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## INDUSTRY OVERVIEW

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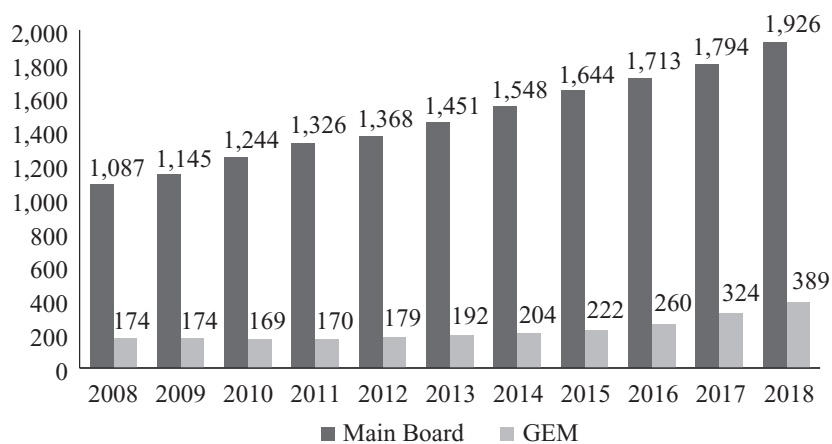
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### OVERVIEW OF CORPORATE FINANCE ADVISORY BUSINESS IN HONG KONG

#### Number of listed companies and newly listed companies in Hong Kong

The Stock Exchange operates two markets, the Main Board and GEM. Eligible companies may be listed on either market. The Main Board is a market for companies that satisfy the Stock Exchange's profit or other financial standards requirements under the Listing Rules as at the time of listing, while GEM has admission requirements largely in line with Main Board but less stringent.

The number of listed companies on the Stock Exchange rose from 1,261 in 2008 to 2,315 in 2018, with a CAGR of approximately 6.3%, of which approximately 83% were listed on the Main Board. The chart below shows the number of companies listed on the Stock Exchange (both Main Board and GEM) as at the respective year end date on 31 December, from 2008 to 2018:



Source: SFC website – Market and industry statistics

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The table below shows the number of newly listed companies on the Stock Exchange (both Main Board (including transfer of listing from GEM) and GEM) during the period from 2008 to 2018:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Main Board	47	68	106	88	52	87	103	104	81	94	143
GEM	<u>2</u>	<u>5</u>	<u>7</u>	<u>13</u>	<u>12</u>	<u>23</u>	<u>19</u>	<u>34</u>	<u>45</u>	<u>80</u>	<u>75</u>
Total	<u>49</u>	<u>73</u>	<u>113</u>	<u>101</u>	<u>64</u>	<u>110</u>	<u>122</u>	<u>138</u>	<u>126</u>	<u>174</u>	<u>218</u>

*Source: SFC website – Market and industry statistics*

The majority of newly listed companies were listed on the Main Board but the relative percentage, as well as the total number, has fluctuated in past ten years. In 2018, there was a total of 218 companies newly listed on the Main Board and GEM, representing a CAGR of approximately 16.1% since 2008. Companies listed on the Main Board range from conglomerates and banks to utilities and property developers.

From 2013 to 2018, over 100 new companies had been listed on the Main Board and GEM each year. The increase in number of companies listed on the Stock Exchange increased the potential demand for corporate financial advisory services whether by listed companies or shareholders of and potential investors in listed companies and create more business opportunities for corporate finance advisory firms.

### Equity fund raising in Hong Kong

With the increasing number of listed companies in Hong Kong, the level of equity fund raising on the Stock Exchange, whether through IPOs or other new issue, has been active, though the amount of funds raised has been volatile in the past years. According to the market and industry statistics of the SFC, the equity funds raised on the Main Board during the year 2015 reached approximately HK\$1,087 billion. Equity funds raised on the Main Board during the year 2016 to 2018 dropped to between approximately HK\$471.2 billion and HK\$530.8 billion, representing a CAGR of approximately 7.5% for the period from 2013 to 2018. During the same period, the equity funds raised on GEM have increased less rapidly, recording a CAGR of approximately 3.7%.

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Set out below is a breakdown of equity funds raised directly and indirectly on the Main Board and GEM between 2008 and 2018:

<i>(Approximately HK\$ billion)</i>	<b>Initial public offering</b>	<b>Rights issue</b>	<b>Placing</b>	<b>Others</b>	<b>Total</b>
<b>Main Board</b>					
2008	65.8	47.6	54.2	250.6	418.2
2009	247.9	177.3	140.6	72.0	637.8
2010	448.8	181.9	133.0	81.8	845.5
2011	258.5	63.8	63.0	97.5	482.8
2012	88.9	29.6	134.6	47.1	300.2
2013	165.8	30.8	98.0	75.2	369.8
2014	230.4	78.6	295.5	325.0	929.5
2015	258.6	116.5	424.1	287.8	1,087.0
2016	190.7	53.8	147.1	79.6	471.2
2017	122.6	56.5	335.3	53.0	567.4
2018	281.4	32.2	137.5	79.7	530.8
<b>GEM</b>					
2008	0.2	0.3	3.7	4.8	9.0
2009	0.4	0.7	2.5	0.8	4.4
2010	0.6	1.4	7.7	3.5	13.2
2011	1.3	1.4	2.9	1.9	7.5
2012	1.1	1.1	1.8	1.1	5.1
2013	3.2	0.6	3.5	1.8	9.1
2014	2.2	3.5	4.9	2.8	13.4
2015	2.7	5.1	12.2	1.9	21.9
2016	4.6	3.5	7.0	3.8	18.9
2017	5.9	2.5	4.0	1.6	14.0
2018	5.1	0.3	2.6	2.9	10.9

*Source: SFC website – Market and industry statistics*

As shown from the table above, overall performance of the equity fund raising market fluctuates from year to year. There is no particular trend in terms of the quantitative amount of the overall equity funds raised during these years.

The equity funds raised by way of rights issue, placing and other methods such as by way of warrants exercised, consideration issue and share option scheme on the Main Board during the year 2018 were approximately HK\$32.2 billion, HK\$137.5 billion and HK\$79.7 billion respectively, representing a CAGR of approximately 0.9%, 7.0% and 1.2% over the years from 2013 to 2018 respectively.

The GEM was established as an alternative market to the Main Board in November 1999 to provide capital formation opportunities for growth companies. Amendments to the GEM Listing Rules, which took effect on July 2008, introduced a streamlined process for

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GEM listed companies to transfer listing to the Main Board, thus repositioning GEM as a stepping stone to the Main Board. Compared to the Main Board, the GEM tends to be much smaller in both the number of listed companies and market capitalisation.

As shown from the table above, the equity funds raised by way of rights issue, placing and other methods such as by way of warrants exercised, consideration issue and share option scheme on GEM during the year 2018 were approximately HK\$0.3 billion, HK\$2.6 billion and HK\$2.9 billion, representing a CAGR of approximately -13.0%, -5.8% and 10.0% over the years from 2013 to 2018 respectively.

Fund raising through rights issue, placing and issues of new shares to satisfy considerations of acquisitions are common amongst Hong Kong listed companies, for which financial advisory and/or independent financial advisory services are often required. Corporate finance advisory firms could therefore benefit from these increased fund raising activities for providing advice on such rights issue, placings and mergers and acquisitions transactions.

### **Takeovers Code related matters**

As set out in the section headed “Business of Yu Ming” of this prospectus, Yu Ming’s corporate finance advisory business includes acting as financial adviser in connection with takeovers and to the Takeovers Code related matters. The aforementioned growth in the number of listed companies on the Stock Exchange in the past decade has led to a widened pool of potential clients and thereby a rise in potential demand for financial advisory services relating to the Takeovers Code.

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According to the statistics available from SFC's annual report 2017-2018, there were 289 Takeovers Code related applications and 112 Takeovers Code related transactions as compared to 367 Takeovers Code related applications and 127 Takeovers Code related transactions as mentioned in SFC's annual report 2016-2017. Throughout the period from 2006 to 2018 there have also been a steady number of such transactions and applications. In view of the above, the Liquidators believe that the outlook of the corporate finance advisory business relating to the Takeovers Code will be positive, which is beneficial to the prospect of Yu Ming's corporate finance services. Set out below is a breakdown of takeover activities from 2006/07 to 2017/18:

	<b>Number of Takeovers Code related transactions</b>	<b>Number of other applications under the Takeovers Code or Code on Share Buy-backs</b>	<b>Total</b>
2006/07	69	215	284
2007/08	99	258	357
2008/09	74	192	266
2009/10	96	267	363
2010/11	67	237	304
2011/12	71	212	283
2012/13	66	185	251
2013/14	81	209	290
2014/15	96	288	384
2015/16	109	326	435
2016/17	127	367	494
2017/18	112	289	401

*Source: SFC website – Annual reports*

### **Competitive environment in the corporate finance advisory industry**

Any corporation and person carrying out regulated activities have to be licensed or registered with the SFC unless specific exemption is provided. Details of the regulatory environment are set out in the section headed "Regulatory Overview" of this prospectus.

One of the main businesses of Yu Ming during the Track Record Period, being corporate financial advisory services including financial advisory, independent financial advisory and retainer engagements, are principally covered under the Type 6 (advising on corporate finance) regulated activity which Yu Ming is licensed to carry out.

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Yu Ming is also licensed to carry out Type 1 (dealing in securities) regulated activity, which allows Yu Ming to participate in fund raising activities, including acting as placing agent and/or underwriter for listed companies. Set out below is the number of licensed corporations, registered institutions, responsible/approved officers and licensed representatives for Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as at the end of the past five years ended 31 December 2018:

	Licensed corporations	Registered institutions	Responsible/ approved officers	Licensed representatives
Type 1 (dealing in securities)				
2014	973	117	3,284	24,656
2015	1,024	118	3,434	25,765
2016	1,129	121	3,770	25,866
2017	1,247	119	4,163	26,309
2018	1,350	117	4,625	27,008
Type 6 (advising on corporate finance)				
2014	267	37	893	3,828
2015	275	35	909	4,051
2016	288	33	963	4,122
2017	315	35	1,067	4,408
2018	331	35	1,172	4,828

*Source: SFC website – Market and industry statistics*

Type 1 (dealing in securities) regulated activity is highly competitive, with 1,350 licensed corporations and 117 registered institutions eligible to carry out such regulated activity as at 31 December 2018. In terms of individuals, there were 4,625 responsible/approved officers and 27,008 licensed representatives to carry out Type 1 (dealing in securities) regulated activity as at 31 December 2018.

As shown from the above table, there were 331 licensed corporations and 35 registered institutions licensed to carry out Type 6 (advising on corporate finance) regulated activity as at 31 December 2018. In terms of individuals, there were 1,172 responsible/approved officers and 4,828 licensed representatives to carry out Type 6 (advising on corporate finance) regulated activity as at 31 December 2018. Because of the number of qualified participants, the Liquidators consider that Yu Ming operates in a highly competitive environment in respect of the corporate finance business.

In view of the gradual increasing number of licensed corporations, the Liquidators consider that the competitive nature of the corporate finance advisory industry may intensify in the future.

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### Competitive environment in the asset management industry

Set out below is the number of licensed corporations, registered institutions, responsible/approved officers and licensed representatives for Type 9 (asset management) regulated activity as at the end of the past five years ended 31 December 2018:

	Licensed corporations	Registered institutions	Responsible/ approved officers	Licensed representatives
2014	1,031	43	2,501	5,228
2015	1,135	42	2,751	5,821
2016	1,300	40	3,177	6,366
2017	1,477	36	3,576	6,954
2018	1,643	35	4,101	7,588

*Source: SFC website – Market and industry statistics*

### Entry barriers

Despite the large number of market competitors, the Liquidators consider that certain barriers of entry exists which limit new firms from entering into the corporate finance advisory and asset management industry in Hong Kong, namely:

- (i) the licensing requirement for a corporate finance advisory and asset management firm to conduct regulated activities under the SFO;
- (ii) the requirement for such firms to employ skilled professionals as licensed representatives and responsible officers to conduct regulated activities under the SFO;
- (iii) the requirement to maintain a minimum paid-up share capital and liquid capital at all times pursuant to the relevant requirements under the SFO. In the case of Type 6 (advising on corporate finance) regulated activity where the corporation is not subject to the licensing condition that it shall not hold client assets, the minimum liquid capital requirement is HK\$3,000,000. In the case of Type 6 (advising on corporate finance) regulated activity where the corporation will not act as a sponsor, which is the case of Yu Ming, the minimum paid-up share capital and the minimum liquid capital requirement is HK\$5,000,000 and HK\$3,000,000 respectively; and
- (iv) for its asset management business, Yu Ming has provided investment management services to SHK for over 20 years, has formed an understanding of the investment objectives of SHK and knowledgeable with the investment process of SHK.

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In respect of Type 6 (advising on corporate finance) regulated activity, the SFC can also impose licensing conditions, for example, to restrict the licensee to advise on matters/ transactions falling within the ambit of the Takeovers Code. Save for the condition that Yu Ming shall not act as sponsor, there is no licensing condition that applies to the Type 6 (advising on corporate finance) regulated activity of Yu Ming.

### ASSET MANAGEMENT OVERVIEW

For the asset management business, Yu Ming solely manages SHK Hong Kong Industries Limited, an investment company listed on the Stock Exchange under Chapter 21 of the Listing Rules.

The table below shows (i) all the investment managers that manages investment companies listed on the Stock Exchange under Chapter 21 of the Listing Rules (“**Chapter 21 Companies**”) and (ii) the respective names and net asset values (as disclosed in their respective latest published annual reports or interim reports up to the Latest Practicable Date) of the Chapter 21 Companies under their management:

<b>Investment managers</b>	<b>Chapter 21 Companies</b>	<b>Approximate net asset value (HK\$'000)</b>
Tianhe Quant Asset Management Limited	China Ding Yi Feng Holdings Limited (formerly known as China Investment Fund International Holdings Limited) (stock code: 612)	368,821
Avia Asset Management Limited	China Financial Leasing Group Limited (stock code: 2312)	134,858
Fortune Legendary Asset Management Limited	Eagle Ride Investment Holdings Limited (stock code: 901)	(52,694)
China Everbright Securities (HK) Limited	China New Economy Fund Limited (stock code: 80)	73,167
China Everbright Securities (HK) Limited	China Investment Development Limited (stock code: 204)	187,150
China Everbright Securities (HK) Limited	Core Economy Investment Group Limited (formerly known as Earnest Investments Holdings Limited) (stock code: 339)	30,682
China Everbright Securities (HK) Limited	Unity Investments Holdings Limited (stock code: 913)	335,291



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Investment managers	Chapter 21 Companies	Approximate net asset value (HK\$'000)
China Everbright Securities (HK) Limited	China Innovation Investment Limited (stock code: 1217)	684,257
China Everbright Securities (HK) Limited	China Investment and Finance Group Limited (stock code: 1226)	427,775
China Financial International Investments & Managements Limited	China Financial International Investments Limited (stock code: 721)	1,308,816
China Merchants China Investment Management Limited	China Merchants China Direct Investments Limited (stock code: 133)	4,485,430
Avia Asset Management Limited	National Investments Fund Limited (stock code: 1227)	(100,495)
Avanta Investment Management Limited	Grand Investment International Ltd. (stock code: 1160)	19,318
Opus Capital Management Limited	Prosperity Investment Holdings Limited (stock code: 310)	240,093
Hua Yu Investment Management Limited	DT Capital Limited (stock code: 356)	182,401
HuaAn Asset Management (Hong Kong) Limited	China Development Bank International Investment Limited (stock code: 1062)	1,623,939
China Everbright Securities (HK) Limited	Capital VC Limited (stock code: 2324)	670,991
Oriental Patron Asia Limited	OP Financial Limited (formerly known as OP Financial Investments Limited) (stock code: 1140)	5,411,660
Shanghai International Asset Management (Hong Kong) Company Limited	Shanghai International Shanghai Growth Investment Limited (stock code: 770)	32,817
Silverstone Investments Limited	China Internet Investment Finance Holdings Limited (stock code: 810)	142,041

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<b>Investment managers</b>	<b>Chapter 21 Companies</b>	<b>Approximate net asset value (HK\$'000)</b>
Tiger Securities Asset Management Company Limited	Cocoon Holdings Limited (formerly known as Huge China Holdings Limited) (stock code: 428)	135,391
Upbest Assets Management Limited	UBA Investments Limited (stock code: 768)	152,319
<b>Yu Ming Investment Management Limited</b>	<b>SHK Hong Kong Industries Limited (stock code: 666)</b>	<b>1,098,295</b>
	<b>Total net asset value:</b>	<b><u>17,592,323</u></b>

As shown in the table above, only China Everbright Securities (HK) Limited manages several Chapter 21 Companies and Avia Asset Management Limited manages two Chapter 21 Companies. All other investment managers (including Yu Ming) manage just one Chapter 21 Company, showing that it is a common market practice for investment managers to have one Chapter 21 Company as its client.