

**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**



**PELICAN FINANCIAL LIMITED**

A letter from the Independent Board Committee containing its advice and recommendation to the Independent Shareholders is set out on pages 13 to 14 of this circular. A letter from Pelican Financial, 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 15 to 29 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 12th September, 2018 at Plaza 3, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong is set out on pages 41 to 42 of this circular. Whether or not you intend to be present at the meeting, you are recommended to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to Tricor Secretaries Limited, the Company's share registrar, 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. The completion and return of the proxy form will not preclude you from attending and voting in person should you so wish.

24th August, 2018

# CONTENTS

	<i>Page</i>
<b>DEFINITIONS</b> .....	1
<b>LETTER FROM THE BOARD</b> .....	5
<b>LETTER FROM THE INDEPENDENT BOARD COMMITTEE</b> .....	13
<b>LETTER FROM PELICAN FINANCIAL LIMITED</b> .....	15
<b>APPENDIX I – ADDITIONAL INFORMATION</b> .....	30
<b>APPENDIX II – GENERAL INFORMATION</b> .....	36
<b>NOTICE OF EGM.</b> .....	41

## 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
“Board”	the board of Directors
“China”	The People’s Republic of China
“Company”	SHK Hong Kong Industries Limited, a company incorporated in Hong Kong with limited liability and whose Shares are listed on the Main Board of the Stock Exchange
“Directors”	the directors of the Company
“EGM”	an extraordinary general meeting of the Company to be convened to approve the New Management Agreement and the annual caps thereunder
“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 Company’s financial year 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

## DEFINITIONS

“High Watermark”	during the term of the New Management Agreement, (a) if a Performance Fee has been paid during the Management Period or in accordance with the Preceding Agreement, the audited Net Asset Value as at 31st December of the latest Financial Year in which YMIM was entitled to a Performance Fee; or (b) if no Performance Fee has been paid during the term of the New Management Agreement or in accordance with the Preceding Agreement during that term, the Net Asset Value on the Renewal Date
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of The People’s Republic of China
“Independent Board Committee”	the independent board committee of the Company comprising Mr. Peter Lee Yip Wah, Mr. Albert Ho and Mr. Louie Chun Kit (all being independent non-executive Directors) to advise the Independent Shareholders in respect of the New Management Agreement and the annual caps thereunder
“Independent Shareholders”	the Shareholders other than Allied Group Limited (a substantial Shareholder holding 3,082,889,606 Shares representing 74.97% of the total issued Shares as at the Latest Practicable Date and a company listed on the Main Board of the Stock Exchange) and its associates
“Latest Practicable Date”	21st August, 2018, 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

## DEFINITIONS

“Management Period”	the period from the Renewal Date to 31st December, 2021
“Net Asset Value”	the consolidated net asset value of the Group attributable to the owners of the Company
“New Management Agreement”	an investment management agreement entered into between the Company and YMIM on 26th July, 2018, in relation to the provision of the Services with effect from the Renewal Date, the terms of which shall be subject to approval by the Independent Shareholders
“Pelican Financial”	Pelican Financial Limited, a corporation licensed by the Securities and Futures Commission to conduct type 6 (advising on corporate finance) regulated activity as defined under the SFO, 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
“Performance Fee”	the fee payable to YMIM in respect of the performance of the Company pursuant to the New Management Agreement
“Preceding Agreement”	the investment management agreement made between the Company and YMIM dated 20th November, 2015
“Renewal Date”	1st January, 2019
“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

## DEFINITIONS

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

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 Directors:*

Mr. Arthur George Dew

*Registered Office:*

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

*Independent Non-Executive Directors:*

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

24th August, 2018

*To the Shareholders*

Dear Sir or Madam,

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

**INTRODUCTION**

On 26th July, 2018, 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 Pelican Financial 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 of the New Management Agreement are on the same basis as the Preceding Agreement. They include:–

- Duration: The Management Period (3 years), ie. from 1st January, 2019 to 31st December, 2021. As stated in Rule 14A.52 of the Listing Rules, it must not exceed three years except in special circumstances
- Services: YMIM shall provide non-exclusive investment management services and administrative services to the Company, including:–
- (a) 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.



## LETTER FROM THE BOARD

### 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:

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

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

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

Year	Highest	Lowest	Difference
2016	24,100	18,320	5,780
2017	30,003	22,134	7,869
2018 (up to the Latest Practicable Date)	33,154	27,100	6,054

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

## LETTER FROM THE BOARD

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

### Transaction amounts and the current annual caps

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

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

*Notes:*

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

### Condition of the New Management Agreement

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

## LETTER FROM THE BOARD

### **Reasons for entering into the New Management Agreement**

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

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

### **LISTING 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 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 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.

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

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

## LETTER FROM THE BOARD

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

Pelican Financial has been appointed by the Company as the Independent Financial Adviser 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 12th September, 2018 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 41 to 42 of this circular. Shareholders are encouraged to attend the EGM.

A proxy form for use at the EGM is enclosed. Whether or not you intend to present at the meeting, you are recommended 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 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 Pelican Financial set out on pages 13 to 14 and pages 15 to 29 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 Pelican Financial, consider that the terms of the New Management Agreement including the annual caps thereunder are fair and reasonable so far as the interests of the Independent Shareholders are concerned and that the entering into of the New Management Agreement is in the interests of the Company and the Independent Shareholders. 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.

**LETTER FROM THE BOARD**

**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)**

24th August, 2018

*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 24th August, 2018 (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.

Pelican Financial 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 5 to 12 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 Pelican Financial Limited” set out on pages 15 to 29 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, Pelican Financial, 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**



## LETTER FROM PELICAN FINANCIAL LIMITED

*The following is the text of a letter of advice from Pelican Financial 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.*



### PELICAN FINANCIAL LIMITED

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

24th August, 2018

*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 relation to the New Management Agreement. Details of the New Management Agreement are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 24th August, 2018 (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 26th July, 2018, the Company entered into the New Management Agreement with YMIM in relation to the appointment of YMIM as the Company’s investment manager for the Management Period. The New Management Agreement is conditional upon approval of the Independent Shareholders and shall, if approved in the EGM, commence on the Renewal Date.

## LETTER FROM PELICAN FINANCIAL LIMITED

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 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 of the three independent non-executive Directors, namely, Mr. Peter Lee Yip Wah, Mr. Albert Ho and Mr. Louie Chun Kit, has been formed to advise the Independent Shareholders in respect of the New Management Agreement and the annual caps thereunder. As Mr. Warren Lee Wa Lun is the chairman of the Company and a director of YMIM, Mr. Mark Wong Tai Chun is an executive Director and a director of investment and senior management of Allied Group Limited and Mr. Arthur George Dew is a non-executive director of each of the Company and Allied Group Limited, to avoid any possible conflict of interest, Mr. Warren Lee Wa Lun, Mr. Mark Wong Tai Chun and Mr. Arthur George Dew will not express their views on 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.

Pelican Financial 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. In the last two years, there was no engagement between the Company and Pelican Financial Limited. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby Pelican Financial 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 New Management Agreement is entered into the ordinary and usual course of business of the Group and on normal commercial terms and 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 to approve the New Management Agreement and the annual caps thereunder at the EGM.

## LETTER FROM PELICAN FINANCIAL LIMITED

### BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have performed relevant procedures and those steps which we deemed necessary in forming our opinions. Our procedures include, among others, review of relevant agreements, documents and information provided by the Company and validated them, to a reasonable extent, with the relevant public or third-party information, market statistics and data and/or with those information, facts and representations provided, and the opinions expressed, by the Company, the Directors and/or the management of the Group. The documents reviewed include, among others, the New Management Agreement, the annual reports of the Company, the calculation of the proposed annual caps and the Circular. We have assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or the Directors, which have been provided to us.

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.

## LETTER FROM PELICAN FINANCIAL LIMITED

### 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.

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

One of the principal businesses of YMIM is to provide investment management services. Pursuant to the New Management Agreement, YMIM will be responsible for advising the Executive Committee on investments, carrying out research on investment ideas and executions of investment decisions. Investment team in YMIM will carry 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 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. In view of the above, and also taking into consideration that the Company is an investment company, we are of the view that the entering into of the New Management Agreement by the Company with YMIM is in the ordinary and usual course of business of the Group.

## LETTER FROM PELICAN FINANCIAL LIMITED

Further, we noted that YMIM has provided investment management services to the Company for over 21 years since 5th March, 1997. As set out in the annual report of the Company for the year ended 31st December, 2017, the key investment strategy of the Group is to identify securities that are undervalued, and offer prospects of improvement over the medium to long term. Such investment strategy, as we believe, requires an investment manager which is skillful in identifying suitable investment targets and YMIM, as investment manager to the Company, is adept in applying and implementing the investment strategy and therefore is instrumental in growing the Group's investment portfolio. In our review of the annual reports of the Company since 2008, we noted that the Group's net asset value has increased from approximately HK\$598.2 million as at 31st December, 2008 to approximately HK\$1,343.5 million as at 31st December, 2017, representing an increase of over 124.59%. Such increase in the Group's net asset value over the years demonstrated the ability of YMIM as investment manager to grow the investment portfolio of the Group. In addition, given that YMIM has been the investment manager to the Group for over 21 years, YMIM has already formed an understanding of the investment objectives of the Company and is knowledgeable with the investment process of the Company. In view of the above, we are of the view that it would be unrealistic and not commercially practical to suggest another investment management company to take over the investment management role of the Group as YMIM has been providing investment management services to the Group since 1997 and also has the track record in growing the investment portfolio of the Group.

Having considered that (i) YMIM has formed an understanding of the investment objectives of the Company and is knowledgeable with the investment process of the Company; (ii) YMIM has provided investment management services to the Company for over 21 years; (iii) the Company can leverage on the expertise of YMIM; and (iv) the growth of the investment portfolio of the Group over the years, we are of the view that 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 PELICAN FINANCIAL LIMITED

### 2. New Management Agreement

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

On 26th July, 2018, the Company entered into the New Management Agreement with YMIM in relation to the appointment of YMIM as the Company's investment manager for the Management Period.

The principal terms of the New Management Agreement are determined on the same bases as the Preceding 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 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.

## LETTER FROM PELICAN FINANCIAL LIMITED

### *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, 2018, the New Management Agreement shall lapse and none of the parties thereto shall have any obligations and liabilities thereunder.

### *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 on the same basis as the Preceding 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 YMIM 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 is based 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. 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 PELICAN FINANCIAL LIMITED

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="padding-left: 20px;">(i) during the lockup period following listing: 2.25% of the book value (net of taxes);</p> <p style="padding-left: 20px;">(ii) for the one year after the lockup period lapses: 1.75% of the book value (net of taxes);</p> <p style="padding-left: 20px;">(iii) thereafter: 1.50% of the book value (net of taxes); and</p> <p style="padding-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,</p> <p>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>(a) the net asset value for the reference year; and</p> <p>(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>
356	DT Capital Limited	1.5% of the gross net asset value per annum, calculated as the arithmetical average of the published unaudited consolidated 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.
768	UBA Investments Limited	1.5% per annum of the net asset value as at the immediately preceding valuation date.	20% of net profit before taxation and before deduction of the management fee.



## LETTER FROM PELICAN FINANCIAL LIMITED

Stock code	Company	Management fee <i>(Note)</i>	Performance/Incentive fee <i>(Note)</i>
770	Shanghai International Shanghai Growth Investment Limited	0.5% per quarter of the net asset value of the company calculated on the last business day of the previous quarter (equivalent to 2% per annum).	20% of the amount by which the net asset value as at 31 December in the year for which the incentive fee is being calculated exceeds the high water mark.
1140	OP Financial Limited	1.5% per annum of the net asset value as at the immediately preceding valuation date.	10% of the appreciation in the net asset value per share, calculated as at the relevant performance fee valuation day over the base net asset value per share for each share then in issue.
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:* The management fee and performance/incentive fee for the Comparables are 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 2.25% of their net asset value and the 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 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. As noted above, the 1.5% Management Fee is on the lower end when comparing with the management fees offered by the Comparables. Whilst the 20% Performance Fee is on the higher end when comparing with the performance fees offered by the Comparables, the Performance Fee is still within range of the Comparables. In particular, we noted that the calculation of the performance/incentive fee of Shanghai International Shanghai Growth Investment Limited (stock code: 770) is the same as the calculation of the Performance Fee. Given that the Performance Fee, which is similarly adopted by other Comparables and is also calculated on the same bases as set out in the Preceding Agreement, is an incentive for YMIM only when it is able to exceed the High Watermark, we considered that 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.

## LETTER FROM PELICAN FINANCIAL LIMITED

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 Preceding 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 Preceding Agreement from 1st January, 2016 to 31st December, 2018 and the annual caps for each of the three years ending 31st December, 2018:

	2016 <i>(HK\$)</i>	2017 <i>(HK\$)</i>	2018 <i>(HK\$)</i>
Management Fee <i>(Note 1)</i>	17,424,000	19,288,000	18,200,000
Performance Fee <i>(Note 2)</i>	–	1,916,000	To be computed
<b>Total transaction amounts</b>	<b>17,424,000</b>	<b>21,204,000</b>	<b>To be computed</b>
<b>Annual caps</b>	<b>85,000,000</b>	<b>135,000,000</b>	<b>170,000,000</b>
<b><i>Utilisation rate of the annual caps</i></b>	<i>20.50%</i>	<i>15.71%</i>	<i>N/A</i>

*Notes:*

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

As at 30th June, 2018, the Net Asset Value is approximately HK\$1.15 billion.

In addition, as noted in the table above, a Performance Fee of approximately HK\$1.9 million was awarded to YMIM for the Financial Year 2017. As the last Performance Fee was awarded in the Financial Year 2017, the current High Watermark is the Net Asset Value of approximately HK\$1.34 billion as at 31st December, 2017.

## LETTER FROM PELICAN FINANCIAL LIMITED

### *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:

	2019 (HK\$)	2020 (HK\$)	2021 (HK\$)
Management Fee	25,000,000	30,000,000	40,000,000
Performance Fee	85,000,000	110,000,000	135,000,000
Proposed annual caps	110,000,000	140,000,000	175,000,000

### *Basis for the proposed annual caps*

The proposed annual caps are determined on the same bases as the Preceding Agreement, which assumes that the Company will achieve approximately 35% annual increase in Net Asset Value before accrual of the Performance Fee. For convenience, the 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 latest Net Asset Value of approximately HK\$1.15 billion as at 30th June, 2018;
- (ii) the historical transaction amounts for the period under the Preceding Agreement; and
- (iii) the volatility of the Hang Seng Index (the “HSI”) expected to remain elevated in the coming three years.

In assessing the fair and reasonableness of the proposed annual caps, we have obtained and reviewed a schedule containing the calculation of the proposed annual caps and discussed with the Company the bases and assumption thereunder. As discussed with the Company, the proposed annual caps are determined in similar bases as the Preceding Agreement where the Company anticipates an approximately 35% annual increase in the Net Asset Value before accrual of the Performance Fee and based on the latest Net Asset Value of approximately HK\$1.15 billion as at 30th June, 2018. 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.

## LETTER FROM PELICAN FINANCIAL LIMITED

In assessing whether the anticipated 35% annual increase in the Net Asset Value is reasonable, we have reviewed the change of the HSI in 2017. We noted that the anticipated 35% annual increase in the Net Asset Value is similar to the increase of the HSI for the year 2017, which increased approximately 36.0% from 22,001 on 31st December, 2016 to 29,919 on 31st December, 2017. Therefore, the anticipated annual increase of the Net Asset Value was reasonable and justifiable given that the increase of the HSI in 2017 is in line with the anticipated 35% annual increase in the NAV. 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 high, the low and the difference between the high and the low of the HSI (the “**Hi/Lo Difference**”) for each of the years from 2015 to 2017 as well as the Hi/Lo Difference over the low of the HSI for each of the three years in percentage terms and which are set out in the following table:

Year	High	Low	Difference	Hi/Lo Difference/Low
2015	28,443	20,557	7,886	38.4%
2016	24,100	18,320	5,780	31.6%
2017	30,003	22,134	7,869	35.6%

As noted in the table above, the Hi/Lo Difference over the low of the HSI for the year 2017 is approximately 35.6% which indicated that the market condition is rather volatile. We are also of the view that such volatility is expected to continue due to, amongst others, the following macroeconomic factors. Firstly, the United States and China have recently imposed a series of tariffs on certain goods imported from each of the respective country (the “**US-China Trade War**”). The US-China Trade War has already caused the stock markets worldwide (including Hong Kong) to experience increased volatility. With uncertainty in the duration and potential damages that might be caused by the US-China Trade War, the worldwide stock market is expected to remain volatile. Secondly, the Federal Reserve of the United States is expected to continue to raise the interest rate amid the strong economy. As of the Latest Practicable Date, the Federal Reserve has already raised the interest rates two times during 2018. With the Federal Reserve expected to continue to raise interest rates, the stock market is also expected to be affected accordingly. Lastly, due to the rapid credit growth in China in the recent years, the Chinese government is trying to slow its credit scale and growth by deleveraging. With the expected tightening credit market in China, the China economy may be impacted and thus causing volatility to the stock market in general. The above events are expected to continue and may potentially impact and cause volatility to the worldwide stock market (including Hong Kong) in the coming years. As such, we concurred with the Company that the volatility of the HSI is expected to continue.

## LETTER FROM PELICAN FINANCIAL LIMITED

Furthermore, as the Hi/Lo Difference over the low of the HSI for each of the last three years in percentage terms is in the range of approximately 31.6% to approximately 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 anticipated 35% annual increase in the Net Asset Value, which falls within such range, is therefore a reasonable estimate.

The utilisation rate of the annual caps under the Preceding Agreement for the two years ended 31st December, 2017 was approximately 20.50% and 15.71% respectively. We understand that the relatively low utilisation of the annual caps under the Preceding Agreement was mainly because the Net Asset Value did not increase as fast as anticipated during management period under the Preceding Agreement. In particular, for the year ended 31st December, 2016, the Net Asset Value experienced a decrease of approximately 5.7% from approximately HK\$1.23 billion as at 31st December, 2015 to approximately HK\$1.16 billion as at 31st December, 2016 and therefore YMIM was not able to be awarded with any Performance Fee. However, in 2017, the Net Asset Value has recovered and recorded an increase of approximately 15.5% from approximately HK\$1.16 billion as at 31st December, 2016 to approximately HK\$1.34 billion as at 31st December, 2017. In addition, we have reviewed the Net Asset Value in a longer span of 10 years and noted that the highest year-on-year growth of Net Asset Value, excluding the effect of fund raising exercise, is approximately 60%. Given (i) the Hi/Lo Difference of HSI was 38.4%, 31.6% and 35.6% in 2015, 2016 and 2017 respectively; and (ii) the highest year-on-year growth of Net Asset Value, excluding the effect of fund raising exercise, is approximately 60% in the past 10 years, we are of the view that the anticipated 35% annual increase in the Net Asset Value used in determining the proposed annual caps is reasonable.

In view of the above and given that (i) the current High Watermark of approximately HK\$1.34 billion; (ii) the anticipated 35% annual increase in the Net Asset Value is set in similar bases as the Preceding Agreement and is also similar to the increase of the HSI for the year 2017; (iii) the recent and the expected continual volatility of the HSI; and (iv) the highest year-on-year growth of Net Asset Value, excluding the effect of fund raising exercise, is approximately 60% in the past 10 years, we concurred with the Company on the bases and assumptions it used in determining the proposed annual caps for the three years ending 31st December, 2021 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.

## LETTER FROM PELICAN FINANCIAL LIMITED

### **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.

### **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 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.

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.

## LETTER FROM PELICAN FINANCIAL LIMITED

### RECOMMENDATIONS

Having considered the principal factors and reasons set out above, we are of the view that the New Management Agreement is entered into in the ordinary and usual course of business of the Group and on normal commercial terms and 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 relevant resolution to approve the New Management Agreement and the annual caps thereunder at the EGM.

Yours faithfully,  
For and on behalf of  
**Pelican Financial Limited**  
**Charles Li<sup>^</sup>**  
*Director*

<sup>^</sup> *Mr. Charles Li is a responsible person registered under the SFO to carry out Type 6 (advising on corporate finance) regulated activity for Pelican Financial Limited and he has over 25 years of corporate finance experience. He has been licensed to carry out Type 6 regulated activity since the SFO became effective in 2003*

**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 them 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 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***

As at the Latest Practicable Date, the Company is the only client of YMIM's investment management service and YMIM has no current intention to act as investment manager of other clients. However, YMIM currently manages its own investment portfolio. In order to avoid any potential conflicts of interest, strict internal control procedures have been put in place by YMIM as follows:

When conducting proprietary trading, YMIM and its staff should:

- (a) give priority to satisfying a client order. Where a client order has been aggregated with another order, the client's order must take priority in any subsequent allocation if all orders cannot be fulfilled;
- (b) not deal in accordance with a recommendation, research or analysis to be published to the client until the client has had a reasonable opportunity to act on the information;
- (c) except with the prior written consent of the compliance officer, not deal ahead of any transaction to be carried out on behalf of a client, or, where the house account and a client have invested in the same investment, only dispose of its holdings following, or together with, the disposal of holdings on behalf of a client. The compliance officer should properly document the reasons for any consents given.

**Maintaining sufficient resources for the proper management of the Company**

YMIM has a type 9 (asset management) responsible officer to manage the investment of the Company. The designated responsible officer is required to spend 80% of his working hours on the Company to ensure that there is sufficient time and resources to look after the Company's affairs. YMIM also has a compliance officer to perform daily review of the investments of the Company.

**Confidential information**

YMIM has maintained an internal Chinese wall to ensure that the trading information of the Company will be strictly confidential and will not be accessible to any staff other than the asset management staff responsible for the Company's affairs before execution of the investments.

## 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, 2017 and 30th June, 2018:

*As at 31st December, 2017*

Name of investment	(Audited)	(Audited)	(Audited)
	Cost as at 31st December, 2017 HK\$'000	Market value/ fair value as at 31st December, 2017 HK\$'000	Dividend received/ receivable during the year HK\$'000
(i) Grand Ming Group Holdings Limited ("Grand Ming")	13,180	93,326	1,658
(ii) Chief Key 2018 Bond	81,854	81,878	–
(iii) China Oriental Group Company Limited ("China Oriental")	53,861	58,300	975
(iv) Alibaba Group Holding Limited ("Alibaba")	49,360	49,843	–
(v) Alphabet Inc. ("Alphabet")	49,170	49,381	–
(vi) CLP Holdings Limited	48,478	46,371	684
(vii) Huaneng Renewables Corporation Limited – H Shares	40,445	43,560	–
(viii) Genertec Universal Medical Group Company Limited ("Universal Medical")	38,770	43,558	595
(ix) Springs China Opportunities Feeder Fund ("Springs China")	7,800	40,012	–
(x) Sun Hung Kai & Co. (BVI) 2021 Bond	31,078	31,613	–

*As at 30th June, 2018*

Name of investment	(Unaudited)	(Unaudited)	(Unaudited)
	Cost as at 30th June, 2018 <i>HK\$'000</i>	Market value/ fair value as at 30th June, 2018 <i>HK\$'000</i>	Dividend received/ receivable during the period <i>HK\$'000</i>
(i) Grand Ming	9,573	73,946	–
(ii) New China Life Insurance Company Ltd. ("New China Life")	78,220	45,640	–
(iii) New Oriental Education & Technology Group Inc.	39,188	41,583	–
(iv) China Unicom (Hong Kong) Limited ("China Unicom")	47,125	41,118	242
(v) AAC Technologies Holdings Inc. ("AAC Technologies")	47,750	36,984	570
(vi) Universal Medical	38,770	36,250	1,392
(vii) Springs China	7,800	35,678	–
(viii) Dream International Limited	18,395	33,706	211
(ix) Yangtze Optical Fibre and Cable Joint Stock Limited Company	41,327	33,655	–
(x) Sub-participation in Kovan Limited	31,010	31,806	–

- (ii) Set out below are the top three investments purchased by the Group for the financial year ended 31st December, 2017 and the six months period ended 30th June, 2018:

*For the financial year ended 31st December, 2017*

Name of investment	(Audited)	(Audited)	(Audited)
	Number of shares purchased		Share price
		HK\$	HK\$'000
China Oriental	15,818,000	4.04	63,896
Alibaba	37,000	1,334.06	49,360
Alphabet	6,000	8,195.04	49,170

*For the six months period ended 30th June, 2018*

Name of investment	(Unaudited)	(Unaudited)	(Unaudited)
	Number of shares purchased		Share price
		HK\$	HK\$'000
New China Life	1,050,000	55.78	58,571
AAC Technologies	335,000	142.54	47,750
China Unicom	4,200,000	11.22	47,125

- (iii) Set out below are the top three realised gain investments purchased by the Group for the financial year ended 31st December, 2017 and the six months period ended 30th June, 2018:

*For the financial year ended 31st December, 2017*

<b>Name of Investment</b>	<b>(Audited) Realised gain HK\$'000</b>
ZTE Corporation	21,364
Cowell e Holdings Inc.	20,556
Anhui Conch Cement Company Limited	15,970

*For the six months period ended 30th June, 2018*

<b>Name of Investment</b>	<b>(Unaudited) Realised gain HK\$'000</b>
KWG Group Holdings Limited	15,052
PC Partner Group Limited	13,740
China Education Group Holdings Limited	13,722

## 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 document misleading.

## 2. DISCLOSURE OF INTERESTS

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

### Interests in the Shares and underlying Shares

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 Companies.

### 3. SUBSTANTIAL SHAREHOLDERS

So far as was known to any Director or chief executive of the Company, as at the Latest Practicable Date, the following persons, other than a Director or chief executive of the Company, had interests or short positions in the Shares or underlying Shares 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 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%

*Note:*

- AGL held 3,082,889,606 Shares through its wholly-owned subsidiaries.
- 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. Lee and Lee Trust controlled 74.95% interests in AGL (inclusive of Mr. Lee Seng Hui’s personal interests) as at the Latest Practicable Date and were therefore deemed to have an interest in the Shares in which AGL was 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 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 26th July, 2018, 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 of the Company and a director of YMIM. Mr. Arthur George Dew is a non-executive director of the Company and AGL. Mr. Mark Wong Tai Chun is an executive director of the Company and a director of investment and senior management of AGL. Under the New Management Agreement, YMIM shall provide non-exclusive investment management service and administrative services to the Company from 1st January, 2019 up to 31st December, 2021. YMIM is 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 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, 2017, 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, 2017 (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>
Pelican Financial	a licensed corporation under the SFO permitted to carry out type 6 (advising on corporate finance) regulated activity

As at the Latest Practicable Date, Pelican Financial:

- (a) did not have any direct or indirect interests in any assets which have been, since 31st December, 2017 (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.

Pelican Financial 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) AGL 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 (excluding 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 12th September, 2018 and at the EGM:

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

## 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 12th September, 2018 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 24th August, 2018 (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 authorised 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</b>
	<i>HK\$</i>
For the year ending 31st December, 2019	110,000,000
For the year ending 31st December, 2020	140,000,000
For the year ending 31st December, 2021	175,000,000”

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

Hong Kong, 24th August, 2018

## NOTICE OF EGM

*Notes:*

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more (if a member holds more than one share) proxies to attend and to speak and vote in his stead at the above meeting (or at any adjournment thereof) provided that each proxy is appointed to represent the respective number of shares of the Company held by the member as specified in the relevant proxy forms. A proxy need not be a member of the Company but must attend the meeting in person to represent you.
2. To be valid, the proxy form, together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the share registrar of the Company, Tricor Secretaries Limited 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.
3. The register of members of the Company will be closed from Friday, 7th September, 2018 to Wednesday, 12th September, 2018, during which period no transfer of shares of the Company will be registered. To be eligible to attend and vote at the extraordinary general meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Secretaries Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 6th September, 2018.