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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)

## 2010 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, 2010 are set out below:

### CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months ended 30th June, 2010*

		<b>Unaudited</b>	
		<b>Six months ended 30th June,</b>	
	<i>Notes</i>	<b>2010</b>	<b>2009</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Revenue</b>	3	<b>24,518</b>	12,221
<b>Other net income</b>	4	<b>9,380</b>	221,318
<b>Administrative and other operating expenses</b>		<b>(16,481)</b>	<b>(28,042)</b>
<b>Operating profit</b>		<b>17,417</b>	205,497
Finance costs	6	<b>(252)</b>	(35)
<b>Profit before income tax</b>	7	<b>17,165</b>	205,462
Income tax expense	8	<b>–</b>	–
<b>Profit for the period attributable to the owners of the Company</b>		<b>17,165</b>	205,462
<b>Earnings per share (HK cents)</b>	9		
– Basic		<b>0.46</b>	7.96
– Diluted		<b>0.44</b>	7.86

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June, 2010

	Unaudited	
	Six months ended 30th June,	
	2010	2009
	HK\$'000	HK\$'000
<b>Profit for the period</b>	<b>17,165</b>	205,462
<b>Other comprehensive (expenses)/income</b>		
Change in fair value of available-for-sale financial assets	<b>4,125</b>	35,240
Reclassification adjustment upon disposal of available-for-sale financial assets	<u>(25,464)</u>	<u>–</u>
<b>Other comprehensive (expenses)/ income for the period, net of tax</b>	<u><b>(21,339)</b></u>	<u>35,240</u>
<b>Total comprehensive (expenses)/income for the period attributable to the owners of the Company</b>	<u><b>(4,174)</b></u>	<u>240,702</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30th June, 2010*

		<b>Unaudited</b>	Audited
		<b>30th June,</b>	31st December,
		<b>2010</b>	2009
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Interests in associates		18,155	18,155
Available-for-sale financial assets	11	499,308	381,256
Held-to-maturity investments	12	–	51,516
		517,463	450,927
<b>Current assets</b>			
Trade and other receivables and prepayment	13	11,237	8,634
Amount due from a fellow subsidiary		606	256
Financial assets at fair value through profit or loss	14	571,443	534,350
Pledged bank deposits		50,856	3,955
Cash and cash equivalents		98,202	247,110
		732,344	794,305
<b>Current liabilities</b>			
Other payables and accrued expenses		575	12,051
Amount due to a holding company		150	293
Amount due to a fellow subsidiary		4,654	4,627
Borrowings		22,752	27,216
Financial liabilities at fair value through profit or loss	15	77,154	59,216
Taxation payable		–	1,271
		105,285	104,674
<b>Net current assets</b>		627,059	689,631
<b>Total assets less current liabilities</b>		1,144,522	1,140,558
<b>Net assets</b>		1,144,522	1,140,558
<b>EQUITY</b>			
<b>Equity attributable to the owners of the Company</b>			
Share capital		373,966	373,879
Reserves		762,505	766,679
		1,136,471	1,140,558
Non-controlling interests		8,051	–
<b>Total equity</b>		1,144,522	1,140,558

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION AND BASIS OF PREPARATION

The Company is a limited liability company incorporated and domiciled in Hong Kong. The address of the Company's registered office and principal place of business of the Company is Room 1801, 18th Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange of Hong Kong").

Principal activities of the Group include the investments in listed and unlisted financial instruments.

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 ("Listing Rules") on the Stock Exchange of Hong Kong 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 under 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, 2009, except for the adoption of the new and amended Hong Kong Financial Reporting Standards ("HKFRSs") (which include individual Hong Kong Financial Reporting Standards, HKASs and Interpretations) as disclosed below.

#### **New and amended HKFRSs**

From 1st January, 2010, the Group has applied for the first time the following new and amended HKFRSs which are relevant to and effective to the Group's financial statements for the annual financial period beginning on 1st January, 2010.

HKAS 27 (Revised)	Consolidated and Separate Financial Statements
Various	Annual Improvements to HKFRSs 2009

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

#### **HKAS 27 (Revised) – Consolidated and Separate Financial Statements**

HKAS 27 (Revised) introduced changes to the accounting requirements for transactions with non-controlling (formerly called "minority") interests and the loss of control of a subsidiary. The adoption of HKAS 27 (Revised) is applied prospectively.

The Group has not early adopted the following new or amended HKFRSs that have been issued and relevant to the Group but are not yet effective:

HKFRS 9	Financial Instruments <sup>4</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>3</sup>
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>2</sup>
Various	Annual Improvements to HKFRSs 2010 <sup>1</sup>

*Notes:*

- <sup>1</sup> Effective for annual periods beginning on or after 1st July, 2010 and 1st January, 2011, as appropriate
- <sup>2</sup> Effective for annual periods beginning on or after 1st July, 2010
- <sup>3</sup> Effective for annual periods beginning on or after 1st January, 2011
- <sup>4</sup> Effective for annual periods beginning on or after 1st January, 2013

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1st January, 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

Save as described above, the Directors of the Company anticipate that the application of other new and amended HKFRSs will have no material impact on the results and financial position of the Group.

### 3. REVENUE

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

	<b>Unaudited</b>	
	<b>Six months ended 30th June,</b>	
	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Interest income from available-for-sale financial assets and held-to-maturity investments	<b>15,469</b>	8,388
Dividend income		
– listed investments	<b>8,507</b>	3,514
– unlisted investment	<b>460</b>	–
Interest income from bank deposits	<b>82</b>	319
	<b>24,518</b>	12,221

#### 4. OTHER NET INCOME

	Unaudited	
	Six months ended 30th June,	
	2010	2009
	HK\$'000	HK\$'000
Gain/(loss) on disposal/redemption of available-for-sale financial assets and held-to-maturity investments	43,032	(3,563)
Fair value (loss)/gain on financial assets and liabilities at fair value through profit or loss	(33,713)	174,800
Sundry income	61	81
Receipts on interests in Grand China Shares ( <i>Note</i> )	–	50,000
	<u>9,380</u>	<u>221,318</u>

*Note:*

On 15th April, 2008, a third party independent of the Group (the “Buyer”) entered into an agreement with a subsidiary of the Group, according to which the Buyer agreed to pay for the Group’s interests in the shares of Grand China Air Company Limited (“Grand China Shares”) at a total consideration of HK\$110 million to that subsidiary. During the year ended 31st December, 2008, the Group received HK\$60 million non-refundable amount in cash from the Buyer and that amount was recognised as income in 2008. The Group received the remaining HK\$50 million balance payment in cash from the Buyer in April 2009. The amount is recognised as income in the unaudited condensed consolidated income statement for the six months ended 30th June, 2009.

#### 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,	
	2010	2009
	HK\$'000	HK\$'000
Interest on bank borrowings wholly repayable within five years	<u>252</u>	<u>35</u>

## 7. PROFIT BEFORE INCOME TAX

	Unaudited	
	Six months ended 30th June,	
	2010	2009
	HK\$'000	HK\$'000
Profit before income tax is arrived at after charging:		
Management fee	8,529	5,754
Employee benefit expenses (including Directors' emoluments)	1,302	1,322
Write-off of trade receivable	–	18,008
	<u>          </u>	<u>          </u>

## 8. INCOME TAX EXPENSE

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

No Hong Kong profits tax had been provided for the six months ended 30th June, 2009 as the assessable profits of the Group were offset by tax losses brought forward.

## 9. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30th June, 2010 is based on the profit attributable to the owners of the Company of approximately HK\$17,165,000 (2009: profit of approximately HK\$205,462,000) and on the weighted average number of approximately 3,738,917,000 (2009: approximately 2,581,732,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the six months ended 30th June, 2010 is based on the adjusted profit attributable to the owners of the Company of approximately HK\$17,165,000 (2009: profit of approximately HK\$205,462,000) and on the weighted average number of approximately 3,926,700,000 (2009: approximately 2,614,619,000) 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 24th August, 2010, the Board resolved not to declare an interim dividend for the period (2009: Nil).

## 11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Unaudited	Audited
	30th June,	31st December,
	2010	2009
	HK\$'000	HK\$'000
Listed equity and debt securities		
– listed in Hong Kong	31,441	66,048
– listed outside Hong Kong	414,290	281,852
	<u>          </u>	<u>          </u>
Market value of listed equity and debt securities	445,731	347,900
Unlisted equity securities	31,876	33,356
Unlisted debt securities	21,701	–
	<u>          </u>	<u>          </u>
	499,308	381,256

## 12. HELD-TO-MATURITY INVESTMENTS

	<b>Unaudited 30th June, 2010 HK\$'000</b>	Audited 31st December, 2009 HK\$'000
At amortised cost:		
– unlisted debt securities	–	16,990
– listed debt securities	–	34,526
	<u>–</u>	<u>51,516</u>

During the period, held-to-maturity debt securities at amortised cost of HK\$14,156,000 (2009: Nil) were disposed of at a profit of HK\$4,507,000 (2009: Nil). The disposal was to modify the maturity and risk profile of the investment portfolio. Based on this change, the management have reclassified all the held-to-maturity debt securities from the held-to-maturity category to the available-for-sale category.

## 13. TRADE AND OTHER RECEIVABLES AND PREPAYMENT

	<b>Unaudited 30th June, 2010 HK\$'000</b>	Audited 31st December, 2009 HK\$'000
Trade receivables	11,048	7,985
Other receivables	181	13
Prepayment	8	636
	<u>11,237</u>	<u>8,634</u>

There is 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 which are included in trade and other receivables and prepayment, presented after deducting impairment allowance, was as follows:

	<b>Unaudited 30th June, 2010 HK\$'000</b>	Audited 31st December, 2009 HK\$'000
Within one year	<u>11,048</u>	<u>7,985</u>



**14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<b>Unaudited 30th June, 2010 HK\$'000</b>	Audited 31st December, 2009 HK\$'000
Listed equity securities held for trading		
– listed in Hong Kong	<b>507,614</b>	451,493
– listed outside Hong Kong	<b>56,089</b>	52,083
	<hr/>	<hr/>
Market value of listed equity securities	<b>563,703</b>	503,576
Conversion options embedded in convertible bonds	<b>4,390</b>	9,178
Unlisted warrants	<b>3,350</b>	12,540
Unlisted equity securities	–	9,056
	<hr/>	<hr/>
	<b>571,443</b>	534,350
	<hr/>	<hr/>

**15. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<b>Unaudited 30th June, 2010 HK\$'000</b>	Audited 31st December, 2009 HK\$'000
Derivative financial instruments		
– call options embedded in bonds and notes	<b>77,154</b>	59,216
	<hr/>	<hr/>

## MANAGEMENT DISCUSSION AND ANALYSIS

### OVERVIEW

The Group's major income for the six months ended 30th June, 2010 (the "2010 Interim Period") comprised mainly bond interest income, stock dividends and profit on disposal of investments including equities, bonds and investment fund.

The Group recorded a net profit attributable to the owners of the Company of approximately HK\$17.2 million for the 2010 Interim Period, compared to approximately HK\$205.5 million in 2009. The net profit was mainly earned on the disposal of certain equities and bonds together with the interest received from bonds during the 2010 Interim Period.

The Group's net asset value remained level at around HK\$1.14 billion by the end of the 2010 Interim Period although the Hang Seng Index and the Hang Seng China Enterprises Index dropped by 8% and 10% respectively over the same period. During the 2010 Interim Period, we opened some short term positions as well as disposed of some stocks held previously as mid-to-small caps. This strategy proved successful and its profit set off partly the revaluation loss on other stocks in the portfolio, a large portion of which is constituent stocks of the Hang Seng Index.

### INVESTMENT REVIEW

As at 30th June, 2010, the Group's major investments and their carrying value, other than its cash holding, were as follows:

<b>Investments</b>	<b>Description</b>
Listed Equities	HK\$574.9 million of a portfolio of 42 listed shares
Bonds	HK\$383.5 million of bonds issued by 14 companies listed in Hong Kong and overseas
Investment Funds	HK\$31.9 million in 2 investment funds
Direct Investment in Unlisted Equity	HK\$10.1 million in 1 direct investment in unlisted equity
Unlisted Warrants	HK\$3.3 million of 60,000 warrants in J. Bridge Corp., a company listed on the 2nd Section of Tokyo Stock Exchange

The Group's portfolio of investment comprises securities in Hong Kong, United States ("US"), Malaysia, Japan, Taiwan and the People's Republic of China ("PRC" or "Mainland"). The value of our portfolio stayed level as at the end of the 2010 Interim Period despite the significant correction of Hong Kong stock market since April 2010.

Oriental Cashmere Limited (“OCL”) reported a small loss in the first half. As our investment in OCL had already been fully impaired, the operating loss would not have any adverse effect on the Group’s consolidated results for the 2010 Interim Period.

The Group made a direct investment in unlisted equity in a business providing online education services in the Mainland. No material gain or loss was recorded in the period under review.

## **PROSPECTS**

The first six months of 2010 was an eventful period for investors, dominated by the rumoured tightening of credit in the PRC, and then the threat of a European credit crisis. The Hang Seng Index eventually recovered from the low of 18,985 in May to closing at 20,129 on 30th June, 2010, 1,743 points down from the beginning of the year.

The US and the PRC economies, being part of the equation of the Hong Kong stock market, continue to show signs of weakness. We expect the second half of 2010 to be a tug-of-war between the real economy and the offsetting fiscal policies of the US and the PRC. We will cautiously increase our allocation in debt and equity, with prudent hedges on any further downturn of the market.

## **FINANCIAL POSITION**

As at 30th June, 2010, the Group had cash and cash equivalents and pledged bank deposits of approximately HK\$149.1 million and listed equities held for trading of approximately HK\$563.7 million. Bank borrowings denominated in British pound equivalent to approximately HK\$22.8 million were maintained so as to reduce the Group’s foreign exchange exposure of bond investments in that currency. The liquidity position of the Group enables us to respond to further investment opportunities that are expected to generate better return for our Shareholders.

## **FOREIGN EXCHANGE EXPOSURE**

As at 30th June, 2010, the majority of the Group’s investments was either denominated in Hong Kong dollars or United States dollars. Exposures to currency exchange rates still arise as the Group has certain investments, which are primarily denominated in Japanese yen, Malaysian ringgit, New Taiwan dollar, British pound and China renminbi. Other than the British-pound bank loans, the Group at present does not have any contracts to hedge against its foreign exchange risks. Should the Group consider 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 2010 Interim Period (2009: 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\$555.7 million (at 31st December, 2009: HK\$255.1 million). Facilities amounting to HK\$22.8 million (at 31st December, 2009: HK\$27.2 million) were utilised as at 30th June, 2010.

## **STAFF COSTS**

The Group's total staff costs (including Directors' emoluments) for the 2010 Interim Period amounted to approximately HK\$1.3 million (2009: approximately HK\$1.3 million).

## **AUDIT COMMITTEE**

The Company has established an audit committee in accordance with rule 3.21 of the 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 a general review of the interim report (including unaudited interim condensed consolidated financial statements for the six months ended 30th June, 2010). In carrying out this review, the audit committee has obtained explanations from management. At the request of the Directors, 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, 2010 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 HKICPA.

## **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES AND NON-COMPLIANCE OF RULES 3.10(1) AND 3.21 OF THE LISTING RULES**

The Company has met with the code provisions of the Code on Corporate Governance Practices (the "CG Code"), as set out in Appendix 14 of the Listing Rules, during the accounting period covered by the interim report except for the following deviation. Also, the non-compliance of rules 3.10(1) and 3.21 of the Listing Rules is explained below.

### **Code provision B.1.1**

The code provision B.1.1 states that a majority of the members of the remuneration committee should be independent non-executive directors.

The Company used to have a Remuneration Committee which comprised two Independent Non-Executive Directors and one Non-Executive Director. After the resignation of one Independent Non-Executive Director on 12th April, 2010, there were only two members in the Remuneration Committee i.e. one Independent Non-Executive Director and one Non-Executive Director.

As mentioned in the next section, the Company is still actively identifying a suitable candidate to fill the vacancy and will ensure compliance with the code provision B.1.1 as soon as possible.

### **Non-compliance of rules 3.10(1) and 3.21 of the Listing Rules**

On 12th April, 2010, Ms. Lam Tak Yee resigned as an Independent Non-Executive Director and member of Audit Committee of the Company. Subsequent to the resignation of Ms. Lam, the Company had not been able to comply with the requirements of rule 3.10(1) (minimum of three independent non-executive directors) and rule 3.21 (minimum of three audit committee members with majority of independent non-executive directors) of the Listing Rules (the said “Rules”). Currently, the Company has only two Independent Non-Executive Directors, namely Mr. Ambrose So Shu Fai and Mr. Albert Ho and two members of Audit Committee, namely Mr. Albert Ho (Chairman of the Audit Committee) and Mr. Arthur George Dew (a Non-Executive Director).

As at the date of this announcement, the Company is still actively identifying a suitable candidate to fill the vacancy of Independent Non-Executive Director and member of Audit Committee but has not yet been successful.

The Company will continue to make every effort to look for an appropriate person to fill the vacancy of Independent Non-Executive Director and member of Audit Committee of the Company and will ensure compliance with the said Rules as soon as possible.

### **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 period.

### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

The Company has not redeemed any of its securities during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company’s securities during the period.

By order of the Board  
**Warren Lee Wa Lun**  
*Chairman*

Hong Kong, 24th August, 2010

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