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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)

2020 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, 2020 as below:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30th June, 2020

		Unaudited	
		Six months ended 30th June,	
		2020	2019
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	25,382	15,195
Other net loss	4	(20,243)	(10,207)
Administrative and other operating expenses		(13,250)	(12,618)
Share of gain/(loss) of associates		427	(514)
Finance costs		(118)	–
Loss before income tax	6	(7,802)	(8,144)
Income tax expense	7	–	–
Loss for the period attributable to the owners of the Company		(7,802)	(8,144)
Loss per share attributable to the owners of the Company (HK cents):			
Basic	8	(0.19)	(0.20)
Diluted		(0.19)	(0.20)
Turnover – gross proceeds and revenue	3	130,633	156,156

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30th June, 2020

	Unaudited	
	Six months ended 30th June,	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the period	(7,802)	(8,144)
Other comprehensive (expenses)/income		
Items that may be reclassified subsequently to profit or loss:		
Change in fair value of financial assets at fair value through other comprehensive income (“FVOCI”)	(2,636)	2,943
Reclassification adjustment for realisation upon disposal/ redemption of financial assets at FVOCI	(401)	–
Other comprehensive (expenses)/income for the period, net of tax	(3,037)	2,943
Total comprehensive expenses for the period attributable to the owners of the Company	(10,839)	(5,201)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30th June, 2020

		Unaudited 30th June, 2020 HK\$'000	Audited 31st December, 2019 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in associates		23,548	23,417
Financial assets at FVOCI	10	120,381	157,448
Financial assets at fair value through profit or loss ("FVPL")	11	301,543	257,966
		445,472	438,831
Current assets			
Financial assets at FVOCI	10	71,483	8,030
Trade and other receivables and prepayment	12	1,129	1,016
Financial assets at FVPL	11	525,386	583,804
Cash and cash equivalents		62,307	86,132
		660,305	678,982
Current liabilities			
Other payables and accrued expenses		857	1,548
Amount due to a holding company		166	319
Amount due to a related company		4,549	4,902
		5,572	6,769
Net current assets		654,733	672,213
Total assets less current liabilities		1,100,205	1,111,044
Net assets		1,100,205	1,111,044
EQUITY			
Equity attributable to the owners of the Company			
Share capital		918,978	918,978
Reserves		181,227	192,066
Total equity		1,100,205	1,111,044

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, 2020 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 (the “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”).

The financial information relating to the year ended 31st December, 2019 that is included in this results announcement as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company had delivered the financial statements for the year ended 31st December, 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or 407(3) of the Hong Kong Companies Ordinance.

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 stated at fair value, 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, 2019, 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, 2020

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, 2020.

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The adoption of these new/revised HKFRSs has no significant impact on the Group’s unaudited interim condensed consolidated financial statements.

3. TURNOVER AND REVENUE

Turnover represents revenue of the Group of HK\$25,382,000 (2019: HK\$15,195,000) and the gross proceeds from disposal of held-for-trading investments of the Group of HK\$105,251,000 (2019: HK\$140,961,000).

Revenue from the Group's principal activities recognised during the period is as follows:

	Unaudited	
	Six months ended 30th June,	
	2020	2019
	HK\$'000	HK\$'000
Interest income from financial assets at FVOCI	9,414	4,477
Interest income from bank deposits	125	996
	<hr/>	<hr/>
Total interest income derived from financial assets not at FVPL	9,539	5,473
Dividend income		
– Listed investments	11,160	6,826
– Unlisted investments	2,480	2,896
Distribution from perpetual securities	2,203	–
	<hr/>	<hr/>
	25,382	15,195
	<hr/>	<hr/>

4. OTHER NET LOSS

	Unaudited	
	Six months ended 30th June,	
	2020	2019
	HK\$'000	HK\$'000
Net loss including interest income on financial assets at FVPL	(22,425)	(10,872)
Realised gain on disposal/redemption of financial assets at FVOCI	1,827	–
Sundry income	355	665
	<hr/>	<hr/>
	(20,243)	(10,207)
	<hr/>	<hr/>

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 used 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. LOSS BEFORE INCOME TAX

Unaudited
Six months ended 30th June,
2020 **2019**
HK\$'000 **HK\$'000**

Loss before income tax is arrived at after charging:

Management fee	7,920	8,213
Employee benefit expenses (including Directors' emoluments)	1,564	1,531

7. INCOME TAX EXPENSE

No Hong Kong profits tax has been provided for the six months ended 30th June, 2020 and 2019 as certain subsidiaries of the Group have no estimated assessable profits and certain subsidiaries of the Group have sufficient tax losses brought forward to set off the estimated assessable profits.

8. LOSS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

The calculation of basic loss per share for the six months ended 30th June, 2020 is based on the loss attributable to the owners of the Company of approximately HK\$7,802,000 (2019: approximately HK\$8,144,000) and on the weighted average number of 4,111,704,320 (2019: 4,111,704,320) ordinary shares in issue during the period.

Diluted loss per share for the six months ended 30th June, 2020 and 2019 is the same as the basic loss per share as the Group had no dilutive potential ordinary shares during the period.

9. DIVIDEND

At a Board meeting held on 20th August, 2020, the Board resolved not to declare an interim dividend for the period (2019: Nil).

10. FINANCIAL ASSETS AT FVOCI

	Unaudited 30th June, 2020 HK\$'000	Audited 31st December, 2019 HK\$'000
Non-current		
Listed debt securities, at fair value		
– Listed outside Hong Kong	69,465	112,434
– Listed in Hong Kong	50,916	45,014
	<u>120,381</u>	<u>157,448</u>
Current		
Listed debt securities, at fair value		
– Listed outside Hong Kong	48,304	–
– Listed in Hong Kong	7,842	8,030
Unlisted debt securities, at fair value	15,337	–
	<u>71,483</u>	<u>8,030</u>
	<u>191,864</u>	<u>165,478</u>

11. FINANCIAL ASSETS AT FVPL

	Unaudited 30th June, 2020 HK\$'000	Audited 31st December, 2019 HK\$'000
Non-current		
Unlisted equity securities	210,751	187,835
Listed perpetual securities	82,151	61,280
Listed debt securities	8,641	8,851
	<u>301,543</u>	<u>257,966</u>
At fair value	301,543	257,966
Current		
Equity securities held for trading, at fair value		
– Listed in Hong Kong	272,773	287,373
– Listed outside Hong Kong	252,613	296,431
	<u>525,386</u>	<u>583,804</u>
Market value of listed equity securities held for trading	525,386	583,804
	<u>826,929</u>	<u>841,770</u>

12. TRADE AND OTHER RECEIVABLES AND PREPAYMENT

	Unaudited 30th June, 2020 <i>HK\$'000</i>	Audited 31st December, 2019 <i>HK\$'000</i>
Trade receivables (<i>Note</i>)	1,128	541
Other receivables	1	26
Prepayment	–	449
	<u>1,129</u>	<u>1,016</u>

Note:

There is no specific credit term 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, 2020 <i>HK\$'000</i>	Audited 31st December, 2019 <i>HK\$'000</i>
Within one year	<u>1,128</u>	<u>541</u>

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Group recorded a net loss attributable to the owners of the Company in amount of approximately HK\$7.8 million (2019: approximately HK\$8.1 million) for the six months ended 30th June, 2020 (the “2020 Interim Period”), comprising loss of approximately HK\$30.9 million from investment in equity securities and associates (2019: approximately HK\$22.8 million), fair value gain of approximately HK\$20.4 million from investment funds and sub-participation (2019: approximately HK\$19.9 million) and profit contribution of approximately HK\$15.3 million from bond investments (2019: approximately HK\$5.1 million).

Hang Seng Index and Hang Seng China Enterprises Index decreased by 13.3% and by 12.6% respectively over the 2020 Interim Period, the Group’s net asset value attributable to the owners of the Company decreased by 1.0% to HK\$1.10 billion at the end of the 2020 Interim Period.

INVESTMENT REVIEW

As at 30th June, 2020 the Group’s major investments were as follows:

Investments	Description
Listed Equities	HK\$525.4 million of a portfolio of listed shares in twenty-four companies
Fixed Income	HK\$282.7 million of fixed income instruments issued and/or guaranteed by an overseas government and seventeen listed in Hong Kong and overseas companies and unlisted companies
Investment Funds	HK\$150.3 million in seven investment funds
Sub-participation in Unlisted Investment	Sub-participation of HK\$60.4 million in an unlisted investment
Direct Investment in Unlisted Equities	HK\$23.5 million in one direct investment in unlisted equities

The Group’s portfolio of investments mainly comprised securities in Hong Kong, Taiwan, United States and Malaysia.

The Group’s fixed income investments and unlisted equities investments, including funds investment, contributed most of the profit in 2020 Interim Period while value of listed equities investments declined during the period.

SIGNIFICANT INVESTMENTS HELD AND PROSPECTS

As at 30th June, 2020, the Group held the following significant investments:

1. **Tatung Co., Limited (“Tatung”)**

Market value of Tatung as at 30th June, 2020 amounted to 15.0% of the Group’s total assets. No realised gain/loss was recorded but unrealised profit of approximately HK\$1.9 million from Tatung was recognised during the 2020 Interim Period.

Performance: for the financial year ended 31st December, 2019, the net revenue of Tatung group decreased by 42% to approximately NTD35,423 million, compared with the corresponding period of last year. The decrease was primarily because of the drop in revenue from optical department to approximately NTD1,508 million during the financial year 2019 from approximately NTD24,019 million during the last financial year. The net profit attributable to Tatung shareholders rose to approximately NTD2,876 million for the financial year 2019 from net loss incurred by Tatung of approximately NTD10,643 million for the previous financial year. The improvement in net profit attributable to Tatung is due to (i) the improvement in gross profit margin; (ii) the reduction in research and development expenses; and (iii) gains on disposal of property, plant and equipment and gains on disposal of investments.

Prospects: in June 2020, some foreign investors convened an extraordinary general meeting (“Tatung EGM”) to replace the incumbent board of directors with new board members to the Tatung board. However, alleging that the said foreign investors were disguised non-exempted mainland Chinese investors, the incumbent board declared the votes cast by the said foreign investors null and void in the Tatung EGM and the incumbent board continued to stay in power. On 12th August, 2020, The Ministry of Economic Affairs (“MoEA”) approved an application by some individual and institutional shareholders to hold another extraordinary general meeting to elect new members to the Tatung board again. The deadline of holding such a meeting is at the end of November 2020. As at the date of this interim results announcement, there is no appeal lodged by the incumbent board against the decision of MoEA. As the potential change in Tatung board is a very significant event, we will closely monitor the developments.

Investment strategy: the Company adopts the general value-investment thesis: hold the investments until its market price exceeds its intrinsic value.

2. Sub-participation in Kovan Limited (“Kovan”)

Fair value of Kovan as at 30th June, 2020 amounted to 5.5% of the Group’s total assets. No realised gain/loss was recorded but unrealised profit of approximately HK\$6.3 million from Kovan was recognised during the 2020 Interim Period.

Performance: investment in Kovan is an unlisted structured loan investment completed in 2015. The loan is originally due in October 2021. As the maturity date is approaching and the borrower is obliged to repay the principal and the accrued interests upon maturity, the fair value of our stakes in Kovan has increased gradually.

Prospects: to the best knowledge of the Company, the borrower is considering early repayment of the loan in 2020. We will closely monitor the developments.

Investment strategy: as an unlisted structured loan investment, the Company generally will hold the investment till repayment.

3. New Oriental Education & Technology Group Inc. (“New Oriental”)

Market value of New Oriental as at 30th June, 2020 amounted to 5.1% of the Group’s total assets. No realised gain/loss was recorded but unrealised profit of approximately HK\$3.6 million from New Oriental was recognised during the 2020 Interim Period.

Performance: for the financial year ended 31st May, 2020, the net revenue of New Oriental group increased by 16% to approximately US\$3,579 million, compared with the financial year 2019. The increase was primarily because of the increase in total student enrollments in academic subjects tutoring and test preparation courses in the financial year 2020. The net profit attributable to New Oriental rose by 74% to approximately US\$413 million for the financial year 2020 compared with the financial year 2019. The improvement in net profit attributable to New Oriental was due to the increase in revenue and improvement in operating profit margin.

Prospects: according to the management of New Oriental, the outbreak of COVID-19 strained its key business lines in the fourth quarter of the financial year 2020. There have been difficulties in acquiring new customers, and the enrollment for summer courses has also been delayed. In particular, the overseas related businesses, including test preparation and consulting business, have faced the most difficult challenges, due to cancellation of overseas exams, suspension of overseas schools and restrictions on travels. Looking ahead, New Oriental has gradually resumed its offline operations in over 90% of cities that it has presence in, with a vast amount of students returning to its offline learning centres. The management of New Oriental is optimistic about a recovery of business in the coming new financial year.

Investment strategy: as an equity investment, the Company generally adopts the general value-investment thesis: hold the investments until its market price exceeds its intrinsic value.

2020 ought to be one of the most memorable years in financial history. When COVID-19 spread to major western economies, the global economy was once on the brink of paralysis in March. Investors opted for cash and all risk asset classes tanked. S&P 500, well considered as the best gauge of large-cap United States equities, plunged by around 34% from peak in February to trough in March. Hang Seng Index dropped by around 25% from peak in January to trough in March. Fortunately, global central banks and governments have swiftly adopted aggressive fiscal and monetary policies to bolster the economies and global financial liquidity. Since March, global equity markets have rebounded strongly.

However, performances among securities of different sectors diverged significantly. For example, growth stocks continue to outperform value stocks by a wide margin. With lingering negative impacts of the COVID-19 on the global economy, profitability of many traditional companies is under severe pressure. Investors stuck with structural plays (such as e-commerce, biotech) are left relatively unscathed amid the uncertain world. Against this backdrop, we adopt a two-pronged approach: favouring stocks either with (i) structural growth prospects (despite higher valuation) or (ii) very attractive valuation, stable earnings or high sustainable dividend yield. Meanwhile, our bond portfolio with medium yield has so far met our expectation to provide a stable income stream amid the volatile investment environment.

FINANCIAL RESOURCES, LIQUIDITY AND GEARING RATIO

As at 30th June, 2020, the Group had cash and cash equivalents of approximately HK\$62.3 million (31st December, 2019: approximately HK\$86.1 million), investments of approximately HK\$1,042.3 million (31st December, 2019: approximately HK\$1,030.6 million) and no bank borrowings as at 30th June, 2020 and 31st December, 2019. The liquidity position of the Group enables us to respond to further investment opportunities that are expected to generate better returns for the shareholders of the Company. 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, 2020, was 0% (31st December, 2019: 0%).

FOREIGN EXCHANGE EXPOSURE

As at 30th June, 2020, the majority of the Group's investments was either denominated in Hong Kong dollars or United States dollars. Exposures to foreign currency exchange rates arise out of the Group's overseas investments and cash balances, including Renminbi, Malaysian ringgit, Thai baht, New Taiwan dollars 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 2020 Interim Period (2019: Nil).

GUARANTEE

The Company has given guarantee to a financial institution to secure banking facility available to a wholly-owned subsidiary in the amount not exceeding HK\$62.0 million as at 30th June, 2020 (31st December, 2019: HK\$62.3 million).

PLEDGE OF ASSETS

None of the Group's assets is pledged as at 30th June, 2020 and 31st December, 2019.

MATERIAL ACQUISITION AND DISPOSAL

The Group did not have any material acquisition or disposal of subsidiaries, associates or joint ventures during the 2020 Interim Period.

EVENTS AFTER THE REPORTING DATE

There are no important events affecting the Group which have occurred after the end of financial period for the six months ended 30th June, 2020 and up to the date of this interim results announcement.

STAFF COSTS

The Group's total staff costs (including Directors' emoluments) for the 2020 Interim Period amounted to approximately HK\$1.6 million (2019: approximately HK\$1.5 million).

AUDIT COMMITTEE

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

The Audit Committee has reviewed financial reporting matters and the 2020 Interim Report including a general review of the unaudited interim condensed consolidated financial statements for the six months ended 30th June, 2020. 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 the Hong Kong Institute of Certified Public Accountants and representations from management. The Audit Committee has not undertaken detailed independent audit checks.

COMPLIANCE WITH THE CODE PROVISIONS OF 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 to the Listing Rules during the 2020 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”) as set out in Appendix 10 to 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 2020 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 listed securities during the 2020 Interim Period.

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

Hong Kong, 20th August, 2020

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 is Non-Executive Director; and Mr. Albert Ho, Mr. Peter Lee Yip Wah and Mr. Louie Chun Kit are Independent Non-Executive Directors.