86,247	1,173
(iv) ICBC	58,798	69,108	3,277
(v) China Construction Bank Corporation — H Shares	55,686	65,006	3,153
(vi) Bank of China	46,599	60,862	2,558
(vii) National Agricultural Holdings Limited	36,730	56,680	—
(viii) Huaneng Renewables Corporation Limited — H Shares	56,028	55,980	456
(ix) China ZhengTong Auto Services Holdings Limited	45,489	47,880	950
(x) Chief Key 2016 Bond	48,000	46,987	—

- (ii) Set out below are the top three investments purchased by the Group for the financial year ended 31st December, 2014 and the six months period ended 30th June, 2015:

*For the financial year ended 31st December, 2014*

<b>Name of investment</b>	<b>Number of shares purchased</b>	<b>Share price HK\$</b>	<b>Total consideration HK\$'000</b>
China Life Insurance Company Limited — H Shares	3,882,000	21.47	83,345
ICBC	14,580,000	5.11	74,561
China Galaxy Securities Co., Ltd. — H Shares	10,700,000	6.26	66,991

*For the six months period ended 30th June, 2015*

<b>Name of investment</b>	<b>Number of shares purchased</b>	<b>Share price HK\$</b>	<b>Total consideration HK\$'000</b>
Ping An Insurance	917,560	107.76	98,878
CGN Power Co., Ltd. — H Shares	14,500,000	5.06	73,415
Boyaa Interactive International Limited	8,600,000	6.91	59,412

- (iii) Set out below are the top three realized gain investments purchased by the Group for the financial year ended 31st December, 2014 and the six months period ended 30th June, 2015:

*For the financial year ended 31st December, 2014*

<b>Name of Investment</b>	<b>Realised gain HK\$'000</b>
S.A.S. Dragon Holdings Limited	16,635
YY Inc	14,084
IGG Inc	12,651

*For the six months period ended 30th June, 2015*

<b>Name of Investment</b>	<b>Realised gain</b> <i>HK\$'000</i>
Guotai Junan	37,996
Taiping Insurance	25,232
Beijing Enterprises Water Group Limited	16,293

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors of the issuer 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 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 herein or this circular 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 Issuers, were as follows:

### Interests in the Shares and underlying Shares of the Company

Name of Directors	Nature of interests	Number of Shares held	% of total issued Shares
Peter Lee Yip Wah	Beneficial Interest	3,410,000	0.08%
Albert Ho	Beneficial Interest	2,296,000	0.06%

Save as disclosed above, 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 positions 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 Issuers.

### 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 Shareholders	Note	Nature of interest	Number of Shares held	% of total issued Shares
Allied Group Limited (“AGL”)	1	Interest of controlled corporation	3,082,889,606	74.97%
Lee and Lee Trust	2	Interest of controlled corporation	3,082,889,606	74.97%

Notes:

1. AGL holds 3,082,889,606 Shares through its wholly-owned subsidiaries.
2. Mr. Lee Seng Hui, Ms. Lee Su Hwei and Mr. Lee Seng Huang are the trustees of Lee and Lee Trust, being a discretionary trust. They together own 73.90% interest in AGL (inclusive of Mr. Lee Seng Hui’s personal interests) and are therefore deemed to have an interest in the said Shares in which AGL is interested.

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

On 20th November, 2015, the New Management Agreement was entered into by the Company and YMIM. As at the Latest Practicable Date, (i) AGL held 74.97% interests in the Shares; (ii) Mr. Warren Lee Wa Lun is the chairman and an executive Director 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. Under the New Management Agreement, YMIM shall provide non-exclusive investment management service and administrative services to the Company from 1st January, 2016 up to 31st December, 2018. YMIM was entitled to a Management Fee equal to 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; and a Performance Fee equal to 20% of the amount by which the audited Net Asset Value, disregard any new issue of securities and/or Distribution, 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.

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, since 31st December, 2014, 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, save as disclosed herein, 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**

Save for the New Management Agreement, 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 31st December, 2014 (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:

<b>Name</b>	<b>Qualification</b>
Beijing Securities	a licensed corporation under the SFO permitted to carry out regulated activities of type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance)

As at the Latest Practicable Date, Beijing Securities:

- (a) did not have any direct or indirect interests in any assets which have been, since 31st December, 2014 (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.

Beijing Securities 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 Company's registered office is at Room 1801, 18th Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong.
- (b) Allied Group Limited's registered office is at 22nd Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong.
- (c) The company secretary of the Company is Mr. Lo Tai On.
- (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 (except public holidays) at the registered office of the Company at Room 1801, 18th Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong up to and including 29th December, 2015 and at the EGM:

- (a) the New Management Agreement;
- (b) the opinion letter and consent letter from Beijing Securities.

**NOTICE OF EGM**

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

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 666)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of SHK Hong Kong Industries Limited (the “Company”) will be held at 10:00 a.m. on 29th December, 2015 (and at any adjournment thereof) at Plaza 3, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong for the purposes of considering and, if thought fit, passing (with or without amendments) the following resolution as an ordinary resolution of the Company:

**ORDINARY RESOLUTION**

**“THAT:**

- (a) the New Management Agreement (as defined in the circular dated 11th December, 2015 (the “Circular”) despatched to the shareholders of the Company together with this notice of extraordinary general meeting), a copy of which has been produced to the meeting marked “A” 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 New Management Agreement; and
- (b) the annual caps for the remuneration payable by the Company to Yu Ming Investment Management Limited under the New Management Agreement are proposed to be as follows:

	<b>Proposed annual cap HK\$ (million)</b>
For the year ended 31st December, 2016	85
For the year ended 31st December, 2017	135
For the year ended 31st December, 2018	175

By Order of the Board  
**SHK Hong Kong Industries Limited**  
**Lo Tai On**  
*Company Secretary*

Hong Kong, 11th December, 2015

## NOTICE OF EGM

*Notes:*

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint more than one proxy to attend, speak and vote in his stead provided that each proxy is appointed to represent the respective number of shares held by member as specified in the proxy form. A proxy need not be a member of the Company.
2. In order to be valid, a proxy form together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be deposited at Tricor Secretaries Limited, the share registrar of the Company, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.