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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)

2013 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, 2013 as below:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2013

		Unaudited	
		Six months ended 30th June,	
		2013	2012
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	17,571	16,935
Other net income	4	65,117	65,934
Administrative and other operating expenses		(20,360)	(17,160)
Finance costs	6	(79)	–
Share of loss of joint ventures		(18,561)	(81)
Share of loss of associates		(265)	–
Profit before income tax	7	43,423	65,628
Income tax expense	8	–	–
Profit for the period		43,423	65,628
Profit/(loss) for the period attributable to:			
Owners of the Company		43,542	65,628
Non-controlling interests		(119)	–
		43,423	65,628
Earnings per share attributable to the owners of the Company (HK cents):	9		
Basic		1.06	1.60
Diluted		1.06	1.60

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June, 2013

	Unaudited	
	Six months ended 30th June,	
	2013	2012
	HK\$'000	HK\$'000
Profit for the period	43,423	65,628
Other comprehensive income/(expenses)		
Items that may be reclassified subsequently to profit or loss:		
Change in fair value of available-for-sale financial assets	(10,294)	19,835
Reclassification adjustment upon disposal of available-for-sale financial assets	(7,076)	3,049
Share of other comprehensive expenses of joint ventures	(2,374)	(12,779)
Share of other comprehensive income of associates	54	–
Other comprehensive (expenses)/income for the period, net of tax	(19,690)	10,105
Total comprehensive income for the period	23,733	75,733
Total comprehensive income/(expenses) for the period attributable to:		
Owners of the Company	23,828	75,733
Non-controlling interests	(95)	–
	23,733	75,733

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30th June, 2013

		Unaudited 30th June, 2013 HK\$'000	Audited 31st December, 2012 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in joint ventures		13,710	34,645
Interests in associates		11,339	3,236
Available-for-sale financial assets	11	130,494	248,363
		155,543	286,244
Current assets			
Available-for-sale financial assets	11	81,714	–
Trade and other receivables and prepayment	12	171,506	88,516
Amounts due from joint ventures		44,066	44,065
Financial assets at fair value through profit or loss	13	220,922	710,308
Security deposits		9,795	–
Cash and cash equivalents		580,407	151,450
		1,108,410	994,339
Current liabilities			
Trade and other payables and accrued expenses	14	5,413	27,435
Amount due to a holding company		108	293
Amount due to a fellow subsidiary		5,096	4,905
Financial liabilities at fair value through profit or loss	15	14,546	12,334
Taxation payable		603	603
		25,766	45,570
Net current assets		1,082,644	948,769
Total assets less current liabilities		1,238,187	1,235,013
Net assets		1,238,187	1,235,013
EQUITY			
Equity attributable to the owners of the Company			
Share capital		411,170	411,170
Reserves		825,610	822,341
		1,236,780	1,233,511
Non-controlling interests		1,407	1,502
Total equity		1,238,187	1,235,013

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements for the six months ended 30th June, 2013 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 (“HKICPA”).

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, 2012, except for the adoption of the new/revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which include individual Hong Kong Financial Reporting Standards, HKASs and Interpretations) as disclosed below.

Adoption of New/Revised HKFRSs – effective 1st January, 2013

In the current period, the Group has applied for the first time the following new/revised HKFRSs issued by the HKICPA, which are relevant to and effective for the Group’s financial statements for the annual financial period beginning on 1st January, 2013.

HKFRSs (Amendments)	Annual Improvements 2009-2011 Cycle
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income
Amendments to HKFRS 7	Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 27 (2011)	Separate Financial Statements
HKAS 28 (2011)	Investments in Associates and Joint Ventures

Other than as noted below, the adoption of these new/revised HKFRSs has no significant impact on the Group’s financial statements.

HKFRS 13 – Fair Value Measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. Some of the disclosures are specifically required for financial instruments in interim financial statements. The Group has provided those disclosures in its unaudited interim condensed consolidated financial statements.

Amendments to HKAS 1 (Revised) – Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis. The Group’s presentation of other comprehensive income in these unaudited interim condensed consolidated financial statements has been modified accordingly.

3. REVENUE

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

	Unaudited Six months ended 30th June,	
	2013 HK\$'000	2012 HK\$'000
Interest income from available-for-sale financial assets	11,974	13,309
Dividend income		
– Listed investments	5,160	2,282
Interest income from bank deposits	437	1,344
	<u>17,571</u>	<u>16,935</u>

4. OTHER NET INCOME

	Unaudited Six months ended 30th June,	
	2013 HK\$'000	2012 HK\$'000
Fair value gain on financial assets and liabilities at fair value through profit or loss	53,218	47,272
Gain on disposal/redemption of available-for-sale financial assets	7,796	18,547
Sundry income	4,103	115
	<u>65,117</u>	<u>65,934</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.

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,	
	2013 HK\$'000	2012 HK\$'000
Interest on bank borrowings wholly repayable within five years	<u>79</u>	<u>–</u>

7. PROFIT BEFORE INCOME TAX

	Unaudited	
	Six months ended 30th June,	
	2013	2012
	HK\$'000	HK\$'000
Profit before income tax is arrived at after charging:		
Management fee	9,580	8,818
Employee benefit expenses (including Directors' emoluments)	1,247	1,285

8. INCOME TAX EXPENSE

No Hong Kong profits tax has been provided for the six months ended 30th June, 2013 and 2012 as the estimated assessable profits of the Group were offset by tax losses brought forward.

9. EARNINGS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

The calculation of basic earnings per share for the six months ended 30th June, 2013 is based on the profit attributable to the owners of the Company of approximately HK\$43,542,000 (2012: approximately HK\$65,628,000) and on the weighted average number of 4,111,704,320 (2012: 4,111,704,320) ordinary shares in issue during the period.

Diluted earnings per share for the six months ended 30th June, 2013 and 2012 is same as the basic earnings per share as the Group had no dilutive potential ordinary shares during the period.

10. DIVIDEND

At a Board meeting held on 22nd August, 2013, the Board resolved not to declare an interim dividend for the period (2012: Nil).

	Unaudited	
	Six months ended 30th June,	
	2013	2012
	HK\$'000	HK\$'000
Dividend recognised as distribution during the period		
– 2012 final dividend of HK0.5 cent (2011 final dividend: Nil) per share	20,559	–

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Unaudited 30th June, 2013 HK\$'000	Audited 31st December, 2012 HK\$'000
Non-current		
Debt securities		
– Listed in Hong Kong	15,553	17,150
– Listed outside Hong Kong	83,439	151,456
	<hr/>	<hr/>
Fair value of listed debt securities	98,992	168,606
Unlisted debt securities, at fair value	–	49,476
Unlisted equity securities, at fair value	31,502	30,281
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	130,494	248,363
Current		
Debt securities		
– Listed outside Hong Kong, at fair value	33,696	–
– Unlisted, at fair value	48,018	–
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	81,714	–
	<hr/>	<hr/>
	212,208	248,363
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12. TRADE AND OTHER RECEIVABLES AND PREPAYMENT

	Unaudited 30th June, 2013 HK\$'000	Audited 31st December, 2012 HK\$'000
Trade receivables (<i>Note a</i>)	127,203	47,017
Other receivable (<i>Note b</i>)	44,303	41,050
Prepayment	–	449
	<hr/>	<hr/>
	171,506	88,516
	<hr/>	<hr/>

Note a:

There are no specific credit terms granted and the Group allows a credit period up to the settlement dates of their respective transactions. The following is an ageing analysis of the trade receivables, based on the date of contract note, at the reporting date:

	Unaudited 30th June, 2013 HK\$'000	Audited 31st December, 2012 HK\$'000
Within one year	127,203	47,017

Note b:

As at 30th June, 2013, included in other receivables of the Group was an advance to an independent third party of HK\$37,500,000 bearing interest at 18% per annum, secured by shares mortgage and repayable in November 2013.

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Unaudited 30th June, 2013 HK\$'000	Audited 31st December, 2012 HK\$'000
Equity securities held for trading		
– Listed in Hong Kong	137,772	618,760
– Listed outside Hong Kong	83,150	91,182
Market value of listed securities	220,922	709,942
Derivative financial instrument		
– Equity forward contracts, at fair value	–	366
	220,922	710,308

14. TRADE AND OTHER PAYABLES AND ACCRUED EXPENSES

	Unaudited 30th June, 2013 HK\$'000	Audited 31st December, 2012 HK\$'000
Trade payables	5,018	25,690
Other payables and accrued expenses	395	1,745
	5,413	27,435

The following is an ageing analysis of the trade payables, based on the date of contract note, at the reporting date:

	Unaudited 30th June, 2013 HK\$'000	Audited 31st December, 2012 HK\$'000
Within one year	<u>5,018</u>	<u>25,690</u>

15. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Unaudited 30th June, 2013 HK\$'000	Audited 31st December, 2012 HK\$'000
Derivative financial instruments		
– Equity forward contracts, at fair value	8,695	–
– Call options embedded in bonds and notes, at fair value	<u>5,851</u>	<u>12,334</u>
	<u>14,546</u>	<u>12,334</u>

As at 30th June, 2013, the equity forward contracts were secured by security deposits of approximately HK\$9,795,000 (at 31st December, 2012: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Group's major income for the six months ended 30th June, 2013 (the "2013 Interim Period") comprised mainly profit on disposal of equities and bonds interest income.

The Group recorded a net profit attributable to the owners of the Company of approximately HK\$43.5 million for the 2013 Interim Period (2012: approximately HK\$65.6 million).

In the second quarter, in view by the statement of the Chairman of the Federal Reserve Bank of the US that it might retreat from the bond purchase programme earlier than expected, the Group liquidated a significant portion of its short term investments at a profit, and stayed largely in cash.

As such, amidst a decline of the Hang Seng Index and Hang Seng China Enterprises Index by 8.2% and by 18.6% respectively over the 2013 Interim Period, the Group's net asset value increased by 0.3% to HK\$1.24 billion at the end of the 2013 Interim Period after the distribution of a cash dividend of approximately HK\$20.6 million.

INVESTMENT REVIEW

As at 30th June, 2013, the Group's major investments were as follows:

Investments	Description
Listed Equities	HK\$220.9 million of a portfolio of listed shares in 19 companies
Bonds	HK\$174.9 million of bonds issued by 11 companies listed in Hong Kong and overseas
Indirect Investment in Listed Equity	HK\$57.8 million in one indirect investment in overseas listed equity
Investment Funds	HK\$31.5 million in 2 investment funds
Direct Investment in Unlisted Equities	HK\$9.9 million in 2 direct investment in unlisted equities
Equity Forward Contracts	11 equity forward contracts, the underlying stocks of which include AIA Group Limited, Brilliance China Automotive Holdings Limited, China Life Insurance Company Limited, Hong Kong Exchanges and Clearing Limited, Industrial and Commercial Bank of China Limited, Lenovo Group Limited and PetroChina Company Limited

The Group's portfolio of investments comprised securities in Hong Kong, Taiwan, Malaysia, Japan, United States and the People's Republic of China. The value of our portfolio increased in the first quarter of 2013 and the Group started to scale back its holding in the second quarter.

The Group's investment in Taiwan did not perform well during the 2013 Interim Period, but it is expected that the investment will offer significant prospects in the medium and long term.

PROSPECTS AND STRATEGY

The rest of 2013 remains event driven, primarily the speculation regarding monetary policies, the economic recovery progress and employment situation in the major economies. We are cautiously optimistic for a year of profit for 2013. The Group has progressively increased its investment in equities subsequent to the 2013 Interim Period.

FINANCIAL RESOURCES, LIQUIDITY AND GEARING RATIO

As at 30th June, 2013, the Group had cash and cash equivalents of approximately HK\$580.4 million (at 31st December, 2012: approximately HK\$151.5 million) and security deposits of approximately HK\$9.8 million (at 31st December, 2012: Nil), totalling approximately HK\$590.2 million (at 31st December, 2012: approximately HK\$151.5 million), investments of approximately HK\$486.3 million (at 31st December, 2012: approximately HK\$1,026.8 million) and no bank borrowings as at 30th June, 2013 and 31st December, 2012. 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, 2013, was 0% (at 31st December, 2012: 0%).

FOREIGN EXCHANGE EXPOSURE

As at 30th June, 2013, 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 overseas investments which are primarily denominated in New Taiwan dollars, Malaysian ringgit, Thai baht and Japanese yen. The Group at present does not have any contracts to hedge against its foreign exchange risks. Should the Group consider that its exposure to foreign currency risk justifies 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 2013 Interim Period (2012: Nil).

GUARANTEE

The Company has given guarantees to financial institutions to secure banking facilities available to its wholly-owned subsidiaries in the amount not exceeding HK\$213.8 million as at 30th June, 2013 (at 31st December, 2012: HK\$218.8 million).

STAFF COSTS

The Group's total staff costs (including Directors' emoluments) for the 2013 Interim Period amounted to approximately HK\$1.2 million (2012: approximately HK\$1.3 million).

AUDIT COMMITTEE

The Company had established an Audit Committee in accordance with Rule 3.21 of the Listing Rules.

The Audit Committee has reviewed financial reporting matters including a general review of the unaudited interim condensed consolidated financial statements for the six months ended 30th June, 2013. In carrying out this review, the Audit Committee has relied on a review conducted by the Group's external auditor 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 HKICPA and representations from management. The Audit Committee has not undertaken detailed independent audit checks.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles and complied with all the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules, during the 2013 Interim Period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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 2013 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 2013 Interim Period.

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

Hong Kong, 22nd August, 2013

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.