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We will vote **AGAINST** Elizabeth Kan

31 May 2024

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Executive summary

- **China Merchants China Direct Investments (133 HK, CMCDI)** will have its [annual general meeting](#) (AGM) on 20 June 2024
- We, **Argyle Street Management (ASM)**, own approximately [8% shares](#) in CMCDI through our various entities*
- We plan to vote in favor of all the resolutions at the AGM, **except one**:
- **We will vote AGAINST the re-election of Ms. KAN Ka Yee, Elizabeth (“Elizabeth”) as a director of CMCDI**
- **We have five questions for Elizabeth:**
 - **Conflict of interest:** does Elizabeth’s senior role at First Eastern, a venture capital firm, conflict with her directorship at CMCDI (which extensively invests in advanced technology startups)?
 - **Conflict of interest:** why does FE Securities, Elizabeth’s private securities firm, keep trading China Merchants Bank shares, which is the also the biggest investment of CMCDI?
 - **Disclosure:** does Elizabeth have undisclosed interest in CMCDI? Did she violate disclosure rules?
 - **Competence:** what does Elizabeth know about advanced technologies, which CMCDI has extensively invested in?
 - **Conflict and disclosure:** Elizabeth has not disclosed to CMCDI shareholders that she is the director of 30+ other companies. Is there conflict of interest?
- **During her tenor as an Executive Director, the price-to-net-asset-value ratio of CMCDI languished at ~0.2-0.3x (before ASM’s public engagement with CMCDI)**
- This presentation lays out the **facts and evidence** we found in public sources (with hyperlinks)
- Elizabeth has been a CMCDI director for years. But this is the **first time** many shareholders (and perhaps some of her fellow directors) have learned about some of these facts



What ISS and Glass Lewis say about governance and conflict

- According to the voting [guidelines](#) of **Institutional Shareholder Services (ISS)**:

Under extraordinary circumstances, [ISS will recommend to] vote against or withhold from individual directors... due to:

- **Material failures of governance**, stewardship, risk oversight or fiduciary responsibilities at the company ; ...or
- **Egregious actions** related to a director's service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company.

- According to the voting [guidelines](#) of **Glass Lewis**:

[Glass Lewis] believe that a board should be wholly free of people who have identifiable conflicts of interest

- We have identified many areas Elizabeth's of possible **conflict of interest**
- Given what we discovered, Elizabeth needs to demonstrate why her behavior does not constitute "**material failures**" and "**egregious actions**" under ISS's guideline



Who is Elizabeth Kan (簡家宜)?

- Elizabeth is the [Managing Director](#) of the **First Eastern Investment Group (FEIG)**.
- The principal of the FEIG is **Mr. Victor Chu (諸立力, “Victor”)**. Elizabeth has been Victor's long-time lieutenant
- Both Victor and Elizabeth are SFC-licensed [Responsible Officers](#) of **FE Securities**
- In addition to Elizabeth's directorship at CMCDI, she (and Victor) is also a SFC-licensed [Responsible Officer](#) of the investment manager of CMCDI
- When we, ASM, [took over](#), liquidated and delisted Guangdong Development Fund (another closed-end fund [co-founded by Victor](#)) two decades ago, we crossed paths with Victor and Elizabeth





Question 1: Does Elizabeth's senior role in FEIG conflict with her directorship at CMCDI?

- Elizabeth is the Managing Director of **First Eastern Investment Group (FEIG)**
- Victor, who is Elizabeth's boss, himself told [Nikkei Asia](#) in an interview:
 - FEIG is a venture capital firm
 - FEIG has invested in more than 200 business, mainly in China
 - FEIG has invested in at least three fintech businesses, and at least one of them is in China
 - FEIG was "*seeking opportunities in fields like artificial intelligence, robots and big data*"
- If true, then FEIG does exactly what CMCDI does.
- For example, CMCDI also invests in payment technology ([China UnionPay](#)), artificial intelligence ([Moonshot AI](#)), robotics ([Flexiv](#)) and big data ([iFlytek](#)) in China.
- **Given the extensive overlap between FEIG's and CMCDI's businesses, can Elizabeth be truly impartial and avoid conflicts?**
- **If Elizabeth comes across a great investment opportunity in, say, artificial intelligence, will she show the deal to CMCDI or FEIG? How does she decide?**
- **The [annual report](#) of CMCDI says that Elizabeth will recuse herself in the event of conflict of interest. If Elizabeth needs to recuse herself on everything that CMCDI does, then what's the point of having her as a director?**



Question 2: Why did Victor Chu's and Elizabeth Kan's securities firm keep trading China Merchants Bank shares?

- Elizabeth and Victor are the two only [Responsible Officers](#) of FE Securities
- [CCASS data](#) shows that FE Securities has been trading **China Merchants Bank (CMB)** shares in and out over the past decade.
- The amount is material: at the peak, those CMB shares under FE Securities were worth millions of dollars.
- The following chart (generated by [David Webb](#)'s excellent tool) shows the history of FE Securities' buying and selling of CMB shares

FE SECURITIES LIMITED 廣利証券有限公司

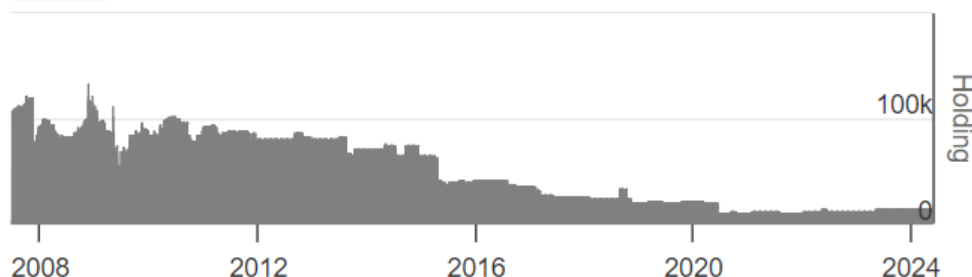
Key Data Officers Overlaps SFC licenses CCASS holdings ESS

CCASSID: B01141

CHINA MERCHANTS BANK CO., LTD.: H
Participant: FE SECURITIES LTD

All ▾

22 Jun 2007 → 27 May 2024





Question 2: Why did Victor Chu's and Elizabeth Kan's securities firm keep trading China Merchants Bank shares? (continued)

- While FE Securities traded CMB shares, CMB has been CMCDI's [single largest investment](#). Both Victor and Elizabeth were/are directors of CMCDI and Responsible Officers of CMCDI's Manager.
- The SFC has a strict [code of conduct](#) on a fund manager's personal investments. Normally, a fund manager is not allowed to trade a stock with his/her personal account, when the fund he/she manages owns the same stock.
- **Who instructed FE Securities to trade the CMB shares? Were Victor and Elizabeth involved?**
- **Who are the beneficiaries of these CMB shares? Are they related to Victor or Elizabeth (e.g. relatives)?**
- **Did Victor and Elizabeth seek CMCDI's approval, before FE Securities did those CMB trades?**
- **Did FE Securities' own investment in CMB influence how Victor and Elizabeth manages CMCDI's investment in CMB?**
- **Did FE Securities have insider information on CMB when trading CMB shares, given Victor's and Elizabeth's close links to China Merchants Group?**
- **Did FE Securities "front-run" CMCDI, before CMCDI itself [sold](#) a large quantity CMB shares a decade ago (which could exert downward pressure on CMB share price)?**
- **Shouldn't FE Securities restrict itself from trading CMB shares altogether, to avoid any perception of conflict of interest and insider trading?**



Question 3: Does Elizabeth Kan have any undisclosed interest in CMCDI shares?

- The investment manager of CMCDI is a [joint venture](#) between China Merchants Group (through associates) and Victor Chu China Investment Limited (**VCCI**). VCCI is [owned](#) by Victor and Elizabeth together.
- This old [circular](#) says that “VCCI and/or its associates collectively held 3,030,024 Shares in CMCDI”, equivalent to 1.99% shares in CMCDI.
- Also, the same circular says that “the ultimate beneficial owners of [VCCI] are [Victor] and [Elizabeth]”.
- However, from 2021 to 2023, under the “Directors’ and Chief Executives’ Interest in Shares” section of CMCDI’s [annual reports](#), Elizabeth, a director of CMCDI, was silent on VCCI’s shareholding in CMCDI.
- Directors of a listed company are required to disclosed their shareholding in that listed company
- Revealingly, as at 23 May 2023, [FE Securities](#) (of which Elizabeth is a [Responsible Officer](#)) still holds 1.99% shares in CMCDI.

- **Does VCCI have any (direct or indirect) interest in CMCDI?**
- **Does Elizabeth Kan have any undisclosed interest in CMCDI shares? Has she violated any rules on shareholding disclosure?**
- **Who are the CMCDI shareholders behind FE Securities? Who are the ultimate beneficiaries?**



Question 4: What does Elizabeth Kan know about advanced technologies?

- Elizabeth became an executive director of CMCDI in April 2020.
- Not only that: she is even a member of the [investment committee](#), which has the [authority](#) to approve any investments over US\$ 20 million. That is arguably the most important function of the board.
- Since then, CMCDI has made the following [new investments](#). All are related to advanced technologies:

| | |
|--|--|
| • Beijing Hanwei Innovation Technology (2023): | ultra-wideband chip |
| • Moonshot AI (2023): | artificial intelligence |
| • Immvira Bioscience (2022): | biotechnology |
| • Beijing Huashun Xin'an Technology (2021): | cyber security |
| • Xinyi Information Technology (2021): | internet of things |
| • Rizhao Azuri Technologies (2021): | modulated lasers |
| • China UnionPay (2020): | payment system |
| • iFlytek Healthcare (2020): | artificial intelligence medical |
| • CASRF Fund (2020): | technology and medical investment |
| • Huiyou Xingyao Fund (2020): | biopharmaceutical R&D |
| • Flexiv (2020): | robotics |

• How has Elizabeth personally contribute to sourcing, supervising and executing these investments in advanced technologies?

- Elizabeth's own [biography](#) says that she used to be an auditor. She is also the director of two firms that specialize in [luxury yacht marinas](#), and a director of a firm that specializes in [saving energy](#).



Question 5: Elizabeth is the directors of at least 30 other companies outside CMCDI. Are there conflicts?

- Our investigation reveals that Elizabeth is currently the directors of 30 companies (see [this](#) and [this](#)) in Hong Kong, on top of her directorships at CMCDI.
- Elizabeth has not disclosed the vast majority of these directorships in her [biography](#).
- **Is Elizabeth a director of any other companies that we do not know about? (e.g. BVI, Cayman)**
- **Why does Elizabeth selectively disclose her directorships in the biography?**
- **What do each of these companies do? What is Elizabeth's role in each of them?**
- **Does Elizabeth's "outside" directorship conflict with her duties as CMCDI's director?**
- **Do these companies do the same business as CMCDI? Do they compete with CMCDI?**
- **If Elizabeth has so many directorship duties outside CMCDI, how does she even have time to perform her duties at CMCDI?**



Question 5: Elizabeth is the directors of at least 30 other companies outside CMCDI. Are there conflicts? (continued)

- On top of these directorships at Hong Kong companies, Elizabeth is also a [director](#) of a UK company called **"Net Zero Investments Limited" ("Net Zero")** since 2021.
- We do not know what business Net Zero does, but we know that is definitely [not a dormant company](#). Its had [millions of dollars](#) of assets in 2022.
- **What does Net Zero do? What is her role in Net Zero?**
- **Does her Net Zero directorship might conflict with her duties at CMCDI, given that CMCDI has also recently made [net-zero-emission](#) related investments?**
- **Why has Elizabeth not disclosed her Net Zero directorship in CMCDI's disclosures (despite disclosing her other directorships)?**

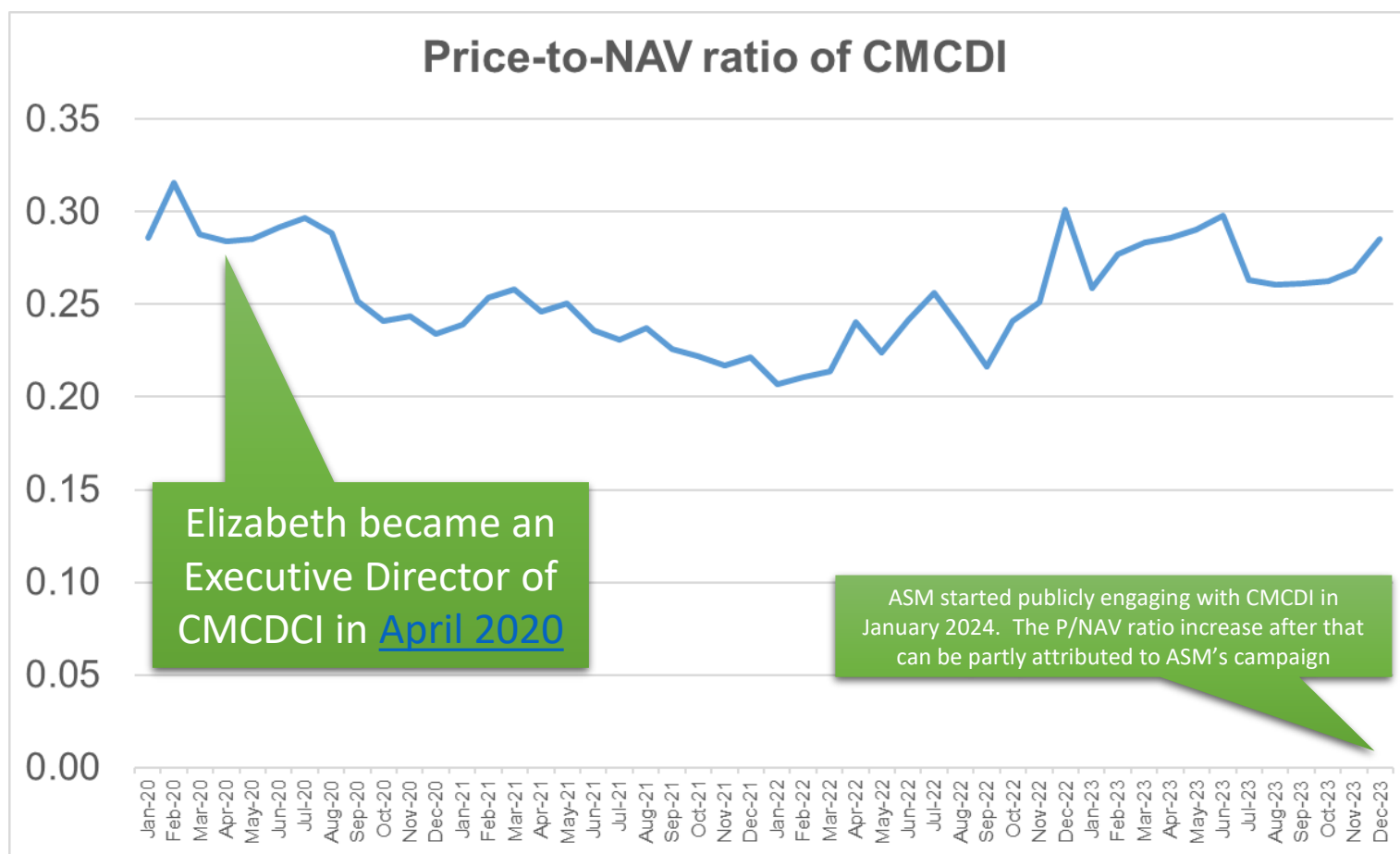


ASM wrote to CMCDI board on 27 May 2024 (Monday)
to ask the same questions

Elizabeth has **not yet responded anything** as at 17:00
on 31 May 2024 (Friday)



During Elizabeth's tenor as a director, CMCDI's P/NAV ratio languished at 0.2-0.3x (prior to ASM's engagement)



Source: CMCDI NAV data and Yahoo! Finance share price data



Closed-end funds like CMCDI should not trade at 0.45x P/NAV

- Currently (31 May 2024), CMCDI is still trading at 0.45x P/NAV ratio (i.e. 55% discount)
 - The net asset value per share was [HK\\$ 30.61](#) per share on 30 April 2024 (latest available)
- Closed end funds should NOT trade at such large discount to NAV
- These are select examples China-focused closed-end funds managed by reputable managers:

| Name | Ticker | Price-to-NAV ratio |
|---|---------------|--------------------|
| Morgan Stanley China A Share Fund | CAF US | 0.82x |
| Templeton Dragon Fund Inc | TDF US | 0.83x |
| HSBC China Dragon Fund | 820 HK | 0.82x |
| JPMorgan China Growth & Income | JCGI LN | 0.91x |
| Fidelity China Special Situations PLC | FCSS LN | 0.90x |
| CMCDI | 133 HK | 0.45x |



The market has reacted positively to ASM's activism campaign

HKSE - Delayed Quote • HKD

China Merchants China Direct Investments Limited (0133.HK)

★ Following

14.000 -0.280 (-1.96%)

At close: 3:58 PM GMT+8

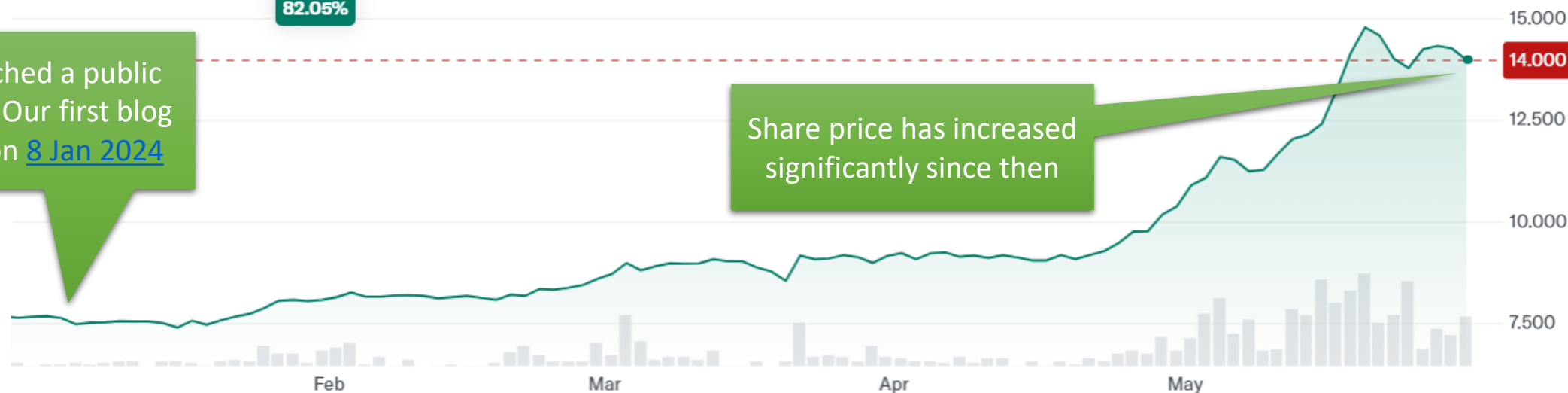
1D 5D 3M 6M **YTD** 1Y 5Y All

82.05%

☐ Key Events ▲ Mountain ▾ ↗ Advanced Chart ⚙

ASM launched a public campaign. Our first blog post was on [8 Jan 2024](#)

Share price has increased significantly since then





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