
BUSINESS OF YU MING

OVERVIEW

Yu Ming is a financial services provider engaged in the provision of corporate finance advisory services and asset management services.

Yu Ming is licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO.

Corporate Finance Advisory

During the Track Record Period, the corporate finance advisory services provided by Yu Ming mainly included:

- (i) acting as financial adviser to advise listed issuers, shareholders and investors of listed issuers and entities on specific transactions in respect of the Listing Rules, the GEM Listing Rules and/or the Takeovers Code;
- (ii) acting as independent financial adviser to listed issuers to provide independent advice required under the Listing Rules, the Takeovers Code or other specific circumstances; and
- (iii) acting as financial adviser to listed issuers on retainer basis to advise listed issuers on corporate strategies and compliance with the Listing Rules, the GEM Listing Rules and Takeovers Code.

For each of the three years ended 31 December 2018, revenue generated by Yu Ming's corporate finance advisory services amounted to approximately HK\$41.2 million, HK\$51.4 million and HK\$40.8 million, representing approximately 68.7%, 69.9% and 68.4% of Yu Ming's total revenue, respectively. Please refer to the section headed "Financial Information of Yu Ming" in this prospectus for further details.

Asset Management

During the Track Record Period, Yu Ming provided asset management services solely to SHK.

For each of the three years ended 31 December 2018, revenue generated by Yu Ming's asset management services amounted to approximately HK\$17.4 million, HK\$21.2 million and HK\$17.8 million, representing approximately 29.0%, 28.8% and 29.9% of Yu Ming's total revenue, respectively. Please refer to the section headed "Financial Information of Yu Ming" in this prospectus for further details.

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The following table sets out the breakdown of the revenue generated from each of the business segments of Yu Ming during the Track Record Period:

	Year ended 31 December					
	2016		2017		2018	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Corporate Finance						
Advisory	41,232	68.7	51,394	69.9	40,754	68.4
Asset Management	17,424	29.0	21,204	28.8	17,824	29.9
Others ^{Note}	<u>1,392</u>	<u>2.3</u>	<u>917</u>	<u>1.3</u>	<u>999</u>	<u>1.7</u>
Total	<u>60,048</u>	<u>100.0</u>	<u>73,515</u>	<u>100.0</u>	<u>59,577</u>	<u>100.0</u>

Note: Others comprise disbursement reimbursement of 40% of expenses incurred by Yu Ming on office utilities, rents and miscellaneous administrative expenses from SHK under the Management Agreement, details of which are set out in the section headed “Business of Yu Ming – Asset Management” in this prospectus.

Proprietary trading

During the Track Record Period, Yu Ming has also engaged in proprietary trading of equity securities and fixed income products, selecting investment targets based on Yu Ming’s own risks profile and investment cycle.

The following table sets out the net financial income generated by Yu Ming’s proprietary trading during the Track Record Period.

	Year ended 31 December		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net financial income generated from proprietary trading	<u>7,087</u>	<u>8,375</u>	<u>3,163</u>

As advised by the Proposed Directors, Yu Ming does not intend to actively engage in proprietary trading after Acquisition Completion.

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COMPETITIVE STRENGTHS

The Proposed Directors believe that the historical performance and future prospects of Yu Ming are underpinned by a combination of its competitive strengths, including:

Well-established business

Yu Ming has been established for over two decades and has built up its reputation and profile, and has accumulated the necessary competence, expertise and experience in providing a variety of financial advisory services.

Reputation and clients' confidence in Yu Ming's services are critical to its success and will enable Yu Ming to continue to obtain new business and referrals from its existing clients, clients it has served before and professional firms.

Experienced team of professionals

Mr. Warren Lee, the managing director of Yu Ming and one of its Responsible Officers, has more than 20 years of experience in the Hong Kong financial advisory market and the other two Responsible Officers of Yu Ming both have more than 10 years of relevant experience and have been with Yu Ming for over 12 and 10 years respectively. Their experience, together with the other professional team members, represent a strong and experienced adviser team capable of supporting clients in the compliance of regulatory requirements under the Listing Rules, the GEM Listing Rules and the Takeovers Code.

The Proposed Directors believe that Yu Ming's experienced corporate finance advisory and asset management teams offer confidence to clients with their extensive industry knowledge and track records. Please refer to the section headed "Proposed Directors and Senior Management of the Enlarged Group" in this prospectus for details of the experience of the Proposed Directors and the senior management of the Enlarged Group.

Close and stable relationships with clients

Yu Ming recognizes that market reputation and client's confidence in its services are critical to its success, enabling it to continue to obtain new business and referrals from its existing clients and those it has served in the past. Yu Ming places great emphasis on building up client loyalty by providing competent, comprehensive, prompt and solution focused advice.

Yu Ming has established close and stable business relationships with many of its clients. Such relationships allow Yu Ming to understand their long-term business goals, strategies and preferences, thereby enabling Yu Ming to provide customized advices and services most suited to each individual client. This would reinforce Yu Ming as client's choice for financial advisory services and generate new engagements for Yu Ming.

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Well-structured professional services

To position itself in the highly competitive operating environment, Yu Ming has developed the capacity to provide comprehensive services that would generate steady streams of revenue under different business environments. Takeovers, acquisition and disposal transactions tend to be more active when the economic or capital market conditions are good, whereas restructuring and resumption of trading of securities of distressed listed issuers would be more abundant during or following a downturn in the economy. The positioning of Yu Ming in the counter-cyclical segments of the corporate finance business, together with the recurrent asset management fee should enable Yu Ming to have steady and continuous revenue stream and potential for growth along different economic conditions.

Efficient management structure

Yu Ming adopts a system whereby each transaction team directly reports to and is supervised by a designated Responsible Officer. The overall quality of work is overseen by Mr. Warren Lee. This flat organizational structure enables Yu Ming to react quickly to clients' needs and changes in market conditions. Yu Ming strives to keep its front line employees abreast of market developments and practices through regular internal meetings and other professional trainings.

Focused services

Yu Ming is focused on the provision of corporate finance advisory services and only serves SHK in its assets management businesses and does not carry on other ancillary business such as stockbroking. The Proposed Directors believe that Yu Ming is recognised in its field, focusing on offering corporate finance advice and services to its clients, without attempting to "cross sell" other services.

BUSINESS STRATEGIES

The Proposed Directors believe that the Hong Kong equity market will continue to grow as the number of listed companies in Hong Kong rose steadily during the Track Record Period and more business opportunities is expected to emerge in the financial advisory services industry in the long run. Yu Ming seeks to capitalise the potential growth of the equity market and continue to participate in the corporate finance advisory industry as an active advisory services provider in Hong Kong by continuing to provide services of the highest standards.

Yu Ming intends to adopt the following strategies to build on the competitive strengths described above:

Strengthening Yu Ming's corporate finance team to maintain high quality corporate finance advisory services to its clients

As set out above, the Proposed Directors believe that an experienced team equipped with extensive industry knowledge and good relationship with clients and regulators are crucial to the continuing success of Yu Ming.

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As an active market participant, Yu Ming is well placed to expand its corporate finance advisory business by expanding its existing corporate finance team following Resumption.

The strengthening of Yu Ming's professional team will increase its advisory capacity for increasing number of engagements, improve its ability to initiate new ideas to assist clients in achieving their objectives and ensure corporate finance transactions are executed promptly and efficiently.

Expansion of advisory work in relation to resumption of trading of securities of listed issuers on the Stock Exchange

During the Track Record Period, Yu Ming had provided corporate finance advisory services to liquidators, substantial shareholders or investors of not less than 8 listed issuers which shares were suspended from trading on the Stock Exchange that were in severe financial difficulties and/or have ceased to maintain sufficient operations.

There were 71 Main Board listed companies which has been suspended for three months or more on the Stock Exchange as at 31 January 2019 due to various reasons. The Proposed Directors consider the Enlarged Group can devote more effort and resources to this area in view of signs of rising pressure in credit markets, and other difficulties giving rise to more cases of prolonged suspension of trading in securities on the Stock Exchange.

Pursuant to the conclusion of the consultation paper issued in September 2017, amendments were made to the Listing Rules and GEM Listing Rules (“**Amendments**”) which came into effect on 1 August 2018, aiming to establish a framework to facilitate timely delisting of issuers that no longer meet the Stock Exchange's continuing listing criteria and provide certainty to the market on the delisting process.

The Amendments include, inter alia, the following:

Under the Listing Rules:

1. added a separate delisting criterion to allow the Stock Exchange to delist an issuer after a trading suspension of 18 continuous months;
2. allowed the Stock Exchange to (i) publish a delisting notice stating its right to delist an issuer if the issuer fails to resume trading within the period specified in the notice, or (ii) delist the issuer immediately in appropriate circumstances;
3. removed Practice Note 17, which sets out a three stage delisting procedure for issuers without sufficient operations or assets that will no longer be needed under the new delisting process;

Under the GEM Listing Rules:

4. made changes to align the delisting process with that of the Listing Rules except for allowing the Stock Exchange to delist a GEM issuer after a trading suspension of 12 continuous months.

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With the coming into effect of the Amendments, the directors of Yu Ming expect that (i) the number of listed issuers vulnerable to falling into the delisting stage or direction for immediate delisting by the Stock Exchange will increase; (ii) listed issuers under prolonged suspension would have to act more promptly to address their respective issues towards resumption; and (iii) white knights would have to be more sensitive to the shorter timetable to rescue listed issuers under the delisting stage. As such, it is expected that the demand for corporate finance advisory services for resumption of trading in shares from both the listed issuers and white knights will increase as a result.

Focused on performance under the New Management Agreement

For the reasons set out in the sub-section headed “Clients – Asset Management” in this section, Yu Ming intends to focus its asset management services on SHK. Serving a single client which is a Chapter 21 company is in line with market practice. Since Yu Ming has been appointed by SHK as its investment manager on an exclusive basis for over 20 years, the Proposed Directors are of the view that the business relationship is likely to be stable and continue.

BUSINESS ACTIVITIES

Corporate Finance Advisory

During the Track Record Period, Yu Ming’s corporate finance advisory services included (i) acting as financial adviser for specific transactions; (ii) acting as independent financial adviser; (iii) provision of services under retainers; and (iv) commission based and other services. Set out below is a breakdown of the revenue generated by Yu Ming for each of these categories during the Track Record Period:

	Year ended 31 December					
	2016		2017		2018	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Specific financial advisory	29,050	70.4	32,630	63.5	27,185	66.7
Independent financial adviser	1,218	3.0	2,208	4.3	1,380	3.4
Retainer	9,964	24.2	16,556	32.2	12,189	29.9
Commission based and other services	<u>1,000</u>	<u>2.4</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total	<u><u>41,232</u></u>	<u><u>100.0</u></u>	<u><u>51,394</u></u>	<u><u>100.0</u></u>	<u><u>40,754</u></u>	<u><u>100.0</u></u>

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Set out below is the monetary value movement of outstanding contract value of corporate finance advisory engagements of Yu Ming during the Track Record Period and up to 31 May 2019:

	Specific financial advisory <i>HK\$</i>	Independent financial adviser <i>HK\$</i>	Retainer <i>HK\$</i>	Commission based and other services <i>HK\$</i>	Total <i>HK\$</i>
Outstanding contract value of mandates on hand as at 31 December 2015 and carried forward to 1 January 2016	10,500,000	–	–	–	10,500,000
New contract value during the year ended 31 December 2016	47,350,000	1,218,000	9,964,000	1,000,000	59,532,000
Contract value recognised as revenue during the year ended 31 December 2016	29,050,000	1,218,000	9,964,000	1,000,000	41,232,000
Terminated contract value during the year ended 31 December 2016	<u>3,300,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>3,300,000</u>
Outstanding contract value of mandates on hand as at 31 December 2016 and carried forward to 1 January 2017	25,500,000	–	–	–	25,500,000
New contract value during the year ended 31 December 2017	56,850,000	2,388,000	16,556,000	–	75,794,000
Contract value recognised as revenue during the year ended 31 December 2017	32,630,000	2,208,000	16,556,000	–	51,394,000
Terminated contract value during the year ended 31 December 2017	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Outstanding contract value of mandates on hand as at 31 December 2017 and carried forward to 1 January 2018	49,720,000	180,000	–	–	49,900,000
New contract value during the year ended 31 December 2018	34,710,000	1,200,000	12,189,580	–	48,099,580
Contract value recognised as revenue during the year ended 31 December 2018	27,185,000	1,380,000	12,189,580	–	40,754,580
Terminated contract value during the year ended 31 December 2018	<u>13,825,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>13,825,000</u>

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	Specific financial advisory <i>HK\$</i>	Independent financial adviser <i>HK\$</i>	Retainer <i>HK\$</i>	Commission based and other services <i>HK\$</i>	Total <i>HK\$</i>
Outstanding contract value of mandates on hand as at 31 December 2018 and carried forward to 1 January 2019	43,420,000	–	–	–	43,420,000
New contract value during the period ended 31 May 2019	600,000	2,480,000	3,699,988	–	6,779,988
Contract value recognised as revenue during the period ended 31 May 2019	4,800,000	2,480,000	3,699,988	–	10,979,988
Terminated contract value during the period ended 31 May 2019	5,000,000	–	–	–	5,000,000
Outstanding contract value of mandates on hand as at 31 May 2019 and carried forward to 1 June 2019	34,220,000	–	–	–	34,220,000

Specific financial advisory

As financial adviser, Yu Ming provides financial advisory services to listed issuers, shareholders of listed issuers and investors of listed issuers in transactions relating to (a) Takeovers Code related matters; (b) Listing Rules and GEM Listing Rules related matters; (c) proxy fights or hostile situations; (d) reorganisations and restructurings; and (e) equity fund raisings.

Takeovers Code related matters

In respect of Takeovers Code related transactions, such as general cash offers (mandatory or voluntary), share exchange offers, privatisations and share repurchases, Yu Ming may act for the offeror or the listed issuer.

When Yu Ming acts as financial adviser to listed issuer, depending on the nature of each transaction, Yu Ming's role mainly involves (i) advising on the structure and terms of the transaction; (ii) advising on the offer price/issue price of the securities involved; (iii) advising on the implications of the Takeovers Code; (iv) preparing submissions and applications for rulings from SFC on behalf of the listed issuer; (v) preparing documentations; (vi) coordinating work of other professional parties; (vii) liaising with regulators; and (viii) monitoring the timetable and overall progress of the transaction.

When Yu Ming acts as financial adviser to offeror, depending on the nature of each transaction, Yu Ming's role mainly involves (i) participating in commercial negotiations between relevant parties; (ii) advising on the structure of the transaction; (iii) advising on price of the offer; (iv) advising on the implications of the Takeovers Code; (v) reviewing legal documentation; (vi) assisting offeror to secure necessary funding for the transaction; (vii) preparing fund proof documents and making of general offer on behalf of client in

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compliance with Takeovers Code; (viii) make relevant application on behalf of the offeror to the SFC; (ix) coordinating work of other professional parties; and (x) monitoring the timetable and overall progress of the transaction.

Listing Rules and GEM Listing Rules related matters

In respect of Listing Rules and GEM Listing Rules related matters, such as notifiable transactions under Listing Rules and GEM Listing Rules, Yu Ming's role mainly involves (i) advising on the implications/compliance of the Listing Rules and GEM Listing Rules; (ii) advising on the structure and terms of the transaction; (iii) preparing submissions and applications on behalf of the listed issuer; (iv) preparing documentations such as announcement and circulars; (v) coordinating work of other professional parties; (vi) liaising with regulators; and (vii) monitoring the timetable and overall progress of the transaction.

Proxy fights or hostile situations

Yu Ming may be engaged as financial adviser to either the listed issuer or shareholder of the listed issuer who compete for control over the listed issuer in board compositions or in takeovers. Yu Ming's role in such engagements mainly involves advising on (i) strategies and legitimate practices permissible under the provisions of the company's constitutional documents, the Listing Rules, the GEM Listing Rules and the Takeovers Code; (ii) media and investigation tactics that could advance its positions; (iii) negotiations and settlement with the relevant parties; and (iv) documentations as maybe required.

Reorganisations and restructurings

In respect of reorganisations and restructurings, Yu Ming may act as financial adviser to the white knight investor or the listed issuer in financial difficulties.

When acting as financial adviser to listed issuer, Yu Ming's role usually involves (i) introducing new investors to the listed issuer; (ii) advising the structure and terms of the corporate reorganization and restructuring exercise; (iii) advising on the implications of the Listing Rules, the GEM Listing Rules and the Takeovers Code; (iv) accompanying client to meet and negotiate terms with relevant stakeholders such as creditors; (v) preparing resumption proposal for client; (vi) liaising with regulators for the implementation of resumption proposal; (vii) preparing documentations such as announcements and circulars; (viii) coordinating works of other professional parties; and (ix) monitoring timetable and overall progress of the transaction.

In respect of acting as financial adviser to the white knight, Yu Ming's role usually involves (i) introducing listed issuers to investors, (ii) formulating structure and terms of the corporate reorganization and restructuring exercise; (iii) advising on the implications of the Listing Rules, the GEM Listing Rules and the Takeovers Code; (iv) advising on valuation; (v) assisting in preparing the resumption proposal where applicable; (vi) reviewing documentations such as announcements and circulars; (vii) coordinating works of other professional parties; and (viii) monitoring timetable and overall progress of the transaction.

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Equity fund raising

When acting as financial adviser in connection with fund raising exercises, Yu Ming's role mainly involves (i) assessing the funding needs of the client; (ii) advising on fund raising methods; (iii) advising on the pricing of the new securities being issued or offered; (iv) advising on the implications of the Listing Rules, the GEM Listing Rules and the Takeovers Code; (v) preparing documentations such as placing letters, announcements and circulars; (vi) liaising with regulators; (vii) coordinating the work of other professional parties; and (viii) monitoring the timetable and overall progress of the transaction.

In certain fund raising deals, such as placings, rights issues and open offers, Yu Ming may also offer to act as placing agent or underwriter. Please refer to the section headed "Commission based and other services" below.

The following table sets out transactions for which Yu Ming was engaged as financial adviser with financial advisory fee over HK\$500,000 (assuming all milestones achieved) during the Track Record Period:

For the year ended 31 December 2016

Client Name	Stock Code	Transaction type	Nature of transaction	Role
Autobest Holdings Limited	–	Takeovers Code related matters	Mandatory conditional offer to acquire all shares of Dan Form Holdings Company Limited (now known as Asiasec Properties Limited) (stock code: 271)	Financial adviser
China Shanshui Cement Group Limited	691	Equity fund raising	Open offer	Financial adviser
GT Winners Limited	–	Takeovers Code related matters	Mandatory unconditional offer to acquire all shares and convertible bonds of Asia Allied Infrastructure Holdings Limited (stock code: 711)	Financial adviser

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Client Name	Stock Code	Transaction type	Nature of transaction	Role
Kingwell Group Limited	1195	Listing Rules related matters	Acquisition of 51% equity interest in a renewable energy business which constitute a discloseable transaction	Financial adviser
L & A International Holdings Limited	8195	Takeovers Code related matters	Pre-conditional voluntary conditional securities exchange offer and cash offer to acquire all issued shares of the issuer	Financial adviser
L & A International Holdings Limited	8195	Takeovers Code related matters	Review of SFC ruling by the Takeovers Panel	Financial adviser
Sandmartin International Holdings Limited	482	Equity fund raising	Open offer and subscription of new shares	Financial adviser
Star Fly Limited & Fresh Choice Holdings Ltd	–	Takeovers Code related matters	Voluntary conditional cash offer to acquire all issued shares of Perfectech International Holdings Limited (stock code: 765) and cancel all outstanding share options	Financial adviser
Ta Yang Group Holdings Limited	1991	Listing Rules related matters	Acquisition of properties in the PRC which constituted a major transaction	Financial adviser
Client 1 ^{Note 1}	–	Reorganisations and restructurings	Review of the Listing Committee's decision in relation to the viability of the resumption proposal of the issuer	Financial adviser

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Client Name	Stock Code	Transaction type	Nature of transaction	Role
Client 2 ^{Note 2}	–	Proxy fights or hostile situations	Handling of the requisition by a major shareholder to reshuffle the board of directors of a listed issuer	Financial adviser
Client 3 ^{Note 3}	–	Listing Rules related matters	Proposed share consolidation and change in board lot size	Financial adviser
Client 4 ^{Note 4}	–	Proxy fights or hostile situations	Advise a listed issuer on the requisition by shareholders for the removal of directors and appointment of new directors	Financial adviser
Client 5 ^{Note 5}	–	Equity fund raising	Proposed open offer, bonus share issue and bonus warrants issue	Financial adviser
Client 6 ^{Note 6}	–	Equity fund raising	Share consolidation and open offer	Financial adviser
Client 7 ^{Note 7}	–	Takeovers Code related matters	Application for ruling from the SFC on Takeovers Code related matter	Financial adviser
Client 8 ^{Note 8}	–	Listing Rules related matter	Propose listing on the Main Board	Financial adviser
Client 9 ^{Note 9}	–	Reorganisations and restructurings	Resumption of trading in shares under prolonged suspension involving a reverse takeover	Financial adviser
Client 9 ^{Note 9}	–	Reorganisations and restructurings	Review of Listing Department's decision to place a listed issuer into third stage delisting	Financial adviser

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Client Name	Stock Code	Transaction type	Nature of transaction	Role
Client 10 ^{Note 10}	–	Takeovers Code related matters	Application for a waiver from the SFC on Takeovers Code related matter	Financial adviser

For the year ended 31 December 2017

Client Name	Stock Code	Transaction type	Nature of transaction	Role
Anxin-China Holdings Limited	1149 (subsequently delisted)	Reorganisations and restructuring	Resumption of trading in shares under prolonged suspension involving a reverse takeover	Financial adviser
APAC Resources Limited	1104	Takeovers Code related matters	Repurchase offer and whitewash waiver application	Financial adviser
Changgang Dunxin Enterprise Company Limited (provisional liquidators appointed)	2229	Reorganisations and restructuring	Resumption of trading in shares under prolonged suspension	Financial adviser
Feishang Non-metal Materials Technology Limited	8331	Proxy fights or hostile situations	Advise on the requisition by shareholder for the removal of directors and appointment of new directors	Financial adviser
G.A. Holdings Limited	8126	GEM Listing Rules and Listing Rules related matters	Transfer from GEM to Main Board	Financial adviser
Sanju Environmental Protection (Hong Kong) Limited ^{Note 11}	–	Takeovers Code related matters	Whitewash waiver application	Financial adviser

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Client Name	Stock Code	Transaction type	Nature of transaction	Role
Client 1 ^{Note 1}	–	Reorganisations and restructurings	Reply to Listing Committee's decision to resumption proposal	Financial adviser
Client 11 ^{Note 12}	–	Takeovers Code related matters	Shareholders' requisition and approaches by potential buyers	Financial adviser
Client 12 ^{Note 13}	–	Proxy fights or hostile situations	Requisition for an extraordinary general meeting of a listed company	Financial adviser
Client 13 ^{Note 14}	–	Reorganisations and restructurings	Response to Listing (Review) Committee's decision	Financial adviser
Client 14 ^{Note 15}	–	Listing Rules related matters	Issue of convertible bonds under specific mandate	Financial adviser
Client 15 ^{Note 16}	–	Proxy fights or hostile situations	Advise the listed issuer on the requisition by shareholder for the removal of directors and appointment of new directors	Financial adviser
Client 16 ^{Note 17}	–	Takeovers Code related matters	Conditional cash offer to repurchase shares of a listed issuer	Financial adviser

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For the year ended 31 December 2018

Client Name	Stock Code	Transaction type	Nature of transaction	Role
Anxin-China Holdings Limited	1149 (subsequently delisted)	reorganizations and restructurings	Review of listing decision for not granting an extension of time for submission of new listing application	Financial adviser
CECEP Costin New Materials Group Limited (in provisional liquidation)	2228	Reorganizations and restructuring	Resumption of trading in the shares under prolonged suspension involving reverse takeover	Financial adviser
Hong Kong Shanghai Alliance Holdings Limited	1001	Listing Rules related matters	Proposed set up of a co-investment venture constituting a major transaction and may constitute a connected transaction	Financial adviser
Kingwell Group Limited	1195	Listing Rules related matters	Proposed acquisition of property management business constituting a major transaction	Financial adviser
Manfield Chemical Holdings Limited	1561	Takeovers Code related matters	Mandatory unconditional offer to acquire all issued shares of Manfield Chemical Holdings Limited (stock code: 1561)	Financial adviser
Natural Dairy (NZ) Holdings Limited (in provisional liquidation)	462	Reorganizations and restructuring	Resumption of trading in shares under prolonged suspension	Financial adviser
Sustainable Forest Holdings Limited	723	Reorganizations and restructuring	Review of Listing Department's decision to place a listed issuer into first stage delisting	Financial adviser
Water Oasis Group Limited	1161	Takeovers Code related matters	Conditional cash offer to repurchase shares of the issuer	Financial adviser

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Client Name	Stock Code	Transaction type	Nature of transaction	Role
Client 16 ^{Note 17}	–	Listing Rules related matters	Proposed acquisition of property from an independent third party	Financial adviser
Client 16 ^{Note 17}	–	Listing Rules related matters	Proposed disposal of asset	Financial adviser
Client 17 ^{Note 18}	–	Takeovers Code related matters	Proposed purchase of shares in a listed company and mandatory conditional offer	Financial adviser
Client 18 ^{Note 19}	–	Listing Rules related matters	Advise on SFC guidelines in relation to proposed acquisition	Financial adviser
Client 19 ^{Note 20}	–	Takeovers Code related matters	Proposed offer to purchase shares held by the company in a listed issuer	Financial adviser
Client 20 ^{Note 21}	–	Takeovers Code related matters	Proposed partial offer to acquire no more than 30% issued shares in a company listed on the Stock Exchange	Financial adviser
Client 21 ^{Note 22}	–	Takeovers Code related matters	Proposed issue of new shares involving change in control	Financial adviser

Notes:

1. Client 1 is a private limited company incorporated in the British Virgin Islands.
2. Client 2 is a company incorporated in Bermuda with limited liability and is listed on the Main Board. It is principally engaged in civil engineering, electrical and mechanical engineering, foundation and building construction work, property development and property investment.
3. Client 3 is a company incorporated in the Cayman Islands with limited liability and is listed on the Main Board. It is principally engaged in manufacture and sale of automotive parts and components and the trading of automotive parts and components.
4. Client 4 is a company incorporated in Bermuda with limited liability and is listed on the Main Board. It is principally engaged in provision of healthcare services and distribution of cooling system.
5. Client 5 is a company incorporated in the Cayman Islands with limited liability and is listed on the Main Board. It is principally engaged in investing in listed and unlisted companies mainly in Hong Kong and the PRC.

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6. Client 6 is a company incorporated in Bermuda with limited liability and is listed on GEM. It is principally engaged in manufacture & sales of environmental friendly air-conditioners and operates carbon emission trading platform.
7. Client 7 is a natural person with a controlling shareholder of a company listed on the Main Board of the Stock Exchange.
8. Client 8 is a private limited company incorporated in Hong Kong.
9. Client 9 is a private limited company incorporated in PRC.
10. Client 10 is a company incorporated in Hong Kong with limited liability, and is licensed under the SFO to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities.
11. Sanju Environmental Protection (Hong Kong) Limited is a wholly owned subsidiary of Beijing Sanju Environmental Protection & New Materials Co., Ltd, a company listed on the Shenzhen Stock Exchange with stock code of 300072.
12. Client 11 is a company incorporated in the Cayman Islands with limited liability and was listed on the Main Board (subsequently delisted).
13. Client 12 is a number of natural persons who are shareholders of a listed company.
14. Client 13 is a company incorporated in the Bermuda with limited liability and is listed on the Main Board. It is principally engaged in the business of mobile handsets solution provider.
15. Client 14 is a company incorporated in the Cayman Islands with limited liability and is listed on the Main Board. It is principally engaged in marketing, promotion and channel management services in the PRC pharmaceutical industry.
16. Client 15 is a company incorporated in the Cayman Islands with limited liability and is listed on the Main Board. It is principally engaged in financing related business.
17. Client 16 is a company incorporated in Bermuda with limited liability and is listed on the Main Board. It is principally engaged in the stockholding and distribution of construction materials.
18. Client 17 is a private limited company incorporated in the British Virgin Islands.
19. Client 18 is a company incorporated in the Cayman Islands with limited liability and is listed on the Main Board. It is a fiber optic network solution provider.
20. Client 19 is a private limited company incorporated in Hong Kong.
21. Client 20 is a private limited company incorporated in the Cayman Islands.
22. Client 21 is a company incorporated in Bermuda with limited liability and is listed on the Main Board. It is principally engaged in oil and gas businesses.

Independent Financial Advisor

During the Track Record Period, Yu Ming had also acted as independent financial adviser where the appointment of an independent financial adviser is (i) required for certain types of transactions pursuant to Listing Rules and/or the Takeovers Code; or (ii) upon request by the directors of listed issuer.

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Transactions where Yu Ming was engaged as independent financial advisers during the Track Record Period involved two major types of transactions, being (i) connected acquisitions or disposals; and (ii) fund raising.

As an independent financial adviser, Yu Ming is normally engaged to issue opinion letters as to fairness and reasonableness of the terms of the transaction and give voting recommendations to the independent board committee and/or independent shareholders of listed issuer at the general meetings of the listed issuer.

In forming its recommendation, Yu Ming usually (i) reviews documents relevant to the listed issuer and the transaction; (ii) researches the relevant market practices and data and other conditions and trends relevant to the transaction; and (iii) where relevant, interviews the expert and review the terms of its engagement and expert report.

The following table sets out all transactions for which Yu Ming was engaged as independent financial adviser published by the listed issuers during the Track Record Period:

Client Name	Stock Code	Nature of transaction	Announcement/ Circular/ Prospectus Date
Glorious Sun Enterprises Limited	393	Disposal of two properties to substantial shareholders of the issuer which constituted a connected transaction of the issuer	23 September 2016
Orient Victory China Holdings Limited	265	Open offer of offer shares with an alternative of unlisted perpetual convertible securities on the basis of one offered share for every five shares	29 September 2016
Yuexiu Property Company Limited	123	Acquisition of land parcel and disposal of property which constituted connected transactions of the issuer	23 November 2016
Glorious Sun Enterprises Limited	393	Disposal of interest in a subsidiary which constitutes a major and connected transaction and including continuing connected transaction	6 April 2017

BUSINESS OF YU MING

Client Name	Stock Code	Nature of transaction	Announcement/ Circular/ Prospectus Date
Yuexiu Property Company Limited	123	Continuing connected transactions in relation to bank deposits at a bank which is connected person of the issuer	19 May 2017
PacRay International Holdings Limited	1010	Voluntary conditional cash offer to acquire all issued shares of the issuer	10 August 2017
Glorious Sun Enterprises Limited	393	Disposal of properties which constituted a connected transaction of the issuer	13 October 2017
Yuexiu Property Company Limited	123	Acquisition of a project company which constituted connected and disclosable transaction	14 February 2018
Glorious Sun Enterprises Limited	393	Disposal of interest in a subsidiary which constituted a major and connected transaction and including continuing connected transaction	4 October 2018

Retainer

Yu Ming may also be engaged as financial adviser on a retainer basis. In such cases, the engagement letters usually have a duration of twelve months or some has no fixed period, and some are subject to termination by notice. Under such retainers, Yu Ming generally is to provide financial advisory services to listed companies on general obligations under the Listing Rules, the GEM Listing Rules and the Takeovers Code upon enquiries by clients.

Commission based and other services

Yu Ming's commission based and other services include underwriting and placing of securities of listed issuer and other corporate finance related services such as advisory on financial products/investment portfolio disposal or financing services incidental to specific financial advisory transactions.

Yu Ming has not entered into any engagement during the Track Record Period where Yu Ming was engaged as the placing agent or underwriter for new issue of securities.

BUSINESS OF YU MING

Fees and payments

Yu Ming's corporate finance advisory fees for acting as financial advisor for specific transaction or issues, and for acting as independent financial adviser are determined on a case by case basis with reference to the scope of work, complexity and size of the transactions, as well as expected resources required to complete the transaction.

For retainers, Yu Ming generally charges its client a fixed monthly fee, which is determined in advance with the client with reference to the expected volume of work and manpower required.

For commission based services, Yu Ming generally charges commission based on certain percentage of the offering value.

Payment terms of the advisory fees also varied depending on the nature of the engagement concerned and are typically clearly set out in the engagement letters. For specific financial advisory services, fees in general comprised an upfront payment and the balance based on milestones with reference to the progress of the relevant transactions in accordance with the engagement letters with the client. In particular, for engagements involving proxy fights or hostile situations, fees are usually required to be paid upfront upon or shortly after the signing of the engagement letter. For engagements involving restructuring and resumption proposals, fees usually are made up of an upfront fee and a success based fee, and fees such as placing/underwriting commission is payable upon completion of the relevant transaction.

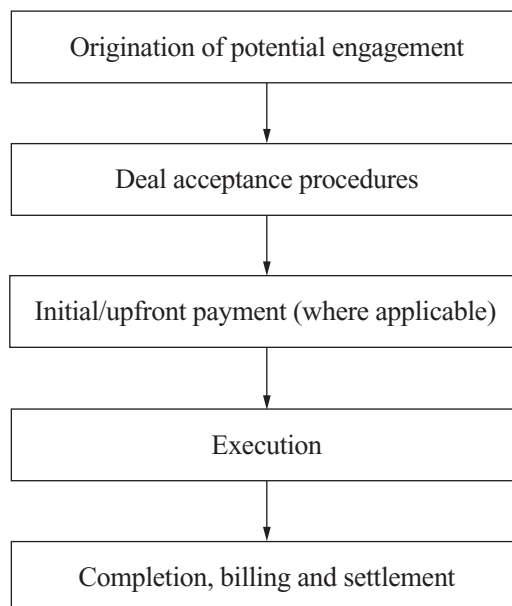
During the Track Record Period, the advisory fees for each engagement (i) in acting as financial adviser for specific transaction or issue ranged from approximately HK\$50,000 to HK\$9,200,000; (ii) in acting as independent financial adviser ranged from approximately HK\$180,000 to HK\$700,000; and (iii) under retainer, ranged from approximately HK\$30,000 to HK\$250,000 per month.

Debit notes were usually issued in accordance with the terms of the engagement letters but there may be individual cases where due to development or status of the transaction, issue of debit notes may be postponed or fees amended. Formal credit terms are usually not granted to clients and payments are required to be made within a reasonable period of time after the issuance of a debit note.

BUSINESS OF YU MING

Operation Procedures

For illustration purposes, the operation procedures for Yu Ming's corporate finance advisory services are as follows:



Origination of potential engagement

Referrals are the major source of business of Yu Ming. Other sources of business include repeat clients and business opportunities arising from Yu Ming's senior management.

Yu Ming will typically conduct preliminary discussions with the prospective client to understand the background and the feasibility of the contemplated transaction. The Responsible Officers of Yu Ming would conduct a preliminary assessment taking into account, inter alia, the resources of the team available for the relevant transaction over its relevant period, possible conflict of interest, the background of the potential client and estimate the fee to be charged.

Deal acceptance procedures

Before initiating further negotiation with potential clients with whom Yu Ming have had not previously worked with, it will obtain and review the background information of new customers such as financial information, shareholding structure, corporate documents, the identity of management and major shareholders and other information available in the public domain.

Internal independence check are conducted to avoid potential conflict of interest with the relevant clients engagement as independent financial adviser to confirm independence of Yu Ming before acceptance of engagements to ensure no conflict of interest will arise from the engagement.

BUSINESS OF YU MING

Yu Ming will then propose the fee to client and the draft mandate will be prepared by a project manager and presented to a Responsible Officer for review and approval before issuing to client. Set out below is a summary of the salient terms of typical engagement letter between Yu Ming and its clients for corporate finance advisory services.

Scope of work, deliverables and terms of contract

The engagement letter lays out the scope of work and objectives to be accomplished, such as provision of compliance advisory service, drafting and obtaining approval from the Stock Exchange and the SFC for the issue of announcements and circulars.

Fees

The fees and expenses payable by client and the terms of payment will be clearly set out.

Termination

For retainers, clients are generally allowed to terminate the contract by giving written notice for an agreed notification period.

Indemnity by clients

Client agrees to indemnify Yu Ming, its directors, officers and employees from and against all claims which are made against any one or more of them from and against all claims as a result of Yu Ming acting as the financial adviser to client, provided always that there is no gross negligence on the part of Yu Ming.

Initial/Upfront Payment

For some engagements, clients are required to pay initial/upfront payment upon or shortly after the signing of the engagement letter. For details, please refer to the sub-section headed “Fees and payments” in this section above.

Execution

Once the engagement letter is executed, the corporate finance team will commence work on the transaction.

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Obtain information and conduct due diligence

Works for acting as financial adviser for specific transactions and as independent financial adviser typically include:

- Schedule and hold meetings with clients to discuss the structure of the transactions and the relevant regulatory implication requirements stipulated under the Listing Rules, the GEM Listing Rules, the SFO and/or the Takeovers Code;
- Obtain information from the client and/or other professional parties working in the transaction, and in appropriate cases prepare due diligence questionnaire for such purpose;
- Review relevant background documents of the client such as the public announcements, press releases, circulars and financial statements; and
- Review the terms of the relevant transactions.

Delivery of relevant document or letter of advice

Yu Ming's designated transaction team prepares the draft documents (such as announcements, circulars, and submissions to be made to the Stock Exchange or the SFC, or letters of advice for independent financial advisory). Where necessary, the transaction team would conduct relevant research to support its analysis. In cases where third party experts are engaged, appropriate due diligence is also carried out, including, but not limited to, obtaining and reviewing the terms of engagement from the third party expert, reviewing the relevant reports and the underlying assumptions adopted therein as well as conducting due diligence interviews before submissions is made to the regulators, in particular, the Stock Exchange and/or the SFC (where necessary).

Seek clearance of relevant documents or letter of advice from the Stock Exchange and/or the SFC

After the relevant transaction documents or letters of advice are delivered to the Stock Exchange and/or the SFC, Yu Ming will assist client to liaise with the Stock Exchange and/or the SFC with an aim to obtain their clearance on the transaction documents or letter of advice. Where the Stock Exchange and/or the SFC raises enquiries on the transaction or the relevant documents, Yu Ming will also lead the preparation of the response.

Completion, billing and settlement

Most engagements of Yu Ming involve documents to be prepared and published in accordance with the Listing Rules, the GEM Listing Rules and/or the Takeovers Code, and depending on the terms of the specific engagement letters, these transactions are considered completed upon signing off of the documents.

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Where the agreed service fee has milestone payments, such as fee payable upon publication of announcement and circular, Yu Ming will then issue the relevant debit note to client in accordance with the agreed milestone.

During the Track Record Period, Yu Ming did not experience any material default in settlement for services rendered.

ASSET MANAGEMENT

Yu Ming's asset management services involve the provision of investment management services to SHK, the first investment company listed on the Main Board under Chapter 21 of the Listing Rules on 21 December 1990. An investment company listed under Chapter 21 of the Listing Rules is expected to have a management company and may also have an investment adviser. In addition to the directors of the investment management company, under Rule 21.04(1) of the Listing Rules the Stock Exchange must also be satisfied as to the fitness, competence and experience of the directors of its management company and/or its investment manager. Yu Ming has been appointed by SHK as its investment manager on an exclusive basis since 5 March 1997. The appointment was normally for a term of 3 years and has been renewed every 3 years which has been subject to the approval by the independent shareholders of SHK.

During the Track Record Period, Yu Ming's services to SHK was provided under the Management Agreement, which was approved by the independent shareholders of SHK at the extraordinary general meeting held on 29 December 2015, pursuant to which Yu Ming's appointment was extended for another 3 years for the period from 1 January 2016 to 31 December 2018. At the extraordinary general meeting of SHK held on 12 September 2018, the independent shareholders of SHK approved the New Management Agreement, pursuant to which Yu Ming's appointment is further extended for another 3 years for the period from 1 January 2019 to 31 December 2021.

Since the commencement of Yu Ming's asset management business in 1997 and during the Track Record Period, SHK has been the sole client of this segment of Yu Ming's business.

Services

Under each of the Management Agreement and the New Management Agreement, the investment services to be provided by Yu Ming to SHK include identifying, reviewing and evaluating investment and realization opportunities for SHK, making investment or realization recommendation to the SHK Exco, executing investment and realization decisions and instructions relating to SHK's investment as approved by the SHK Exco, and based on such information as may be reasonably available to it, monitoring the performance and supervising the maintenance of the assets of SHK.

BUSINESS OF YU MING

Yu Ming shall also provide certain day-to-day administrative services to SHK including keeping books of accounts and records relating to the business of SHK, preparing half-yearly reports and accounts, preparing draft interim and annual financial statements, filing of statutory returns or registrations under the Companies Ordinance, business registration and taxation legislation.

Yu Ming is entitled to retain agents to perform or assist in performing any of such services.

Fees and payments

Pursuant to the Management Agreement and the New Management Agreement, Yu Ming is entitled to receive (i) quarterly in arrears, management fee, being 0.375% of the consolidated net asset value attributable to the owners of SHK for such quarter without deduction of the management fee attributable to the relevant quarter (“**Gross NAV**”), calculated as the arithmetical average of the published Gross NAV; and (ii) annually in arrears, performance fee, being 20% of the amount by which the audited NAV of SHK of the relevant year (disregarding the effect of new issue of securities, declaration, distribution or payment of dividends or return of capital to shareholders) exceeds the High Watermark.

The performance fee is an incentive to ensure the interest of Yu Ming and SHK is aligned. As it is calculated based on the excess of the latest audited NAV over the NAV of the last High Watermark, it is therefore contingent and not predictable. Furthermore, NAV highly correlates with overall market trend and economic conditions, which fluctuates. Performance fee from SHK therefore also fluctuates and is uncertain.

Under the Management Agreement, the aggregate annual amount payable by SHK to Yu Ming was capped at HK\$85 million, HK\$135 million and HK\$170 million for each of the financial year ended 31 December 2016, 2017 and 2018 respectively. Under the New Management Agreement, the aggregate annual amount payable by SHK to Yu Ming was capped at HK\$110 million, HK\$140 million and HK\$175 million for each of the financial year ending 31 December 2019, 2020 and 2021 respectively.

Set out below is the revenue breakdown of the service fee received from SHK during the Track Record Period:

	Year ended 31 December					
	2016		2017		2018	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Management fee	17,424	100.0	19,288	91.0	17,824	100.0
Performance fee	—	—	1,916	9.0	—	—
Total	<u>17,424</u>	<u>100.0</u>	<u>21,204</u>	<u>100.0</u>	<u>17,824</u>	<u>100.0</u>

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The management fee and the performance fee shall be calculated by a qualified accountant of SHK and notified to both SHK and Yu Ming within 14 business days of the end of each quarter and the issue of the audited accounts of SHK for the relevant year respectively, and their payment shall be made within 14 business days after the date of such notification.

For the day-to-day administrative services provided by Yu Ming to SHK under the Management Agreement and the New Management Agreement, SHK shall reimburse 40% of the renovation expenses, furniture and fixtures, rents, management fee, utilities, and rates in relation to the premises and office overhead expenses, such as postage, telecommunication, photocopying, insurance, courier and cleaning expenses incurred by Yu Ming. Such disbursement income amounted to HK\$1.4 million, HK\$0.9 million and HK\$1.0 million for the three years ended 31 December 2016, 2017 and 2018.

Services Performed

Background

As provided under the Management Agreement and the New Management Agreement, Yu Ming shall in performing the services have regard to the investment strategy of SHK from time to time. SHK Exco is responsible for setting and reviewing investment strategies and policies of SHK, but the SHK Board may also direct SHK to invest in the type of investments or countries where the SHK Board may consider appropriate. Yu Ming shall initiate investment ideas, carry out research on investment ideas and make recommendation for review by the SHK Exco and execute the investment decisions approved by SHK Exco.

Flow of Investment Decision

Below sets out the usual involvement of Yu Ming in investment decisions of SHK. However, SHK has the power to carry out any of the investment functions on its own (be it origination, research, execution, settlement, monitoring) without involving Yu Ming.

Origination

Investment opportunities and ideas come from networking, observation, extensive reading and analysis.

- Where Yu Ming finds an investment opportunity or theme attractive, it will bring it to the attention of SHK Exco for discussion. If SHK Exco approves of the theme or the potential investment, it will usually delegate the investment team of Yu Ming to prepare an analysis on the theme or the opportunity.
- SHK Board and SHK Exco may also initiate investment ideas for Yu Ming to carry out additional research and analysis. If the investment team is convinced that an investment theme and/or opportunity is attractive, it will put forward the research and analysis to SHK Exco for deliberation.

BUSINESS OF YU MING

Research

Research by Yu Ming includes desk top analysis, interviews as well as on-site due diligence.

- Desk top analysis: Understanding the industry norms in terms of valuation, capital structure, profit margins, other financial analysis, market trend, news and history of the issuers, using resources such as Bloomberg, research reports by institutional brokers, newspapers, company announcements.
- Interviews: Whenever possible, the investment team conducts face-to-face meetings with companies' management for a thorough understanding of their business and financial standing, and updates of developments of companies.
- Due diligence: For unlisted investments, there may be on site due diligence on the management and the companies. The level of due diligence will depend on the direction of SHK Exco. Legal due diligence on the title of assets and licences by legal advisers are usually compulsory prior to commitment in this category of investments.

Execution

Execution of all investments and disposals is subject to prior approval of SHK Exco, either with specific or general terms and conditions.

For tradable securities:

- On Market: The investment team is primarily responsible for placing orders with intermediaries on behalf of SHK. Whether or not trades are executed, the market intermediaries will inform Yu Ming on the same day. If trades are executed, the market intermediary will send written confirmation to Yu Ming and SHK.
- Off Market: Once counterparty is identified, the investment team is primarily responsible for preparing or reviewing the necessary agreements and settlement documentations for the execution by persons authorized by SHK Exco.

For unlisted investments:

Unlisted investments may include direct investment in unlisted (or sometimes listed) issuers as well as properties. Yu Ming is usually not involved in the execution of these types of investments.

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Payment and delivery approval

After trades are executed, and payment or delivery requests are received, the accounting department of Yu Ming will prepare payment or delivery instructions for approval by the relevant bank signatories of SHK.

Disposal

Divestment decisions follow essentially the same procedures as investment decisions. Main reasons for disposals of investments include: (i) the expected return has already been achieved/exceeded the target set by SHK Exco; (ii) the investment has no prospects of appreciation in value; (iii) there are better risk/reward alternatives; and/or (iv) there are liquidity concern.

The management team will make recommendations to SHK Exco and all disposal decision has to be approved by SHK Exco and thereafter executed by SHK or Yu Ming.

Daily monitoring

News review

The investment team monitors the investment portfolio of SHK on a daily basis. Monitoring includes price observation, reviewing results announcements, brokers' reports and rating changes, major news concerning issuers or relevant parties of SHK's portfolio.

Upon observation of any major news or events, the investment team will discuss with the managing director, who will report to SHK Exco if he considers it necessary.

Receipts

The accounting department of Yu Ming is responsible for monitoring scheduled receivable (such as declared dividends, interest, repayments or sale proceeds) from investments of SHK.

Commitments

The accounting department of Yu Ming is responsible for monitoring scheduled payments of SHK such as consideration or instalment for investments. It will prepare payment approval and authorization in advance of the commitments.

Administrative Services

Save for the investment management services described above, Yu Ming also provides SHK basic accounting, settlement and other administrative and secretarial services, which is part and partial of the investment management agreement, and no separate service fee is charged to SHK other than agreed disbursements. Services provided by Yu Ming includes (i)

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payment and settlement of trade upon execution of buy and sell transactions; (ii) prepare daily securities report; (iii) prepare daily cash report; (iv) prepare monthly management account; and (v) prepare annual and interim audit matters.

PROPRIETARY TRADING

During the Track Record Period, Yu Ming has also engaged in proprietary trading of equity securities and fixed income products, selecting investment targets based on Yu Ming's own risks profile and investment cycle.

Yu Ming has a proprietary trading policy under which it (i) has to give priority to satisfying a client order; (ii) cannot deal in accordance with a recommendation, research or analysis to be published to clients until clients have had a reasonable opportunity to act on the information; (iii) except with the prior written consent of the compliance officer, cannot 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, can only dispose of its holdings following the disposal of holdings on behalf of a client; and (iv) has to comply with the requirements of the restricted list system (as set out in the paragraph headed "Restricted list – Risk Management and Internal Control Procedures"). The directors of Yu Ming confirmed that Yu Ming does not trade ahead of any transaction to be carried out on behalf of SHK under the proprietary trading business.

As advised by the Proposed Directors, Yu Ming does not intend to actively engage in proprietary trading after Acquisition Completion, and since Yu Ming will declare and distribute dividends to its Shareholder prior to Acquisition Completion to the extent that Yu Ming maintains a net asset value of no less than HK\$10 million, it is expected that Yu Ming will distribute all the investment assets it holds to the Vendor prior to Acquisition Completion in specie to satisfy the dividends declared.

However, Yu Ming may, incidental to its corporate finance engagements, (i) receive listed securities as fees in lieu of cash payment and; (ii) underwrite listed securities. The Enlarged Group will establish risk management process upon Resumption to evaluate, monitor and manage the risks associated with its proprietary investments and tradings.

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Set out below is the breakdown of the net financial income generated by Yu Ming's proprietary trading during the Track Record Period.

	Year ended 31 December		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest income from financial assets at fair value through other comprehensive income	5,914	5,556	1,237
Interest income from bank deposits	<u>178</u>	<u>583</u>	<u>1,783</u>
Total interest income derived from financial assets not at fair value through profit and loss	6,092	6,139	3,020
Realised gain on redemption of financial assets at fair value through other comprehensive income	3,577	1,623	–
Fair value loss on financial assets at fair value through profit or loss	(2,143)	(273)	(378)
Exchange (loss)/gain, net	(544)	886	521
Dividend income	878	–	–
Loss allowance for expected credit losses on financial assets at fair value through other comprehensive income	<u>(773)</u>	<u>–</u>	<u>–</u>
Net financial income generated from proprietary trading	<u><u>7,087</u></u>	<u><u>8,375</u></u>	<u><u>3,163</u></u>

During the Track Record Period, Yu Ming did not actively participate in dealings of securities for its proprietary trading. For the year ended 31 December 2017 and 2018, save for the redemption of bonds by the issuers, Yu Ming did not make any dealings in such segment.

Set out below is a summary of Yu Ming's dealings of securities for its proprietary trading during the Track Record Period:

Equity securities

During the year ended 31 December 2015, Yu Ming subscribed the under-subscribed shares of an open offer of Kingwell Group Limited (stock code: 1195) as an underwriter. Save for certain of such shares, Yu Ming has disposed all its equity securities during the

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Track Record Period. The relevant income from the equity securities and gain/(loss) on disposal of equity securities were recorded in the “Dividend income” and “Fair value loss on financial assets at fair value through profit or loss” above.

Debt securities

During the Track Record Period, (i) an US\$ denominated bond with coupon rate of 4.75% and an US\$ denominated bond with coupon rate of 6% were subscribed by Yu Ming, and an US\$ denominated bond with coupon rate of 8% and an US\$ denominated bond with coupon rate of 6.375% were redeemed by the issuers for the year ended 31 December 2016; (ii) an US\$ denominated bond with coupon rate of 6% was redeemed by the issuer for the year ended 31 December 2017; and (iii) a RMB denominated bond with coupon rate of 6.9% was redeemed by the issuer for the year ended 31 December 2018.

The relevant income from the debt securities and gain on redemption of debt securities were recorded in the “Interest income from financial assets at fair value through other comprehensive income”, “Realised gain on redemption of financial assets at fair value through other comprehensive income” and “Exchange (loss)/gain” above.

CLIENTS

Corporate Finance Advisory

Yu Ming had acted for over 60 clients during the Track Record Period. Corporate finance advisory clients are mainly companies listed on the Stock Exchange and shareholders and investors of companies listed on the Stock Exchange.

Repeat business from clients and referrals from professional parties have contributed to the client base of the corporate finance advisory business of Yu Ming. Yu Ming’s top five largest clients of this business segment for each of the financial years ended 31 December 2016, 2017 and 2018 in aggregate contributed approximately 42.1%, 34.9% and 35.6% respectively of Yu Ming’s total revenue and approximately 61.3%, 50.0% and 52.0% respectively of Yu Ming’s revenue from its corporate finance advisory business. The largest client of Yu Ming of this business segment for each of the financial years ended 31 December 2016, 2017 and 2018 accounted for approximately 10.0%, 8.2% and 9.2% respectively of Yu Ming’s total revenue and approximately 14.6%, 11.7% and 13.5% respectively of Yu Ming’s revenue from its corporate finance advisory business. Due to the “one-off” nature of many corporate finance transactions, Yu Ming’s largest clients’ contribution to revenue will tend to vary from year to year.

The tables below set out the revenue generated from the five largest clients of Yu Ming’s corporate finance advisory services, their business background and the services provided by Yu Ming, for each of the financial years ended 31 December 2016, 2017 and 2018.

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For the year ended 31 December 2016

Customer	Customer business at the time of signing engagement letter	Yu Ming's role	Revenue recognized <i>HK\$'000</i>	% of total revenue	% of corporate finance advisory services revenue
Client A	Manufacturing and selling of pure cashmere apparel and other apparel products	Financial adviser	6,000	10.0	14.6
Client B	Manufacturing and sale of cement, clinker and concrete	Financial adviser	5,571	9.3	13.5
Client C	Provision of B-to-C consumer services, healthcare services and distribution of cooling system	Financial adviser	5,300	8.8	12.9
Client D	Trading of construction machinery and spare parts and leasing of the construction machinery; sales of proprietary Chinese medicine	Financial adviser	4,415	7.4	10.7
Client E	Investment holding	Financial adviser	2,000	3.3	4.8
Autobest Holdings Limited	Investment holding	Financial adviser	2,000	3.3	4.8
Total			<u>25,286</u>	<u>42.1</u>	<u>61.3</u>

Note: The revenues recognized from client E and Autobest Holdings Limited were the same for the year ended 31 December 2016.

BUSINESS OF YU MING

For the year ended 31 December 2017

Customer	Customer business at the time of signing engagement letter	Yu Ming's Role	Revenue recognized <i>HK\$'000</i>	% of total revenue	% of corporate finance advisory services revenue
Client F	Investment holding	Financial adviser	6,000	8.2	11.7
Client G	Media and communications products businesses	Financial adviser	5,850	7.9	11.4
Client H	Production and sales of industrial gases	Financial adviser	5,000	6.8	9.7
Client I	Construction engineering business	Financial adviser	4,500	6.1	8.8
Client B	Manufacture and sale of cement, clinker and concrete	Financial adviser	4,337	5.9	8.4
Total			25,687	34.9	50.0

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For the year ended 31 December 2018

Customer	Customer business at the time of signing engagement letter	Yu Ming's Role	Revenue recognized <i>HK\$'000</i>	% of total revenue	% of corporate finance advisory services revenue
Client J	Company in liquidation	Financial adviser	5,500	9.2	13.5
Client K	Finance related business	Financial adviser	5,000	8.4	12.3
Client L	Mining of bentonite and the production and sales of drilling mud and mining of iron and steel	Financial adviser	4,000	6.7	9.8
Client M	Operation of beauty centers, spas and medical beauty centers	Financial adviser	3,687	6.2	9.0
Manfield Chemical Holdings Limited	Manufacture and sales of liquid coating	Financial adviser	3,000	5.1	7.4
Total			<u>21,187</u>	<u>35.6</u>	<u>52.0</u>

To the best knowledge of the Proposed Directors, except for Autobest Holdings Limited and Manfield Chemical Holdings Limited which are connected persons (details of which are set out in the section headed “Past Connected Transactions” of this prospectus), none of the Proposed Directors, their close associates, or the Vendor, held more than 5% of the issued share capital of any of the five largest clients mentioned in the tables above which are listed issuers, or in respect of any of such five largest clients which is not a listed issuer, any interest in their share capital, during the Track Record Period.

Asset Management

From the commencement of its business and during the Track Record Period, SHK has been the sole client of Yu Ming for its asset management services. Yu Ming has not undertaken services to other investment companies listed under Chapter 21 of the Listing Rules as it decided to avoid potential conflict of interests which may arise from allocation of investment opportunities and resources allocation, and to dedicate resources to SHK. Yu Ming's decision to focus its asset management services on SHK is largely to (i) ensure a high standard of investment management service is provided to SHK; (ii) avoid potential conflict of interest in allocation of investment opportunities and time allocation; (iii) eliminate any suspicion of leakage of information to competitors; and (iv) to avoid unnecessary additional administrative works associated with allocations mentioned above,

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which reduces efficiency. As disclosed in the circular of SHK dated 11 December 2015, save for the year 2012, SHK's investment has outperformed the Hang Seng Index six out of seven years since 1 January 2008. As disclosed in the circular of SHK dated 24 August 2018, in the past ten years, the SHK Group's net assets value increased from approximately HK\$598.2 million as at 31 December, 2008 to approximately HK\$1,343.5 million as at 31 December 2017, representing a CAGR of 9.41% which outperformed the CAGR of the Hang Seng Index of 8.47% during the same period. The SHK Board has therefore been of the view that obtaining continued investment management services from Yu Ming is in the best interest of SHK and its shareholders.

Yu Ming's five largest clients for each of the financial year ended 31 December 2016, 2017 and 2018 contributed approximately 66.8%, 59.1% and 62.1% respectively of Yu Ming's revenue (corporate finance advisory and asset management services) in aggregate.

SUPPLIERS AND INVENTORY

Due to the nature of Yu Ming's principal business activities, it had no major suppliers and carried no inventory during the Track Record Period.

SALES AND MARKETING

Yu Ming has not conducted any marketing or promotional activities during the Track Record Period as it generally generates new business through repeat engagement by clients and referrals.

RESEARCH AND DEVELOPMENT

During the Track Record Period and up to the Latest Practicable Date, Yu Ming did not have any capital expenditure on research and development other than expenses for continued professional training of its staff.

REGULATIONS AND LICENSES

The corporate finance industry in Hong Kong is highly regulated. The principal regulatory body governing Yu Ming's business is the SFC. Please refer to the section headed "Regulatory Overview" in this prospectus.

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SFO LICENSES

Yu Ming has obtained all licences, permits or certificates necessary to conduct its business activities. Since 6 December 2005 and as at the Latest Practicable Date, Yu Ming is licensed to carry on the following regulated activities under the SFO:

Type of license	Scope of license	Licensing conditions
Type 1	Licence to carry out Type 1 (dealing in securities) regulated activity	None
Type 4	Licence to carry out Type 4 (advising on securities) regulated activity	None
Type 6	Licence to carry out Type 6 (advising on corporate finance) regulated activity	with effect from 1 January 2007, shall not act as sponsor in respect of an application for the listing on a recognized stock market of any securities.
Type 9	Licence to carry out Type 9 (asset management) regulated activity	shall not provide a service of managing a portfolio of futures contracts for another person.

Pursuant to the SFO, licensed corporations are required to submit annual returns to the SFC within one month after each anniversary date of their licences. Failure to submit annual return before the due date could result in suspension and revocation of the licence. During the Track Record Period, Yu Ming has duly complied with such requirement for each year.

The Proposed Directors confirm that Yu Ming has, during the Track Record Period and up to the Latest Practicable Date, obtained all requisite licenses, permits and certificates necessary to conduct its operations from the relevant governmental and regulatory bodies in Hong Kong and Yu Ming had complied with all applicable laws, regulations, rules, codes and guidelines in Hong Kong in connection with the business and operation of Yu Ming in all material respects.

SFC Licenses

As at the Latest Practicable Date, there were 8 persons licensed with the SFC and can carry on regulated activities for Yu Ming. 3 of them had been approved as Responsible Officers, of whom 1 has also been approved as Licensed Representative, and the other 5 approved as Licensed Representatives.

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Set out below are the Responsible Officers and Licensed Representatives of each regulated activity of Yu Ming under the SFO as at the Latest Practicable Date:

Regulated activities	Responsible Officers	Licensed Representatives
Type 1 (dealing in securities)	Mr. Warren Lee Mr. Lam Chi Shing Ms. Li Ming	Mr. Tam Ka Hei Raymond Mr. Fong Yun Sang Mr. Chow Kai Yip Nelson Mr. You Qian Mr. Li Jingyou
Type 4 (advising on securities)	Mr. Warren Lee Mr. Lam Chi Shing	Ms. Li Ming Mr. Tam Ka Hei Raymond Mr. Fong Yun Sang Mr. Chow Kai Yip Nelson Mr. You Qian
Type 6 (advising on corporate finance)	Mr. Warren Lee Mr. Lam Chi Shing Ms. Li Ming	Mr. Tam Ka Hei Raymond Mr. Fong Yun Sang Mr. Chow Kai Yip Nelson Mr. Li Jingyou
Type 9 (asset management)	Mr. Warren Lee Mr. Lam Chi Shing	Ms. Li Ming Mr. Tam Ka Hei Raymond Mr. Fong Yun Sang Mr. You Qian

Under the SFO, a licensed corporation shall not carry on any regulated activity unless not less than two Responsible Officers are approved by the SFC in relation to the regulated activity. During the Track Record Period, Yu Ming has had not less than two Responsible Officers in relation to each of the regulated activities approved to be carried out by the SFC.

MARKET AND COMPETITIVE LANDSCAPE

Competition in the corporate finance sector in Hong Kong is intense because of a large number of market players in corporate finance advisory services and that a substantial amount of capital is not required.

According to the SFC, as at 31 December 2018, there were 1,350 licensed corporations to carry on Type 1 (dealing in securities); 1,445 licensed corporations licensed to carry on Type 4 (advising on securities); 331 licensed corporations licensed to carry on Type 6 (advising on corporate finance); and 1,643 licensed corporations licensed to carry on Type 9 (asset management) regulated activities. Due to the large number of market players which are licensed to carry out regulated activities, Yu Ming faces fierce competition in corporate finance advisory business. The Proposed Directors believe it is important to provide timely and professional advisory services and maintain a good reputation within the industry to remain competitive in the business.

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With the increasing number of listed companies in Hong Kong, the level of equity fund raising on the Stock Exchange, either through IPOs or in the secondary market, has been active. Rights issues, placings and others (which include funds raised through issue of consideration shares, warrants and share option schemes) have been significant source of fund raising for listed companies. While the market is active, competition in the underwriting and placing business in Hong Kong is intense because of the relatively large number of market players.

However, with highly regulated licensing requirements, the Hong Kong corporate finance industry presents potential new entrants with barriers to entry. Additionally, given the demand for corporate finance services is on a project-by-project basis, relevant industry experience and an extensive network of contacts are vital for deal flow, being another hurdle for new entrants into the corporate finance industry.

For more details on the industry Yu Ming operates in and the competition it currently faces, please refer to the section headed “Industry Overview” in this prospectus.

RISK MANAGEMENT AND INTERNAL CONTROL PROCEDURES

Overview of internal control system

All persons registered with the SFC are required to comply with their ongoing obligation to satisfy the SFC that they remain fit and proper to be so registered. Accordingly, Yu Ming is required to comply with the relevant codes and regulations (such as the SFC Code of Conduct and the Internal Control Guidelines) issued by the SFC from time to time. In particular, the SFC Code of Conduct requires that a licensed corporation should have internal controls in place to protect its operations, clients and other licensed or registered persons from financial loss arising from theft, fraud and other dishonest acts, professional misconduct or omissions.

Yu Ming has adopted a series of internal control and has in place a compliance manual, setting out corporate policies and key internal control guidelines and procedures.

Review of internal control system

The Company has engaged an independent internal control reviewer in February 2017 to prepare an internal control review report on the Enlarged Group which is updated to 31 December 2018. No material deficiency was identified in relation to the business and operations of Yu Ming.

The Proposed Directors are of the view, and the Sponsor concurs, that the current internal control measures adopted by Yu Ming are effective to ensure its compliance with the relevant rules and regulations material to its business and operations.

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Key internal control procedures of Yu Ming

Key internal control policies and procedures of Yu Ming are as follows:

Confidentiality

In order to ensure that information of clients and their transactions are confidentially treated, such information should only be provided to those staff who are participating in the transaction. In particular, staff with responsibilities on both corporate finance advisory and asset management functions should not use the transaction information in performing asset management function. Staffs in possession of price sensitive or confidential information are required to ensure such information is handled carefully and relevant documents are properly secured and cannot be accessed by any third parties.

Restricted list

In order to prevent potential conflicts of interest from arising and insider dealing, a restricted list is maintained, listing out the names of the clients covered by the corporate finance transactions currently undertaken by Yu Ming. The securities of listed companies whose stock codes have been placed on the restricted list should not be dealt in by the funds managed by the asset management team or any staff without the approval of the compliance officer.

The restricted list is to be updated as and when new transactions are being undertaken, completed or terminated.

Employee trading policy

In addition to restriction on dealing in the listed securities where the relevant stock codes are in the restricted list to avoid conflict of interest and insider dealing, in compliance of Rule 12.2 of the SFC Code of Conduct, Yu Ming has a written policy that all employees are required to obtain the written consent of the compliance officer before dealing in any securities. In the event the employee is the compliance officer, he should obtain consent from the board of directors before dealing in the securities. Staff dealing policy is set out in the compliance manual.

Liquidity risk management

Yu Ming is required to maintain at all times a minimum paid-up share capital and liquid capital pursuant to the FRR. Such liquid capital computation is monitored by the accounting department of Yu Ming on a daily basis so as to ensure constant compliance with the relevant requirements by Yu Ming. The accounting department of Yu Ming also regularly prepares the required financial resources returns and computes the liquid capital in accordance with the requirements set out in the FRR.

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Independency checks for independent financial adviser's engagement

There is an independency check policy in place for independence checks for independent financial adviser's work to comply with independent financial adviser's declaration and undertaking to the Stock Exchange pursuant to the Listing Rules and the independence confirmation by the independent financial adviser to the SFC pursuant to the Takeovers Code.

Conflict Check Policy

Yu Ming further put in place a conflict check policy in October 2018 pursuant to which the managing director should perform conflict check prior to engagement to see whether the acceptance of the engagement will cause any conflict of interests among different parties. If conflict or potential conflict is found, Yu Ming would disclose to its clients the circumstances and can accept the engagement only if client provides written informed consent.

Whistle blower policy

The whistle blower policy is formulated to provide a channel for all staff to report on material concerns regarding any non-compliance with internal controls, incorrect or improper financial or other reporting, or any other suspected unlawful or improper practices or wrongful conducts.

Financial reporting policy

Draft management accounts are prepared by the accounting department of Yu Ming monthly after the end of each month. These management accounts will usually include a balance sheet, an income statement together with explanatory notes.

The draft management accounts and related FRR are sent to executive director of Yu Ming for comment after review by the financial controller of Yu Ming.

After approval by executive director, the related FRR is e-submitted to the specified SFC's website by the accounting department.

Cash management policy

For any surplus cash, the financial controller of Yu Ming should ensure that they are placed with authorised institutions for such periods that maturing deposits (together with credit facilities, as the case may be) will be able to meet known outgoings.

The accounting department of Yu Ming should obtain daily interest rate quotations from at least 3 authorised institutions for comparison.

Bank deposit orders are placed by the assistant accountant over the phone or through emails, as appropriate, after approval from the financial controller.

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Record keeping

Yu Ming must keep records in accordance with the requirements under the Securities and Futures (Keeping of Records) Rules (Chapter 571O of the Laws of Hong Kong) to ensure that it maintains comprehensive records in sufficient detail relating to its businesses and client transactions for proper accounting of its business operations and clients' assets.

Know your clients and anti-money laundering and counter terrorist financing

Licensed corporations registered under the SFO are required to comply with the Hong Kong laws and the SFC Guidance on Anti-Money Laundering and Counter-Financing of Terrorism (for Licensed Corporation) which require licensed corporations, amongst other things, to carry out customer due diligence measures. Staff of licensed corporations who know, suspect or have reasonable grounds to believe that a client might have engaged in money laundering activities must immediately report to the legal and compliance division for attention and handling which, in turn, will be reported to the JFIU. Know your client policies is incorporated in Yu Ming's compliance manual.

Complaints and regulatory compliance

During the Track Record Period and up to the Latest Practicable Date, Yu Ming has not received any written complaints from its clients and, save as disclosed in the sub-section headed "Litigation and Disciplinary Actions" below, has not been subject to any litigation or claims resulting from services provided to its clients. As at the Latest Practicable Date, no disciplinary, investigation or enforcement action is being taken against Yu Ming and/or its staff.

Yu Ming is required to submit monthly FRR return to the SFC. Monthly FRR return and management accounts are prepared by the accounts department of Yu Ming for internal review. Final approved monthly FRR return will be submitted by accounts department to the SFC. During the Track Record Period and up to the Latest Practicable Date, Yu Ming has complied with the FRR submission requirement at all times.

To the best knowledge and belief of the Proposed Directors, there has not been any material non-compliance by Yu Ming of the requirements under SFO and guidelines of the SFC.

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EMPLOYEES

The table below set forth a breakdown of the number of Yu Ming's employees by business function as at 31 December 2016, 2017 and 2018:

	As at 31 December		
	2016	2017	2018
Director and senior management	5	5	5
Corporate Finance	3	3	4
Asset Management	2	2	1
Finance and administration	4	4	4
Total	<u>14</u>	<u>14</u>	<u>14</u>

As at the Latest Practicable Date, the organisation structure of Yu Ming is as follows:



Staff training

All Responsible Officers and Licensed Representatives are required to undertake a sufficient number of hours of continuous professional training in order to maintain their SFC licences to carry on regulated activities.

Relationship with employees

Yu Ming has maintained a good relationship with its employees during the Track Record Period and up to the Latest Practicable Date. During the Track Record Period, Yu Ming has not experienced any strikes or labour disputes which have materially and adversely interfered with its operations.

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Yu Ming has established a remuneration review system. The head of each team is responsible for conducting review and performance appraisal of the staff of their own team.

HEALTH, WORK SAFETY, SOCIAL AND ENVIRONMENTAL MATTERS

Yu Ming maintains medical and life insurance for its employees. Policies and procedures regarding work safety and occupational health issues were adopted by Yu Ming.

During the Track Record Period and up to the Latest Practicable Date, Yu Ming did not incur any cost of compliance with applicable environmental protection and safety rules and regulations, as Yu Ming does not generate industrial pollutants and does not raise any material safety issues due to nature of business of Yu Ming.

During the Track Record Period and up to the Latest Practicable Date, Yu Ming had not come across any material non-compliance issues in respect of any applicable laws and regulations on environmental protection and work safety or any complaints from employees, clients or the public in respect of work safety and health issues relating to Yu Ming's operations. The Proposed Directors are of the view that there are no environmental and safety laws and regulations which may affect the provision of financial advisory services in any material respect and that the operations of Yu Ming are in compliance with the applicable laws and regulations of Hong Kong in all material respects.

PROPERTIES

As at the Latest Practicable Date, Yu Ming did not own any property. Yu Ming leased its principal place of business at Room 1801, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong. It also leased part of Room 1802 (re-designated as extension area to Room 1801 as from April 2019) and part of 24/F of the same building for copying room and pantry and director's office respectively.

Details of the leased properties are set out as below:

Address	Use of Property	Monthly Rental (Note) HK\$'000	Term of Tenancy
Room 1801, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong	Office	68.0	1 April 2017 to 31 March 2019 and extended to 30 June 2019

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Address	Use of Property	Monthly Rental (Note) HK\$'000	Term of Tenancy
Part of Room 1802 (re-designated as extension area to Room 1801 as from April 2019) and part of 24/F, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong	Office	19.5	1 April 2017 to 31 March 2019 and tenancy extension/ license period from 1 April 2019 to 30 June 2019

Note: Exclusive of air-conditioning and management fee


The owner of the above properties is Art View Properties Limited, a company owned as to 50% by Allied Properties (H.K.) Limited, which in turn is a subsidiary of Allied Group, and 50% by third parties independent to Yu Ming. The leasing of the properties constitutes a connected transaction under the Listing Rules. Please refer to the section headed “Past Connected Transactions” in this prospectus for further information.

No valuation report has been included in this prospectus as they are exempted under section 6 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, Yu Ming owns one registered trademark and one domain name.

The domain name *www.ymi.com.hk*, being the website of Yu Ming, was registered on 17 May 2007 and is due to expire on 25 May 2020, subject to renewal. The registration prevents others from using the same domain name during the subsisting registration period.

Yu Ming has been conducting its business using the “Yu Ming” trade name. As at the Latest Practicable Date, Yu Ming has registered  trademark in Hong Kong, details of which are set out in the paragraph headed “B. Further information about the business of the Enlarged Group – 2. Intellectual property rights – (a) Trademarks” in Appendix V to this prospectus.

During the Track Record Period and up to the Latest Practicable Date, Yu Ming has not been subject to any intellectual property infringement claim which would have had a material impact on its business, financial conditions or results of operations. Further details of Yu Ming’s intellectual property rights are set out in the paragraph headed “B. Further information about the business of the Enlarged Group – 2. Intellectual property rights” in Appendix V to this prospectus.

LITIGATION AND DISCIPLINARY ACTIONS

Litigation

During the Track Record Period and up to the Latest Practicable Date, save as set out below, Yu Ming had not been involved in any litigation, arbitration or other claims which would have a material adverse impact on the operations or financial position of Yu Ming.

Sandmartin International Holdings Limited (“**Sandmartin**”), a company whose shares are listed on the Main Board (stock code: 482), announced on 22 December 2016 that it had received a writ of summons filed by Zhi, Charles as the plaintiff against (i) Mr. Hung Tsung Chin (an executive director and chairman of Sandmartin); (ii) Ms. Chen Mei Huei (an executive director and chief executive officer of Sandmartin); (iii) Liao Wen I (an executive director of Sandmartin); (iv) Frank Karl-Heinz Fischer (an executive director of Sandmartin); (v) Chen Wei Chun (an executive director of Sandmartin); (vi) Yu Ming and (vii) Sandmartin as defendants, under High Court Action No. HCA3346/2016. In the writ, the plaintiff claimed for (i) a declaration that all defendants have committed an offence under Part XV of the SFO which requires directors, chief executives and substantial shareholders to disclose their interests in the shares and debentures of Sandmartin, (ii) a declaration that the said directors have breached their fiduciary duties to Sandmartin, (iii) a declaration that Yu Ming willfully and knowingly advised Sandmartin to hide critical information about the connected parties relationship on proposed open offer and specific mandate announced by Sandmartin on 24 October 2016, (iv) an order for clarification announcement that the Stock Exchange was not oppressive but not ruled based, and (v) an order for Sandmartin to exert its power under Section 329 of SFO to investigate the holders of interests in its shares and debentures.

L & A International Holdings Limited (“**L & A**”), a company whose shares are listed on GEM (stock code: 8195) announced on 23 December 2016 that it had received a writ of summons dated 16 December 2016 filed by Lim Hang Young as plaintiff against (i) the Stock Exchange; (ii) Yu Ming; and (iii) L & A as defendants under High Court Action No.HCA3325/2016. Pursuant to the claims generally endorsed on the writ, the plaintiff sought, inter alia, (i) a declaration against the Stock Exchange that the Stock Exchange has acted in bad faith in the vetting of the share subscription during the general offer period, (ii) an order against the Stock Exchange to rescind all listing approvals, (iii) a declaration against Yu Ming that Yu Ming purposefully ill advised L & A to break various Listing Rules, including assisting L & A in its multi-layer marketing scheme and (iv) an order against L & A to apply for self-delisting.

L & A further announced on 6 January 2017 that it had received a writ of summons dated 3 January 2017 filed by Kim Sungho as plaintiff against (i) Strong Light Investments Limited, a substantial shareholder of L & A; (ii) FP Sino-Rich Securities & Futures Limited (“**FP**”); (iii) Yu Ming; and (iv) L & A as defendants under High Court Action No.HCA 1/2017. Pursuant to the claims generally endorsed on the writ, the plaintiff sought, inter alia, for (i) a declaration against Strong Light Investments Limited that it and its parties acting in concert has accumulated over 30% of the outstanding shares in L & A, thus triggering the

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mandatory general offer, and (ii) a declaration against FP and Yu Ming that FP purposefully ill advised L & A to break various Listing Rules, including assisting L & A in its multi-layering marketing scheme.

On 29 September 2017, Sandmartin announced that a consent order was made by the court to dismiss the proceedings against Sandmartin, Mr. Hung Tsung Chin, Ms. Chen Mei Huei and Liao Wen I. On 21 December 2017, L & A announced that, inter alia, High Court Action No. HCA3325/2016 against L & A was dismissed by the Court on the ground that the plaintiff failed to file and serve statement of claim on L & A.

As confirmed by Yu Ming, it has not been served with any of the writs mentioned above. It has been advised by its legal advisors that in such event no litigation has been commenced against Yu Ming in respect thereof, and that although a plaintiff is entitled to serve a writ on a defendant within 12 months of the issue of the writ and to apply for extension of the validity of the writ for a period of not exceeding 12 months from the expiry date of the writ and to serve the writ within such extended period, the writs have lapsed since they have not been served within such period. Yu Ming further confirms that it has not, up to the Latest Practicable Date, received any demand or claim from any of the said plaintiffs in relation to any of the matters mentioned in the said writs. The directors of Yu Ming confirmed that there is no basis for the allegations in the writs, and that up to the date hereof neither Yu Ming nor any of its Responsible Officers has received any enquiries from the Stock Exchange or the SFC in relation to any of the matters mentioned in the said writs. The directors of Yu Ming believe that if there is any veracity to any of these claims, Yu Ming would have been subject to Stock Exchange and/or the SFC in respect of the matters complained of. As at the Latest Practicable Date, no actions have been taken out by the authorities against Yu Ming. As such, the Proposed Directors consider that these claims would have no material adverse impact on Yu Ming's business, results of operations or financial condition.

On 8 May 2017 Yu Ming received a writ of summons dated 8 May 2017 filed by China Health Group Limited (formerly China Healthcare Holdings Limited) as plaintiff against (i) Yu Ming (the "Action"); (ii) Mr. Jia Hongsheng (賈虹生); and (iii) Mr. Zhao Kai (趙愷) as defendants under High Court Action No.HCA1077/2017. Pursuant to the statement of claim therein, the plaintiff sought, inter alia, against Yu Ming a declaration that the engagement letter entered into in March 2016 and another engagement letter entered into in May 2016 between the plaintiff and Yu Ming are void and an order that Yu Ming do forthwith pay the sum of HK\$5,300,000, being the fees paid by the plaintiff to Yu Ming under the said engagement letters, together with interest thereon from 8 May 2017 at the judgment rate to the plaintiff. Yu Ming has appointed legal advisor to act for it in relation to the Action. Yu Ming has on 7 June 2017 taken out an application to the court to strike out the Action on the ground that it discloses no reasonable cause of action and/or is frivolous or vexatious and/or is unnecessary and tends to prejudice, embarrass or delay the fair trial of the action and/or is otherwise an abuse of the process of the court. The hearing for the striking out application was heard on 19 June 2018 and the application was dismissed. The plaintiff filed an amended statement of claim (which amendments are principally additional details which the plaintiff averred support its claims, but no amendments were made to the actual claims and reliefs sought against the defendants in the statement of claim) on 30 August 2018, Yu Ming has filed its defence on 11 October 2018 and the plaintiff has filed its reply and also

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served a Mediation Notice on 4 January 2019. Yu Ming served its request for further and better particulars of the plaintiff's reply on 10 January 2019 and filed and served an amended defence on 17 January 2019. Mediation took place on 25 February 2019 but was unsuccessful and the parties failed to reach any agreement. The plaintiff filed and served answers to the request for further and better particulars of the plaintiff's reply on 18 April 2019.

Yu Ming's legal advisor is of the view that Yu Ming is entitled to rely on the "indoor management rule", which states that any person contracting with a company and dealing in good faith with the same may assume that acts within its constitution and powers have been properly and duly performed and are not bound to inquire whether acts of internal management have been regular. They are also of the view that there are contemporaneous records and correspondence evidencing Yu Ming's work done for the plaintiff pursuant to the engagement letters. Based on the information and documents provided to it by Yu Ming, Yu Ming's legal advisor is of the opinion that, the vagaries of litigation aside, Yu Ming is very likely to successfully defend the Action. No provision in respect of this case was made for the year ended 31 December 2017 and for the year ended 31 December 2018.

Disciplinary actions against Yu Ming and/or its employees

The Proposed Directors confirm that during the Track Record Period and up to the Latest Practicable Date, no disciplinary action has been taken by the SFC, the Stock Exchange and/or any law enforcement authority in Hong Kong against Yu Ming and/or its employees.

COMPLIANCE

The Proposed Directors confirm that during the Track Record Period and up to the Latest Practicable Date, Yu Ming has complied with all applicable laws, regulations rules, codes and guidelines in Hong Kong which are material to its business and operation.

INSURANCE COVERAGE

During the Track Record Period and up to the Latest Practicable Date, Yu Ming had maintained (i) employees' compensation insurance in accordance with the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong); (ii) medical and life insurance for staff members as part of the employee benefits.

For each of the three years ended 31 December 2018, the total insurance expenses incurred by Yu Ming amounted to approximately HK\$0.2 million, HK\$0.1 million and HK\$0.2 million respectively. The Proposed Directors are of the view that Yu Ming has obtained adequate insurance coverage for the operation of its business. There has been no material claim made in respect of any of Yu Ming's insurance policies during the Track Record Period and up to the Latest Practicable Date.