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GOLIK HOLDINGS LIMITED

高力集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1118)

(1) RENEWAL OF EXISTING CONTINUING CONNECTED TRANSACTIONS:

- (I) THE PREVIOUS PROPERTY LEASE AGREEMENT;**
- (II) THE NEW PROCESSING AGREEMENT; AND**
- (III) THE NEW EQUIPMENT LEASE AGREEMENT;**

AND

(2) NEW CONTINUING CONNECTED TRANSACTIONS:

- (I) THE NEW PROPERTY LEASE AGREEMENT; AND**
- (II) THE STEEL WIRE AND STEEL WIRE ROPE EQUIPMENT LEASE AGREEMENT**

Independent Financial Advisor



Reference is made to announcements of the Company dated 24 June 2016 and 30 June 2016 (the “**Announcements**”), in relation to, among other things, (i) the Property Lease Agreements; (ii) the New Processing Agreement; (iii) the Steel Wire and Steel Wire Rope Equipment Lease Agreement; and (iv) the New Equipment Lease Agreement. Capitalized terms used herein shall have the same meaning as those defined in the Announcements unless otherwise stated.

As disclosed in the paragraph headed “Introduction – The Group’s Wire Rope Production Line” in the announcement of the Company dated 24 June 2016, high-end steel wire rope products and steel wire rope products represent the Group’s primary goal and direction in its future development. The Group aims to enhance the quality control of its wire rope products, increase its operational efficiency and facilitate its production of high-end steel wire rope products.

Pursuant to the Previous Processing Agreement, production stages 1 and 2 are undertaken by Flourish Steel. After the entering into of the New Processing Agreement, production stage 1 will be undertaken by Flourish Steel while production stages 2 and 3 will be undertaken by TJ Goldsun.

The Additional Properties, where, among other things, the production line of production stage 2 and high-end steel wire rope products are located, are currently occupied by Flourish Steel. Certain equipment for production stage 2 and production of high-end steel wire rope products located and

installed in the Additional Properties are owned by Flourish Steel. The operation of the Group's Wire Rope Production Line in the Existing Properties and the Additional Properties is expected to be as long as 20 years due to the fact that the useful life of the Group's Wire Rope Production Line is approximately 20 years. As such, TJ Goldsun and Flourish Steel also entered into the New Property Lease Agreement and the Steel Wire and Steel Wire Rope Equipment Lease Agreement for the purpose of leasing the Additional Properties as well as Flourish Steel's equipment located and installed therein respectively (the "Equipment").

In connection with the change of scope of processing services to be provided by Flourish Steel as detailed above, the number of equipment leased to Flourish Steel by TJ Goldsun under the Previous Equipment Lease Agreement will be reduced in order to exclude the equipment for production stage 2. As such, the parties entered into the New Equipment Lease Agreement to supersede the Previous Equipment Lease Agreement. The term of each of the Agreements is 20 years.

View from the Independent Financial Adviser

In assessing the reasonableness of the 20-year term of each of the Agreements, Donvex Capital has considered the following factors:

(I) The Group's Wire Rope Production Line

Donvex Capital has obtained the property, plant and equipment list of the Group and noted that (i) the useful life of the buildings situated in the PRC are at least 20 years; (ii) the useful life of the equipment to be provided to Flourish Steel under the New Equipment Lease Agreement for the processing arrangement is 20 years; and (iii) the useful life of certain equipment being used in other factories of the Group are 20 years. As such, the 20-year useful life of the Group's Wire Rope Production Line is justifiable.

(II) The Property Lease Agreements

- (a) as discussed above under the section headed "The Group's Wire Rope Production Line", the operation of the Group's Wire Rope Production Line in the Existing Properties and the Additional Properties is expected to be as long as 20 years due to the fact that the useful life of the Group's Wire Rope Production Line is approximately 20 years. The 20-year term of the Property Lease Agreements which approximately matches the life expectancy of the Group's Wire Rope Production Line will enable the Group to continue with its production at the same premise to avoid any interruption that may be caused by relocation due to non-renewal of the lease and unpredictable increase in operating cost;
- (b) Donvex Capital has obtained the valuation report issued by the Valuer in December 2015 and noted that the appraisal value of the Additional Properties was RMB114,062,501. The rental payable under the New Property Lease Agreement is subject to adjustment once for every five years, which the actual amount of adjustment shall not exceed 10% of the preceding annual rental. TJ Goldsun will be entitled to a rent free period commencing from 1 July 2016 to 30 September 2016. Assuming no adjustment will be made on the rental payable, the total rental payable under the New Property Lease Agreement will be RMB112,636,718, which approximately represents the appraisal value of the Additional Properties. The discounted cash outflow of the total rental payable under the New Property Lease Agreement is more competitive than the cash outflow on purchasing the Additional Properties if the consideration of the Additional Properties is equal to their appraisal value. As the Additional Properties is located adjacent to the Existing Properties, the term of the Previous Property Lease Agreement is extended to match with the 20-year term of the New Property Lease Agreement. As such, the 20-year term of the Property Lease Agreements is justifiable;

- (c) the PRC government has very stringent and strict control over environmental pollution. The manufacturing facilities in the industrial park where the Existing Properties and the Additional Properties located have environmental protection facilities in place which complies with relevant environmental protection laws and policies. In the event of non-renewal of a short-term lease, the Group may be required to relocate to new manufacturing facilities and incur relocation cost including but not limited to, (i) the cost of new manufacturing facilities; (ii) relocation and installation cost of machineries; (iii) installation cost of environmental protection facilities in the new manufacturing facilities and application cost of environmental protection certificates with the relevant regulatory authorities; (iv) compensation to both the existing and terminated staff and workers as a result of relocation; and (v) cost of training new staff and workers due to loss of skillful staff and workers who may not be willing to be relocated. The Group may also have to go through lengthy procedures in applying for the relevant environmental protection certificates in association with the new facilities, which may further interrupt production. As such, the 20-year term of the Property Lease Agreements will enable the Group to continue to benefit from current environmental protection facilities and avoid any unnecessary relocation costs and huge initial investments costs; and
- (d) as set out in the Property Lease Agreements, the Group will only be responsible for the environmental protection costs, including but not limited to the maintenance and renewal of the environmental protection facilities, in the workshop area of the premise. On the other hand, Flourish Steel will be responsible for the environmental protection costs outside the workshop area, including but not limited to the cost of the industrial sewage treatment facilities. As a result, most of the environmental protection costs will be borne by Flourish Steel. As such, in the event of any changes in the relevant environmental protection laws and policies in the future, the Group's environmental protection costs can be reduced.

(III) The New Processing Agreement

- (a) as discussed above under the section headed "The Group's Wire Rope Production Line", the operation of the Group's Wire Rope Production Line in the Existing Properties and the Additional Properties is expected to be as long as 20 years due to the fact that the useful life of the Group's Wire Rope Production Line is approximately 20 years. The 20-year term of the New Processing Agreement which approximately matches the life expectancy of the Group's Wire Rope Production Line will provide the Group with a stable and reliable supply of steel wire to facilitate the Group's production;
- (b) as set out under the section headed "Introduction – The Group's Wire Rope Production Line" in the announcement of the Company dated 24 June 2016, the processing arrangement of production stage 1 is an integrated part of the Group's Wire Rope Production Line. The lease period of the Existing Properties and the Additional Properties under the Property Lease Agreements and the Equipment under the Steel Wire and Steel Wire Rope Equipment Lease Agreement is 20 years, which have been discussed under the section headed "The Property Lease Agreements" above and "The Steel Wire and Steel Wire Rope Equipment Lease Agreement" below. As such, it is not reasonable for the Group to enter into processing agreement with Flourish Steel for a term which is different from those of the Property Lease Agreements and the Steel Wire and Steel Wire Rope Equipment Lease Agreement;
- (c) according to the website of Flourish Steel, Flourish Steel had invested approximately RMB4,000 million in its industrial park with a size of 1,200 mu (approximately 800,000 square meters) where the Group has established its Wire Rope Production Line. In addition, the Group will provide equipment to Flourish Steel under the New Equipment Lease Agreement for 20 years to facilitate the processing arrangement. As such, the

likelihood of Flourish Steel relocating its processing facility is minimal. The 20-year term of the New Processing Agreement will allow the Group to secure a processing supplier with close proximity to the Group's Wire Rope Production Line which may facilitate production efficiency and reduce transportation cost which is beneficial to the Group in the long run; and

- (d) upstream processing of steel wire rope products generates a huge amount of acid waste and sewage, and the PRC government has very stringent and strict control over industrial sewage discharge. The manufacturing facilities in the industrial park where the Existing Properties and the Additional Properties located have environmental protection facility in place which complies with relevant environmental protection laws and policies. In addition, Flourish Steel will be responsible for the cost and expenses on environmental protection, such as acid waste and sewage treatment. The 20-year term of the New Processing Agreement will enable the Group to continue to secure a processing supplier with environmental protection facility without incurring additional cost. As such, the cost and expenses in relation to environmental protection can be saved.

(IV) The Steel Wire and Steel Wire Rope Equipment Lease Agreement

- (a) as discussed above under the section headed "The Group's Wire Rope Production Line", the operation of the Group's Wire Rope Production Line in the Existing Properties and the Additional Properties is expected to be as long as 20 years due to the fact that the useful life of the Group's Wire Rope Production Line is approximately 20 years. The 20-year term of the Steel Wire and Steel Wire Rope Equipment Lease Agreement which approximately matches the life expectancy of the Group's Wire Rope Production Line will enable the Group to continue with its production with the existing machineries and equipment installed in the premises to avoid any interruption that may be caused by relocation due to non-renewal of the lease and unpredictable increase in operating cost;
- (b) Donvex Capital has obtained the valuation report issued by the Valuer in December 2015 and noted that the appraisal value of the Equipment was RMB80,609,035. The total rental payable under the Steel Wire and Steel Wire Rope Equipment Lease Agreement will be RMB80,609,035, which represents the appraisal value of the Equipment. The discounted cash outflow of the total rental payable under the Steel Wire and Steel Wire Rope Equipment Lease Agreement is more competitive than the cash outflow on purchasing the Equipment if the consideration of the Equipment is equal to its appraisal value with 20 years useful life. As such, the 20-year term of the Steel Wire and Steel Wire Rope Equipment Lease Agreement is justifiable; and
- (c) the Equipment is installed in the Additional Properties. In the event of non-renewal of a short-term lease, the Group is required to install or relocate machineries and equipment and may be required to incur relocation cost and huge initial investments, including but not limited to, (i) the cost of relocation and installation of heavy machineries; and (ii) the cost of new machineries and their installation cost. As such, the 20-year term of the Steel Wire and Steel Wire Rope Equipment Lease Agreement will enable the Group to eliminate the uncertainties of non-renewal of short-term lease and to avoid incurring such relocation costs and huge initial investments costs.

(V) The New Equipment Lease Agreement

- (a) as discussed above under the section headed "The Group's Wire Rope Production Line", the operation of the Group's Wire Rope Production Line in the Existing Properties and the Additional Properties is expected to be as long as 20 years due to the fact that the useful life of the Group's Wire Rope Production Line is approximately 20 years. The 20-year term of the New Equipment Lease Agreement which approximately matches the life

expectancy of the Group's Wire Rope Production Line will provide Flourish Steel the equipment for the processing arrangement under the New Processing Agreement, which in turn the Group can secure a stable and reliable supply of steel wire to facilitate the Group's production in the Existing Properties and the Additional Properties; and

- (b) as the New Equipment Lease Agreement will provide Flourish Steel the equipment for the processing arrangement under the New Processing Agreement for a term of 20 years as discussed above under the section headed "The New Processing Agreement", it is not reasonable for the Group to enter into the New Equipment Lease Agreement with Flourish Steel for a term different from the term of the New Processing Agreement.

(VI) Comparable transactions

In considering whether it is a normal business for agreements of the type similar to each of the Agreements to have term of such duration, Donvex Capital has, at its best endeavors, identified certain transactions of the type similar to each of the Agreements entered into by other companies listed on the Stock Exchange ("Comparable Transactions"). The duration of the Comparable Transactions ranges from 4 years to 30 years. As such, the duration of each the Agreements falls within the range of the duration of the Comparable Transactions.

Conclusion

In view of the above factors, Donvex Capital is of the view that the 20-year term of each of the Agreements is a normal business practice for agreements of the type similar to each of the Agreements to be of such duration and in the interest of the Company and its Shareholders as a whole.

By order of the Board
Golik Holdings Limited
Pang Tak Chung
Chairman

Hong Kong, 20 July 2016

As at the date of this announcement, the Board comprises:

Executive Directors: Mr. Pang Tak Chung, Mr. Ho Wai Yu, Sammy,
Ms. Pang Wan Ping and Mr. Lau Ngai Fai

Independent Non-executive Directors: Mr. Yu Kwok Kan, Stephen, Mr. Chan Yat Yan
and Mr. Lo Yip Tong

* *For identification purposes only*