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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

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, as such, the transaction 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.

An independent board committee of the Company comprising all of the independent non-executive Directors, namely 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 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 4th December, 2015.

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 New Management Agreement is conditional upon approval of Independent Shareholders and shall, if approved in the EGM, commence on the Renewal Date.

Principal terms

The principal terms of the New Management Agreement are on the same basis as the Previous Management 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 submit 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	2016	2017	2018
	<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>
Proposed annual caps	<u>85,000,000</u>	<u>135,000,000</u>	<u>170,000,000</u>

The computation basis of the proposed annual caps is the same as the Previous Management 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 Net Asset Value appreciation of the Group as at 31st October, 2015; (ii) the historical transaction amounts for the period under the Previous Management Agreement as disclosed in the paragraph headed “Transaction amounts and the current annual caps” below; and (iii) an expected increase in volatility of the Hang Seng Index (the “HSI”) expected to remain elevated in the coming three years as compared with the year 2015.

The following table sets out the highest, lowest and the difference between highest and lowest of HSI for each of the years from 2013 and 2015 (up to the date of the New Management Agreement), covering the Previous Period:

Year	Highest	Lowest	Difference
2013	24,039	19,814	4,225
2014	25,318	21,182	4,136
2015	28,443	20,557	7,886

One of the major reasons for the increase in volatility of 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 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 HSI. High volatility can enhance potential investment return albeit with higher risks.

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

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 HSI since Financial Year 2008:

Financial Year	2008	2009	2010	2011	2012	2013	2014
<i>Year-on-year percentage (decrease)/increase</i>	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>
Net Asset Value	(39.7)	60.2 ^{Note}	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 Hang Seng Index six out of seven years since 1st January, 2008. The Board is of the view that continued investment management services by 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 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.

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 of the Company. 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.

ESTABLISHMENT OF INDEPENDENT BOARD COMMITTEE AND APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER

An independent board committee comprising all of the independent non-executive directors, named 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 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 4th December, 2015.

DEFINITIONS

“associates”	shall have the same meaning as is provided in the Listing Rules
“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
“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 Previous Management 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 Previous Management 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. 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 Financial Adviser”	Beijing Securities Limited, a corporation licensed by the Securities and Futures Commission to conduct type 1 (dealing in securities), type 4 (advising on securities) and 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 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, 2018
“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
“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
“Previous Management Agreement”	the investment management agreement made between the Company and YMIM dated 19th November, 2012
“Renewal Date”	1st January, 2016
“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 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.

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

Hong Kong, 20th November, 2015

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.