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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)

ANNOUNCEMENT OF 2017 AUDITED RESULTS

RESULTS

The board of directors (the “Board”) of SHK Hong Kong Industries Limited (the “Company”) announces that the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31st December, 2017 are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31st December, 2017

	<i>Notes</i>	2017 HK\$'000	2016 HK\$'000
Revenue	3	23,756	19,026
Other net income/(loss)	4	175,889	(48,190)
Administrative and other operating expenses	6	(31,998)	(30,348)
Share of loss of associates		(975)	(9)
Loss on disposal of joint ventures	5	—	(14,067)
Profit/(loss) before income tax	6	166,672	(73,588)
Income tax expense	7	—	—
Profit/(loss) for the year		<u>166,672</u>	<u>(73,588)</u>
Profit/(loss) for the year attributable to:			
Owners of the Company		166,667	(73,565)
Non-controlling interests		5	(23)
		<u>166,672</u>	<u>(73,588)</u>
Earnings/(loss) per share attributable to the owners of the Company (HK cents)			
– Basic	9	4.05	(1.79)
– Diluted		4.05	(1.79)

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**

For the year ended 31st December, 2017

	2017 HK\$'000	2016 HK\$'000
Profit/(loss) for the year	166,672	(73,588)
Other comprehensive income/(expenses)		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Change in fair value of available-for-sale financial assets	18,431	(32)
Reclassification adjustment for realisation upon redemption of available-for-sale financial assets	2,952	(906)
Share of other comprehensive income/(expenses) of an associate	228	(253)
Other comprehensive income/(expenses) for the year, net of tax	21,611	(1,191)
Total comprehensive income/(expenses) for the year	188,283	(74,779)
Total comprehensive income/(expenses) for the year attributable to:		
Owners of the Company	188,179	(74,645)
Non-controlling interests	104	(134)
	188,283	(74,779)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31st December, 2017

	<i>Notes</i>	2017 HK\$'000	2016 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Interests in associates		3,133	3,880
Amount due from an associate		9,564	8,609
Available-for-sale financial assets	<i>10</i>	217,551	385,350
		230,248	397,839
Current assets			
Available-for-sale financial assets	<i>10</i>	86,564	–
Other receivables and prepayment		162	443
Financial assets at fair value through profit or loss	<i>11</i>	584,734	551,607
Cash and cash equivalents		464,208	245,222
		1,135,668	797,272
Current liabilities			
Other payables and accrued expenses		9,715	23,753
Amount due to a holding company		341	317
Amount due to a fellow subsidiary		7,462	5,393
Financial liabilities at fair value through profit or loss	<i>12</i>	4,921	10,454
		22,439	39,917
Net current assets		1,113,229	757,355
Total assets less current liabilities		1,343,477	1,155,194
Net assets		1,343,477	1,155,194

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)*As at 31st December, 2017*

	<i>Notes</i>	2017 HK\$'000	2016 <i>HK\$'000</i>
EQUITY			
Equity attributable to the owners of the Company			
Share capital		918,978	918,978
Reserves		423,481	235,302
		1,342,459	1,154,280
Non-controlling interests		1,018	914
Total equity		1,343,477	1,155,194
Net asset value per share attributable to the owners of the Company (HK\$)	<i>13</i>	0.33	0.28

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2017

	Equity attributable to the owners of the Company							Non- controlling interests	Total equity
	Share capital	Capital contribution reserve	Investment revaluation reserve	Translation reserve	Retained earnings	Dividend reserve	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 1st January, 2016	918,978	367	24,556	32	284,992	–	1,228,925	1,048	1,229,973
Loss for the year	–	–	–	–	(73,565)	–	(73,565)	(23)	(73,588)
Other comprehensive expenses:									
Change in fair value of available-for-sale financial assets	–	–	(32)	–	–	–	(32)	–	(32)
Reclassification adjustment for realisation upon redemption of available-for-sale financial assets	–	–	(906)	–	–	–	(906)	–	(906)
Share of other comprehensive expenses of an associate	–	–	–	(142)	–	–	(142)	(111)	(253)
Total comprehensive expenses for the year	–	–	(938)	(142)	(73,565)	–	(74,645)	(134)	(74,779)
At 31st December, 2016 and 1st January, 2017	918,978	367[#]	23,618[#]	(110)[#]	211,427[#]	–	1,154,280	914	1,155,194
Profit for the year	–	–	–	–	166,667	–	166,667	5	166,672
Other comprehensive income:									
Change in fair value of available-for-sale financial assets	–	–	18,431	–	–	–	18,431	–	18,431
Reclassification adjustment for realisation upon redemption of available-for-sale financial assets	–	–	2,952	–	–	–	2,952	–	2,952
Share of other comprehensive income of an associate	–	–	–	129	–	–	129	99	228
Total comprehensive income for the year	–	–	21,383	129	166,667	–	188,179	104	188,283
Interim dividend declared (<i>Note 8</i>)	–	–	–	–	(205,585)	205,585	–	–	–
Transactions with owners	–	–	–	–	(205,585)	205,585	–	–	–
At 31st December, 2017	918,978	367[#]	45,001[#]	19[#]	172,509[#]	205,585[#]	1,342,459	1,018	1,343,477

[#] *The aggregate amount of these balances of HK\$423,481,000 (2016: HK\$235,302,000) represents the reserves in the consolidated statement of financial position.*

NOTES TO THE FINANCIAL INFORMATION

1. Basis of Preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the Hong Kong Companies Ordinance. The financial statements also include the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

2. Adoption of New or Revised HKFRSs

2.1 Adoption of revised HKFRSs – effective 1st January, 2017

In the current year, the Group has applied for the first time the following revised HKFRSs issued by the HKICPA, which are relevant to and effective for the Group’s financial statements for the annual period beginning on 1st January, 2017.

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

The adoption of these revised HKFRSs has no significant impact on the Group’s financial statements.

The financial information relating to the financial years ended 31st December, 2017 and 2016 included in this announcement of annual results 2017 does not constitute the Company’s statutory annual financial statements for those financial years but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follow:

The Company has delivered the financial statements for the year ended 31st December, 2016 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the financial statements for the year ended 31st December, 2017 in due course. The Company’s auditor has reported on those financial statements for both years. The auditor’s reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

2. Adoption of New or Revised HKFRSs (Cont'd)

2.2 New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

HKFRS 9	Financial Instruments ¹
HK(IFRIC) Int 22	Foreign Currency Transactions and Advance Consideration ¹
HK(IFRIC) Int 23	Uncertainty over Income Tax Treatments ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle ¹
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³

¹ Effective for annual periods beginning on or after 1st January, 2018

² Effective for annual periods beginning on or after 1st January, 2019

³ The amendments were originally intended to be effective for periods beginning on or after 1st January, 2016. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the Board so far concluded that the application of these new/revised HKFRSs will have no material impact on the Group's financial statements.

3. Revenue and Segment Information

Revenue from the investments in listed and unlisted financial instruments recognised during the year is as follows:

	2017 HK\$'000	2016 HK\$'000
Interest income from available-for-sale financial assets	14,118	12,554
Interest income from bank deposits	933	1,451
Total interest income derived from financial assets not at fair value through profit or loss	15,051	14,005
Listed investments' dividend income	8,705	5,021
	23,756	19,026

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.

4. Other Net Income/(Loss)

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Fair value gain/(loss) on financial assets and liabilities at fair value through profit or loss	173,307	(53,875)
Exchange gain/(loss), net	1,609	(16)
Realised gain on redemption of available-for-sale financial assets	90	955
Sundry income	883	4,746
	<u>175,889</u>	<u>(48,190)</u>

5. Loss on Disposal of Joint Ventures

During the year ended 31st December, 2016, the Group disposed of its entire 50% interests in joint ventures together with the amounts due from joint ventures for cash proceeds of HK\$35,120,000, recording a loss on disposal of joint ventures of approximately HK\$14,067,000.

6. Profit/(loss) before Income Tax

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Profit/(loss) before income tax is arrived at after charging:		
Auditor's remuneration	284	270
Employee benefit expense (including Directors' emoluments)	4,364	3,195
Management fee	19,288	17,424
Performance fee	1,916	–
Impairment on amounts due from joint ventures	–	956
	<u>–</u>	<u>956</u>

Note: Administrative and other operating expenses consist mainly of employee benefit expense, management fee, performance fee and impairment on amounts due from joint ventures included above.

7. Income Tax Expense

No Hong Kong profits tax has been provided for the year ended 31st December, 2017 as certain subsidiaries of the Group had no estimated assessable profits and certain subsidiaries of the Group had sufficient tax losses brought forward to set off the estimated assessable profits.

No Hong Kong profits tax had been provided for the year ended 31st December, 2016 as the Group had no estimated assessable profits.

8. Dividend

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Dividend declared		
Interim dividend of HK\$0.05 per share (in lieu of a final dividend) declared subsequent to the end of the reporting period (2016: Nil)	<u>205,585</u>	<u>–</u>

The amount of the interim dividend (in lieu of a final dividend) for the year ended 31st December, 2017 declared after the end of the reporting period, which has been calculated by reference to 4,111,704,320 shares in issue on 19th March, 2018, has not been recognised as a liability as at 31st December, 2017.

9. Earnings/(loss) per Share Attributable to the Owners of the Company

The calculation of basic earnings/(loss) per share is based on the profit attributable to the owners of the Company of approximately HK\$166,667,000 (2016: loss of approximately HK\$73,565,000) and on the weighted average number of 4,111,704,320 (2016: 4,111,704,320) ordinary shares in issue during the year.

Diluted earnings/(loss) per share for the years ended 31st December, 2017 and 2016 is the same as the basic earnings/(loss) per share as the Company had no dilutive potential ordinary shares during the years ended 31st December, 2017 and 2016.

10. Available-for-sale Financial Assets

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Non-current		
Unlisted equity securities, at fair value	106,910	91,832
Unlisted equity securities, at cost	61,700	61,242
Listed debt securities, at fair value	48,941	139,979
Unlisted debt securities, at fair value	<u>–</u>	<u>92,297</u>
	217,551	385,350
Current		
Unlisted debt securities, at fair value	<u>86,564</u>	<u>–</u>
Total	<u>304,115</u>	<u>385,350</u>

11. Financial Assets at Fair Value Through Profit or Loss

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Equity securities held for trading		
– Listed in Hong Kong	434,476	511,113
– Listed outside Hong Kong	150,258	37,475
	<hr/>	<hr/>
Market value of listed securities	584,734	548,588
Derivative financial instruments		
– Equity forward contract, at fair value	–	2,343
– Warrants listed outside Hong Kong, at market value	–	676
	<hr/>	<hr/>
	584,734	551,607
	<hr/>	<hr/>

12. Financial Liabilities at Fair Value Through Profit or Loss

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Derivative financial instruments		
– Call options embedded in bonds and notes, at fair value	4,921	10,454
	<hr/>	<hr/>

13. Net Asset Value per Share Attributable to the Owners of the Company

The calculation of the net asset value per share is based on the consolidated net assets attributable to the owners of the Company of approximately HK\$1,342,459,000 (2016: approximately HK\$1,154,280,000) and 4,111,704,320 (2016: 4,111,704,320) ordinary shares in issue as at 31st December, 2017.

OVERVIEW

The Group recorded a profit for the year ended 31st December, 2017 primarily arising from its investments in equities.

FINANCIAL KEY PERFORMANCE INDICATORS

The Group recorded a net profit attributable to the owners of the Company in the amount of approximately HK\$166.7 million (2016: loss of approximately HK\$73.6 million) for the year ended 31st December, 2017, comprising profit of approximately HK\$171.8 million from equity related investments (2016: loss of approximately HK\$71.1 million) and profit contribution of approximately HK\$20.5 million from bond investments (2016: approximately HK\$19.8 million).

As at 31st December, 2017, the Group's net assets attributable to the owners of the Company increased by 16.3% to approximately HK\$1,342.5 million. In comparison, the Hang Seng Index and the Hang Seng China Enterprises Index advanced by 36.0% and by 24.6% respectively during 2017.

INVESTMENT REVIEW

As at 31st December, 2017, the Group's major investments were as follows:

Investments	Description
Listed Equities	HK\$584.7 million of a portfolio of listed shares in 23 companies
Fixed Income	HK\$130.6 million of fixed income instruments issued and/or guaranteed by an overseas government and three companies listed in Hong Kong
Investment Funds	HK\$137.4 million in seven investment funds
Sub-participation in Unlisted Investment	Sub-participation of HK\$31.3 million in an unlisted investment
Direct Investments in Unlisted Equities	HK\$11.7 million in three direct investments in unlisted equities

The Group's portfolio of investments comprises mainly securities in Hong Kong, United States and Malaysia.

The five most profitable investments in our securities portfolio during the year were ZTE Corporation (provision in service in a range of information and communication technology related systems, equipment and terminals), Cowell e Holdings Inc. (camera module and optical components manufacturer), Anhui Conch Cement Company Limited (cement manufacturer), Maanshan Iron & Steel Company Limited (iron and steel manufacturer) and Tencent Holdings Limited (provision of value-added services and online advertising services).

The five biggest losses in our securities portfolio during the year were Xingda International Holdings Limited (radial tire cords, bead wires and other wires manufacturer), PC Partner Group Limited (electronics and personal computer parts manufacturer), CLP Holdings Limited (electricity supplier), New China Life Insurance Company Limited (life insurance services and products provider) and TIH Limited warrants (a closed-end fund).

DIVIDEND

The Board has declared an interim dividend of HK\$0.05 per share (in lieu of a final dividend) for the year ended 31st December, 2017 (2016: Nil) payable on Friday, 27th April, 2018 to the shareholders of the Company (the “Shareholders”) whose names appear on the register of members of the Company on Monday, 16th April, 2018.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to the interim dividend (in lieu of a final dividend) for the year ended 31st December, 2017, the register of members of the Company will be closed on Friday, 13th April, 2018 and Monday, 16th April, 2018, during which period no transfer of shares of the Company will be registered. In order for a Shareholder to qualify for the interim dividend (in lieu of a final dividend), all transfer forms accompanied by the relevant share certificates must be lodged with the Company’s share registrar, Tricor Secretaries Limited of Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 12th April, 2018.

The forthcoming annual general meeting of the Company is scheduled to be held on Monday, 21st May, 2018 (the “AGM”). The register of members of the Company will be closed from Wednesday, 16th May, 2018 to Monday, 21st May, 2018, during which period no transfer of shares of the Company will be registered. To be eligible to attend and vote at the AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company’s share registrar, Tricor Secretaries Limited of Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 15th May, 2018.

PROSPECTS, INVESTMENT BASIS AND STRATEGY

We are research based, company focused and without sector preference. Our approach has been to identify securities that are undervalued, and offer prospects of improvement over the medium to long term. The relatively modest size of our company allows us to take advantage of investing in smaller companies with relatively lower turnover. Our bond portfolio is designed to offer a buffer to counter the volatility of our equities investment, but had from time to time proved to be an important profit contributor.

It was a goldilocks period for risk assets in 2017. Global economy was in the growth mode with moderate inflation threat and modest pace of interest rate hikes in the United States. China economy was more resilient than expected, on the back of capital outflow control and a policy to support the property market and infrastructure investment. However, investment market will be more challenging in 2018. Firstly, the aggressive fiscal stimulus, namely the corporate tax reform and, potentially, the infrastructure grand plan, will widen the budget

deficit of the United States, which needs to be financed by treasury. This will probably lead to high treasury yield, weighing on the valuation of all risk assets. Secondly, the Chinese government will continue deleveraging the economy. In January 2018, the credit growth rate of China was at a 32-month low. Being credit-driven for the past ten years, China economy will be under severe pressure later with the ongoing deleveraging campaign. At present, we avoid the investments with high-growth expectations yet without near-term positive earnings surprise, and hold on to the investments that are either cheap or underappreciated by the market. We will keep monitoring the economic data and policy tones of United States and China and may de-risk further later this year.

FINANCIAL RESOURCES, LIQUIDITY AND GEARING RATIO

As at 31st December, 2017, the Group had cash and cash equivalents of approximately HK\$464.2 million (2016: approximately HK\$245.2 million), investments of approximately HK\$895.6 million (2016: approximately HK\$938.1 million) and no bank borrowings as at 31st December, 2017 and 2016. 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 31st December, 2017, was 0% (2016: 0%).

FOREIGN EXCHANGE EXPOSURE

As at 31st December, 2017, the majority of the Group's investments were either denominated in Hong Kong dollars or United States dollars. Exposure to foreign currency exchange rates arises out of the Group's overseas investments and cash balances, including New Taiwan dollars, Renminbi, 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.

GUARANTEE

As at 31st December, 2017, the Company has given guarantee to a financial institution to secure banking facilities available to a wholly-owned subsidiary in the amount not exceeding HK\$40.0 million (2016: HK\$40.0 million).

STAFF COSTS

The Group's total staff costs (including Directors' emoluments) for the year ended 31st December, 2017 amounted to approximately HK\$4.4 million (2016: approximately HK\$3.2 million).

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed risk management, internal controls and financial reporting matters, including review of the annual report for the year ended 31st December, 2017. In addition, the Audit Committee has also reviewed the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting function for the year ended 31st December, 2017.

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and adopted code provisions set out in the Corporate Governance Code (the “CG Code”) in Appendix 14 to the Listing Rules as its own code on corporate governance practices throughout the financial year ended 31st December, 2017.

In the opinion of the Board, the Company has complied with the code provisions of the CG Code during the year ended 31st December, 2017.

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 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 year.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s shares during the year.

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the preliminary announcement of the Group’s results for the year ended 31st December, 2017 have been agreed by the Group’s auditor, BDO Limited, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by BDO Limited on the preliminary announcement.

PUBLICATION OF ANNUAL REPORT

The annual report of the Company will be despatched to the Shareholders as well as published on the websites of The Stock Exchange of Hong Kong Limited and the Company in due course.

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

Hong Kong, 19th March, 2018

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