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SHK 新工投資有限公司

Hong Kong Industries Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 666)

2011 INTERIM RESULTS ANNOUNCEMENT

INTERIM RESULTS

The Board of Directors (the “Board”) of SHK Hong Kong Industries Limited (the “Company”) announces the unaudited interim condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2011 as below:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2011

		Unaudited	
		Six months ended 30th June,	
		2011	2010
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	17,864	24,518
Other net (loss)/income	4	(7,114)	9,380
Administrative and other operating expenses		(16,256)	(16,481)
Finance costs	6	(28)	(252)
Share of loss of an associate		(606)	–
(Loss)/profit before income tax	7	(6,140)	17,165
Income tax expense	8	–	–
(Loss)/profit for the period		(6,140)	17,165
(Loss)/profit for the period attributable to:			
Owners of the Company		(5,876)	17,165
Non-controlling interests		(264)	–
		(6,140)	17,165
(Loss)/earnings per share (HK cents):	9		
Basic		(0.14)	0.46
Diluted		N/A	0.44

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June, 2011

	Unaudited	
	Six months ended 30th June,	
	2011	2010
	HK\$'000	HK\$'000
(Loss)/profit for the period	(6,140)	17,165
Other comprehensive (expenses)/income:		
Change in fair value of available-for-sale financial assets	(10,772)	4,125
Reclassification adjustment upon disposal of available-for-sale financial assets	(26,181)	(25,464)
Share of other comprehensive income of an associate	158	–
Other comprehensive expenses for the period, net of tax	(36,795)	(21,339)
Total comprehensive expenses for the period	(42,935)	(4,174)
Total comprehensive expenses for the period attributable to:		
Owners of the Company	(42,740)	(4,174)
Non-controlling interests	(195)	–
	(42,935)	(4,174)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30th June, 2011

		Unaudited 30th June, 2011 <i>HK\$'000</i>	Audited 31st December, 2010 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Interests in associates		17,707	18,155
Available-for-sale financial assets	11	284,528	521,573
		302,235	539,728
Current assets			
Trade receivables and prepayment	12	6,363	461
Amount due from a fellow subsidiary		2,866	30
Financial assets at fair value through profit or loss	13	796,535	813,747
Taxation recoverable		21	–
Pledged bank deposits		–	1,497
Cash and cash equivalents		138,318	22,133
		944,103	837,868
Current liabilities			
Other payables and accrued expenses		545	1,611
Amount due to a holding company		143	293
Amount due to a fellow subsidiary		5,085	17,438
Borrowings		–	23,410
Financial liabilities at fair value through profit or loss	14	15,685	68,712
Taxation payable		–	137
		21,458	111,601
Net current assets		922,645	726,267
Total assets less current liabilities		1,224,880	1,265,995
Net assets		1,224,880	1,265,995
EQUITY			
Equity attributable to the owners of the Company			
Share capital		411,170	409,350
Reserves		805,854	848,594
		1,217,024	1,257,944
Non-controlling interests		7,856	8,051
Total equity		1,224,880	1,265,995

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) and with the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies adopted in the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2010, except for the adoption of the amended Hong Kong Financial Reporting Standards (“HKFRSs”) (which include individual Hong Kong Financial Reporting Standards, HKASs and Interpretations) as disclosed below.

Amended HKFRSs – effective from 1st January, 2011

From 1st January, 2011, the Group has applied for the first time the following amended HKFRSs which are relevant to and effective for the Group’s financial statements for the annual financial period beginning on 1st January, 2011.

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HKAS 24 (Revised)	Related Party Disclosures

Other than as noted below, the adoption of these amended HKFRSs did not result in significant changes in the Group’s accounting policies.

Amendment to HKAS 34 – Interim Financial Reporting

It emphasises the existing disclosure principles in HKAS 34 and adds further guidance to illustrate how to apply these principles. Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The change in accounting policy only results in additional disclosures.

HKAS 24 (Revised) – Related Party Disclosures

It clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government.

3. REVENUE

Turnover of the Group is the revenue from the investments in listed and unlisted financial instruments.

	Unaudited Six months ended 30th June,	
	2011 HK\$'000	2010 HK\$'000
Interest income from available-for-sale financial assets and held-to-maturity investments	5,939	15,469
Dividend income		
– Listed investments	7,491	8,507
– Unlisted investments	4,364	460
Interest income from bank deposits	70	82
	<u>17,864</u>	<u>24,518</u>

4. OTHER NET (LOSS)/INCOME

	Unaudited Six months ended 30th June,	
	2011 HK\$'000	2010 HK\$'000
Gain on disposal/redemption of available-for-sale financial assets and held-to-maturity investments	28,736	43,032
Fair value loss on financial assets and liabilities at fair value through profit or loss	(35,946)	(33,713)
Sundry income	96	61
	<u>(7,114)</u>	<u>9,380</u>

5. SEGMENT INFORMATION

Under HKFRS 8, reported segment information is based on internal management reporting information that is regularly reviewed by the Executive Directors. The Executive Directors assess segment profit or loss using a measure of operating profit. The measurement policies the Group uses for segment reporting under HKFRS 8 are the same as those used in its HKFRS financial statements.

On adoption of HKFRS 8, based on the regular internal financial information reported to the Group's Executive Directors for their decisions about resources allocation to the Group's business components and review of these components' performance, the Group has identified only one operating segment, financial instrument investments. Accordingly, segment disclosures are not presented.

6. FINANCE COSTS

	Unaudited Six months ended 30th June,	
	2011 HK\$'000	2010 HK\$'000
Interest on bank borrowings wholly repayable within five years	<u>28</u>	<u>252</u>

7. (LOSS)/PROFIT BEFORE INCOME TAX

	Unaudited	
	Six months ended 30th June,	
	2011	2010
	HK\$'000	HK\$'000
(Loss)/profit before income tax is arrived at after charging:		
Management fee	9,469	8,529
Employee benefit expenses (including Directors' emoluments)	1,259	1,302

8. INCOME TAX EXPENSE

No Hong Kong profits tax has been provided for the six months ended 30th June, 2011 and 2010 as the Group has no assessable profits.

9. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share for the six months ended 30th June, 2011 is based on the loss attributable to the owners of the Company of approximately HK\$5,876,000 (2010: profit of approximately HK\$17,165,000) and on the weighted average number of approximately 4,100,031,000 (2010: approximately 3,738,917,000) ordinary shares in issue during the period.

Diluted loss per share for the six months ended 30th June, 2011 was not presented as the impact of the exercise of the warrant was anti-dilutive.

The calculation of diluted earnings per share for the six months ended 30th June, 2010 was based on the adjusted profit attributable to the owners of the Company of approximately HK\$17,165,000 and on the weighted average number of approximately 3,926,700,000 ordinary shares outstanding during the period, after adjusting for the effect of dilutive potential ordinary shares for warrants.

10. DIVIDEND

At a Board meeting held on 23rd August, 2011, the Board resolved not to declare an interim dividend for the period (2010: Nil).

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Unaudited	Audited
	30th June,	31st December,
	2011	2010
	HK\$'000	HK\$'000
Equity and debt securities		
– Listed in Hong Kong	11,946	36,693
– Listed outside Hong Kong	221,439	424,629
Market value of listed equity and debt securities	233,385	461,322
Unlisted equity securities, at fair value	27,938	37,396
Unlisted debt securities, at fair value	23,205	22,855
	284,528	521,573

12. TRADE RECEIVABLES AND PREPAYMENT

	Unaudited 30th June, 2011 HK\$'000	Audited 31st December, 2010 HK\$'000
Trade receivables	6,363	–
Prepayment	–	461
	<u>6,363</u>	<u>461</u>

There are no specific credit terms granted and the Group allows a credit period up to the settlement dates of their respective transactions. The ageing analysis of the trade receivables was as follows:

	Unaudited 30th June, 2011 HK\$'000	Audited 31st December, 2010 HK\$'000
Within one year	<u>6,363</u>	<u>–</u>

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Unaudited 30th June, 2011 HK\$'000	Audited 31st December, 2010 HK\$'000
Equity securities held for trading		
– Listed in Hong Kong	732,302	725,361
– Listed outside Hong Kong	63,013	80,602
Market value of listed securities	795,315	805,963
Unlisted warrants, at fair value	1,220	2,154
Conversion options embedded in convertible bonds, at fair value	–	5,630
	<u>796,535</u>	<u>813,747</u>

14. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Unaudited 30th June, 2011 HK\$'000	Audited 31st December, 2010 HK\$'000
Derivative financial instruments		
Call options embedded in bonds and notes, at fair value	<u>15,685</u>	<u>68,712</u>

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Group's major income for the six months ended 30th June, 2011 (the "2011 Interim Period") comprised mainly interest income from bonds and dividend income from equity and fund investments.

The Group recorded a net loss attributable to the owners of the Company of approximately HK\$5.9 million for the 2011 Interim Period, compared to a net profit of approximately HK\$17.2 million in the corresponding period of 2010. The net loss was mainly attributable to the unrealised loss on equity investments held as at the end of the 2011 Interim Period.

In the first half of 2011, the Group reduced its long-term position significantly in bonds trading mid-single digit yield to hedge against a possible rise in interest rates in the United States (the "US"). Overall investment in bonds was profitable which reduced the overall losses in the 2011 Interim Period.

The Group's net asset value dropped by 3% to HK\$1.22 billion at the end of the 2011 Interim Period while Hang Seng Index and Hang Seng China Enterprises Index dropped by 3% and 1% respectively over the same period.

INVESTMENT REVIEW

As at 30th June, 2011, the Group's major investments and their carrying value, other than its cash holding, were as follows:

Investments	Description
Listed Equities	HK\$807.3 million of a portfolio of listed shares in 47 companies
Bonds	HK\$229.0 million of bonds issued by 3 companies listed in Hong Kong and overseas
Investment Funds	HK\$27.9 million in 2 investment funds
Direct Investment in Unlisted Equity	HK\$9.9 million in 1 direct investment in unlisted equity
Unlisted Warrants	HK\$1.2 million of 60,000 warrants in Asia Alliance Holdings Co., Limited, a company listed on the 2nd Section of Tokyo Stock Exchange

The Group's portfolio of investments comprised securities in Hong Kong, Malaysia, Taiwan, US, Australia, Japan and the People's Republic of China (the "PRC"). The value of our portfolio decreased following the adjustment of the global stock markets in the first half of 2011.

The Group's direct investment in an unlisted equity namely Learning Ark Holdings Limited, which provides online education services in the PRC reported a small loss (after non-controlling interests) of about HK\$0.34 million.

PROSPECTS

The slowdown of economic growth in the US and the downgrading of its credit rating have driven the global stock markets into a tailspin in mid August 2011, with a subsequent mild recovery. The prospects of a rise in interest rates were dimmed by the United States Federal Reserve's promise to keep rates low for two more years. China's economy is expected to remain robust despite at a slower rate. Amidst the gloomy scenarios, the market will be vulnerable to developments in the credit markets in Europe and the US, and corporate earnings will be the last fundamental support of the equity markets in the second half.

Now that the US interest rates are more likely to remain low, we are reconsidering our strategy in the bond investments, and may instead cautiously increase our position.

FINANCIAL RESOURCES, LIQUIDITY AND GEARING RATIO

During the 2011 Interim Period, 18,199,529 units of warrants were converted into 18,199,529 ordinary shares at a subscription price of HK\$0.1 per share. The remaining 475,217 units of warrants expired on 22nd April, 2011.

As at 30th June, 2011, the Group had cash and cash equivalents of approximately HK\$138.3 million and listed equities held for trading of approximately HK\$795.3 million. Bank borrowings denominated in British pounds were fully repaid during the 2011 Interim Period and the Group had no borrowings as at 30th June 2011. The liquidity position of the Group enables us to respond to further investment opportunities that are expected to generate better returns for the Shareholders. The Group's gearing ratio, calculated by reference to the ratio of total borrowings to total equity attributable to the owners of the Company as at 30th June, 2011, was 0% (at 31st December, 2010: 2%).

FOREIGN EXCHANGE EXPOSURE

As at 30th June, 2011, the majority of the Group's investments was either denominated in Hong Kong dollars or United States dollars. Exposures to foreign currency exchange rates still arise as the Group has certain investments, which are primarily denominated in Malaysian ringgit, New Taiwan dollars, Australian dollars, Japanese yen and Chinese renminbi. The Group at present does not have any contracts to hedge against its foreign exchange risks. Should the Group consider that its exposure and fluctuation in foreign currency justify hedging, the Group may use forward or hedging contracts to reduce the risks.

INTERIM DIVIDEND

The Board resolved not to declare an interim dividend for the 2011 Interim Period (2010: Nil).

GUARANTEE

The Company has given guarantees to financial institutions to secure borrowing facilities available to its wholly-owned subsidiaries in the amount not exceeding HK\$87.8 million (as at 31st December, 2010: HK\$555.5 million). There were no outstanding facilities utilised as at 30th June, 2011. Facilities amounting to HK\$23.4 million were utilised as at 31st December, 2010.

STAFF COSTS

The Group's total staff costs (including Directors' emoluments) for the 2011 Interim Period amounted to approximately HK\$1.3 million (2010: approximately HK\$1.3 million).

AUDIT COMMITTEE

The Company had established an Audit Committee in accordance with Rule 3.21 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including review of the interim report (including unaudited interim condensed consolidated financial statements for the six months ended 30th June, 2011). In carrying out this review, the Audit Committee has obtained explanations from management. At the request of the Board, the Group's external auditor has carried out a review on the unaudited interim condensed consolidated financial statements for the six months ended 30th June, 2011 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules, during the accounting period covered by the interim report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code during the 2011 Interim Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities during the 2011 Interim Period.

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

Hong Kong, 23rd August, 2011

As at the date of this announcement, the composition of the Board is as follows: Mr. Warren Lee Wa Lun (Chairman) and Mr. Mark Wong Tai Chun are Executive Directors; Mr. Arthur George Dew and Mr. Peter Lee Yip Wah are Non-Executive Directors; and Dr. Ambrose So Shu Fai, Mr. Albert Ho and Mr. Louie Chun Kit are Independent Non-Executive Directors.