

Interim Report 2004

中期業績報告



SINCE 1952

蜆壳電器工業(集團)有限公司
SHELL ELECTRIC MFG. (HOLDINGS) CO. LTD.

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Chairman's Statement

PROFIT FOR THE FIRST HALF YEAR

The Group's unaudited consolidated net profit for the first half of 2004 amounted to HK\$12,148,000. Earnings per share were 2.74 cents.

INTERIM DIVIDENDS

The Board has resolved to pay an interim dividend for the year ending 31st December, 2004 of 3 cents (2003: 3 cents) per share payable to shareholders whose names appear on the Register of Members of the Company on 24th September, 2004 (the "Record Date").

The interim dividend will be payable in cash but shareholders with Hong Kong addresses will be given an option to receive the same in the form of new shares in lieu of cash in respect of part or all of such dividend. The new shares to be issued pursuant to the scrip dividend scheme ("New Shares") are subject to listing thereof, and permission to deal therein, being granted by The Stock Exchange of Hong Kong Limited.

In relation to the calculation of the number of New Shares to be allotted, shareholders are hereby informed that the issue price of a New Share will be the average closing price of the Company's shares on The Stock Exchange of Hong Kong Limited for the five consecutive trading days beginning 20th September, 2004 and ending 24th September, 2004.

A circular containing details of the scrip dividend scheme and the accompanying form of election will be mailed to shareholders on or around 5th October, 2004. It is expected that the interim dividend and New Shares certificates will be mailed to shareholders entitled thereto at their risk on or around 28th October, 2004.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 22nd September, 2004 to Friday, 24th September, 2004, both days inclusive, during which period no transfer of the Company's shares will be effected. In order to qualify for the interim dividend, all share certificates with the duly completed transfer forms must be lodged with the Company's Registrars, Standard Registrars Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on Tuesday, 21st September, 2004.

BUSINESS REVIEW

Electrical Household Appliances: Ceiling Fans, Table Fans and Vacuum Cleaners

The ceiling fan export business was difficult compared with the prior year. Reduction of export tax refunds in China and high raw material prices directly affected production costs. During the period moderate increase in turnover was recorded. The safety prevention inspection and maintenance program announced in June concerning speed regulators used in the Group's ceiling fans is progressing smoothly and has mostly completed in late August.

The table fan business was faced with similar operating challenges during the period. The quantities returned so far in the voluntary product recall program in the US in June were lower than originally estimated. No significant financial costs are expected.

Chairman's Statement

BUSINESS REVIEW – continued

Electrical Household Appliances: Ceiling Fans, Table Fans and Vacuum Cleaners – continued

The vacuum cleaner business was also affected by soaring raw material prices. Gross margins were squeezed and sales and profit targets fell short.

The electrical household appliance business will continue to face challenges under high raw material costs and price competition conditions that may persist in the second half of the year.

Optics and Imaging

The laser scanner EMS business was stable. The capital expenditure plan to increase capacity has commenced in the second half of the year, the EMS business will be further enhanced by early 2005.

Electric Wire and Cable

Turnover of the Group's 98% owned Guangdong Macro Cables Company Limited improved slightly compared with a year earlier. The company shall continue to control costs to improve performance amid severe product price competition and sustained high raw material price conditions. The sale of the company's existing factory property and its new facility and resources reorganization plan are expected to complete by the end of the year.

Stainless Steel Welded Tubes Products

The Group's 90.1% owned Shunde Hua Feng Stainless Steel Welded Tubes Limited continued to record losses in the period amid improvements compared to the prior year. The company shall control costs tightly to tackle impacts of high raw material prices and competition from low grade products.

Steel Processing and Steel Trading

In March 2004, the Group sold its 70% interest in the joint venture steel processing business with Shinsho Corporation of Japan in Guangzhou China. The disposal is in line with the Group's plan to reorganize its non-core activities and consolidate resources to strengthen its market positions in its strategic businesses.

Taxi Operation

The Group's 95% owned taxi rental operation in Guangzhou continued its growth following last year's nomination for one of the "Ten Best Taxi Operators in Guangzhou" awards. The company successfully acquired 101 additional taxi licenses in the period resulting in a total of 775 licenses in its current holding.

Real Estate Investment & Development

Guangzhou's Citic Plaza continued its rental income growth in the period. Citic Plaza continues to be the city's most prominent and tallest commercial property landmark.

The Group's wholly-owned 30,000 square meters hi-tech facility in Shenzhen continued to provide stable rental income under its long term lease contract.

Rental income from the Group's office complex property in Livermore, California stayed at prior year's level. Faced with subdued conditions in the current local market, renewing the upcoming expiring leases to maintain the steady rental income flow will be a challenge in the second half of the year.

Chairman's Statement

BUSINESS REVIEW – continued

Liang Xing Highway

Following prolonged discussions with local Government departments concerning the Government's measure which suspended toll collection at the Xin Cong Bridge toll station of the Liang Xing Highway, the Group reached agreements with Shunde City Heng Shun Communication Investment Management Corporation in February 2004 to exit its investment in the Liang Xing Highway by way of disposal of its 52% equity interest in the project and redemption of the related loans made by the Group. The Group has received respectively Rmb272.6 million representing approximately 76% of the total redemption loans principal amounts and associated interest, and the US\$9.8 million consideration subject to applicable withholding taxes for the 52% equity interest. According to the terms of the agreements, the repayment of the remaining balance of the loan redemption amount of Rmb81 million together with associated interest will be made by three installments over three years ending 31st December, 2007. The details of the agreements are covered in the circular of 11th March, 2004 and the announcement of 28th June, 2004.

Technology Investment Projects

Internet Automatic Migration Software for Enterprises

The Group's 77.28% owned Appeon Corporation has released its higher speed Appeon 2.8 Power Builder software and has received positive customer responses overall. The company has commenced sales and marketing efforts. A new application development software tool product has been successfully developed and the company has commenced commercial partnership discussions with various potential partners.

Internet Server

The Group's Galactic Computing Corporation has commenced small volume production of internet server engines at the Group's factory facility in Shunde. A number of the company's server systems are being tested run in hospital, government and commercial organization applications. Revenue has commenced however significant sales are to be ramped up in time. In May, the world renowned super computer architect Mr. Steve Chen has joined the company to become the Vice Chairman and CEO to lead the business development efforts.

System Integration and Software Development

The Group's 24.65% investment in MDCL-Frontline (China) Limited made a small profit contribution to the Group in the period. During the period, the company's low end hardware trading business that commenced in the second half of 2003 has started to come on track and the newly appointed General Manager of the Shanghai subsidiary has also turned around the loss position.

Broadband Communication IC

In June 2004, Broadband Physics was awarded its seventh patent based on its Sub-band Division Multiplexing technology by the US Patent and Trademark Office. Validation tests in collaboration with industry partners using the company's field programmable gate array (FPGA) implementation are continuing in stages. Interim secured bridge financing by installments are being extended carefully by the Group.

Electronic Integrated Rectifier Chips

The Group has obtained management control of APD Semiconductor, Inc. The company has set up a branch office in Taiwan to gear up for the marketing of its state of the art Super Barrier Rectifier™ power semiconductor products in Asia. With order demand picking up at semiconductor foundries this year, securing production supply for the company's products is becoming a challenge and business progress can be affected.

Financial Investments

The world stock markets have generally been stagnant during the first half of the year. For the period ended 30th June, 2004, the Group's financial investment activities have recorded a profit of HK\$11,419,000 and the market value of the Group's financial investment holdings amounted to HK\$282,418,000.

Chairman's Statement

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Peter Wong Chung On has accepted the appointment of Independent Non-Executive Director of the Company effective 30th March, 2004. Mr. Wong is a practising solicitor in Hong Kong, an associate member of both the Institute of Chartered Secretaries and Administrators and the Chartered Institute of Management Accountants of the United Kingdom.

In addition, Mr. Peter Lam has also accepted the appointment of Independent Non-Executive Director of the Company with effect from 6th September, 2004. Mr. Lam holds a Bachelor of Science degree in Civil Engineering from Lehigh University, Pennsylvania, U.S.A. and a Master of Science degree in Construction Management from Stanford University, California, U.S.A. Mr. Lam is currently the President and the Project Director of Lam Construction Group and the Registered Manager of Building Contractors' Association School.

DEATH OF DIRECTOR

Dr. Yung Yau, Group Honorary Chairman and Executive Director passed away on 2nd May, 2004. Dr. Yung has made tremendous contributions to the Group's development and has successfully led the Group's growth in its evolution since inception. The Board and all management and staff of the Group express greatest sadness and regrets for the leaving of Dr. Yung.

By Order of the Board
BILLY K YUNG
Chairman

Hong Kong, 6th September, 2004

Disclosure of Interests

DIRECTORS' INTERESTS

(a) Long position in shares of the Company

As at 30th June, 2004, the interests of the directors and their associates in the shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (“SFO”), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Name of director	Capacity	Nature of interests	Number of ordinary shares beneficially owned	Aggregate long position	Percentage of aggregate long position in shares to the issued shares capital of the Company
Mr. Billy K Yung	Beneficial owner	Personal	65,740,000	123,908,000	27.95%
	Interest of controlled corporation	Corporate	2,200,000 (Note 1)		
	Beneficiary of a trust	Other	55,968,000 (Note 2)		
Dr. Leo Tung-Hai Lee	Beneficial owner	Personal	300,000	300,000	0.07%
Madam Yung Ho Wun Ching	Beneficial owner	Personal	17,520,000	189,685,000	42.79%
	Interest of spouse	Family	10,000,000 (Note 3)		
	Beneficiary of a trust	Other	162,165,000 (Note 4)		
Mr. Leung Chun Wah	Beneficial owner	Personal	1,799,400	1,799,400	0.41%
Mr. Plato Poon Chak Sang	Beneficial owner	Personal	739,200	739,200	0.17%
Mr. Simon Yung Kwok Choi	Beneficial owner	Personal	12,866,001	12,866,001	2.90%

Notes:

1. These shares are held by Management Systems Limited, which is wholly owned by Mr. Billy K Yung.
2. These shares are held by a trust for the benefit of Mr. Billy K Yung and his family.
3. This interest represents the holding of shares by the late Dr. Yung Yau.
4. These shares are held under a trust with Madam Yung Ho Wun Ching as one of the beneficiaries.

(b) Disclosure of other interest

- (i) Certain directors held shares in subsidiaries as trustees for the Company.
- (ii) During the period, the Group’s wholly owned subsidiary, Extra-Fund Investment Limited, entered into securities trading transactions with Tung Tai Securities Co., Ltd. of which the Group’s independent non-executive director, Dr. Leo Tung-Hai Lee is both a director and a substantial shareholder. The transactions were conducted on an arm’s length basis and gave rise to a broker’s commission of approximately HK\$18,000 for the six months ended 30th June, 2004.

Other than as disclosed above and the section headed “Share Option Scheme” below, none of the directors or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation at 30th June, 2004.

Disclosure of Interests

SHARE OPTION SCHEME

(a) Share option to subscribe Company's shares

Pursuant to the Share Option Scheme (the "Scheme") which became effective in May 1994, options under the Scheme were offered to directors and the employees. No share options were granted and exercised during the period from 1st January, 2004 to 18th April, 2004. The Scheme expired on 18th April, 2004.

(b) Share option to subscribe for shares in Appeon Corporation

Grantee	Date of grant	Period during which options are exercisable	Subscription price per share US\$	Number of share options			As at 30.6.2004
				As at 1.1.2004	Cancelled during the period	Other movements (Notes)	
Directors of the Company							
Mr. Billy K Yung	09.06.2003	09.06.2003 – 10.11.2012	2.50	6,750	–	–	6,750
	09.06.2003	01.10.2003 – 10.11.2012	2.50	3,375	–	–	3,375
	09.06.2003	01.04.2004 – 10.11.2012	2.50	3,375	–	–	3,375
	09.06.2003	01.10.2004 – 10.11.2012	2.50	3,375	–	–	3,375
	09.06.2003	01.04.2005 – 10.11.2012	2.50	3,375	–	–	3,375
	09.06.2003	01.10.2005 – 10.11.2012	2.50	3,375	–	–	3,375
	09.06.2003	01.04.2006 – 10.11.2012	2.50	3,375	–	–	3,375
Dr. Yung Yau (deceased on 2nd May, 2004)	09.06.2003	09.06.2003 – 10.11.2012	2.50	6,750	–	(6,750)*	–
	09.06.2003	01.10.2003 – 10.11.2012	2.50	3,375	–	(3,375)*	–
	09.06.2003	01.04.2004 – 10.11.2012	2.50	3,375	–	(3,375)*	–
	09.06.2003	01.10.2004 – 10.11.2012	2.50	3,375	(3,375)	–	–
	09.06.2003	01.04.2005 – 10.11.2012	2.50	3,375	(3,375)	–	–
	09.06.2003	01.10.2005 – 10.11.2012	2.50	3,375	(3,375)	–	–
	09.06.2003	01.04.2006 – 10.11.2012	2.50	3,375	(3,375)	–	–
				54,000	(13,500)	(13,500)	27,000
Directors of Appeon							
	25.11.2002	25.11.2002 – 10.11.2012	2.50	22,500	–	562 [#]	23,062
	25.11.2002	01.04.2003 – 10.11.2012	2.50	22,500	–	563 [#]	23,063
	25.11.2002	01.10.2003 – 10.11.2012	2.50	22,500	–	562 [#]	23,062
	25.11.2002	01.04.2004 – 10.11.2012	2.50	22,500	–	563 [#]	23,063
	25.11.2002	01.10.2004 – 10.11.2012	2.50	22,500	–	562 [#]	23,062
	25.11.2002	01.04.2005 – 10.11.2012	2.50	22,500	–	563 [#]	23,063
	25.11.2002	01.10.2005 – 10.11.2012	2.50	22,500	–	562 [#]	23,062
	25.11.2002	01.04.2006 – 10.11.2012	2.50	22,500	–	563 [#]	23,063
	02.06.2003	02.06.2003 – 10.11.2012	2.50	2,250	–	–	2,250
	02.06.2003	01.10.2003 – 10.11.2012	2.50	1,125	–	–	1,125
	02.06.2003	01.04.2004 – 10.11.2012	2.50	1,125	–	–	1,125
	02.06.2003	01.10.2004 – 10.11.2012	2.50	1,125	–	–	1,125
	02.06.2003	01.04.2005 – 10.11.2012	2.50	1,125	–	–	1,125
	02.06.2003	01.10.2005 – 10.11.2012	2.50	1,125	–	–	1,125
	02.06.2003	01.04.2006 – 10.11.2012	2.50	1,125	–	–	1,125
				189,000	–	4,500	193,500

Disclosure of Interests

SHARE OPTION SCHEME – continued

(b) Share option to subscribe for shares in Apeon Corporation – continued

Grantee	Date of grant	Period during which options are exercisable	Subscription price per share US\$	As at 1.1.2004	Number of share options		As at 30.6.2004	
					Cancelled during the period	Other movements (Notes)		
Employees	25.11.2002	25.11.2002 – 10.11.2012	2.50	13,249	–	(562) [#]	12,687	
	25.11.2002	01.04.2003 – 10.11.2012	2.50	7,626	–	(563) [#]	7,063	
	25.11.2002	01.10.2003 – 10.11.2012	2.50	7,624	–	(562) [#]	7,062	
	25.11.2002	01.04.2004 – 10.11.2012	2.50	7,626	–	(563) [#]	7,063	
	25.11.2002	01.10.2004 – 10.11.2012	2.50	7,624	–	(562) [#]	7,062	
	25.11.2002	01.04.2005 – 10.11.2012	2.50	6,376	–	(563) [#]	5,813	
	25.11.2002	01.10.2005 – 10.11.2012	2.50	6,374	–	(562) [#]	5,812	
	25.11.2002	01.04.2006 – 10.11.2012	2.50	4,501	–	(563) [#]	3,938	
	02.06.2003	02.06.2003 – 10.11.2012	2.50	750	–	–	750	
	02.06.2003	01.10.2003 – 10.11.2012	2.50	375	–	–	375	
	02.06.2003	01.04.2004 – 10.11.2012	2.50	375	–	–	375	
	02.06.2003	01.10.2004 – 10.11.2012	2.50	375	–	–	375	
	02.06.2003	01.04.2005 – 10.11.2012	2.50	375	–	–	375	
	02.06.2003	01.10.2005 – 10.11.2012	2.50	375	–	–	375	
	02.06.2003	01.04.2006 – 10.11.2012	2.50	375	–	–	375	
					64,000	–	(4,500)	59,500
	Consultants of Apeon	25.11.2002	25.11.2002 – 10.11.2012	2.50	1,625	–	–	1,625
25.11.2002		01.04.2003 – 10.11.2012	2.50	1,625	–	–	1,625	
25.11.2002		01.10.2003 – 10.11.2012	2.50	1,625	–	–	1,625	
25.11.2002		01.04.2004 – 10.11.2012	2.50	1,625	–	–	1,625	
25.11.2002		01.10.2004 – 10.11.2012	2.50	1,625	–	–	1,625	
25.11.2002		01.04.2005 – 10.11.2012	2.50	1,625	–	–	1,625	
25.11.2002		01.10.2005 – 10.11.2012	2.50	1,625	–	–	1,625	
25.11.2002		01.04.2006 – 10.11.2012	2.50	1,625	–	–	1,625	
09.06.2003		09.06.2003 – 10.11.2012	0.10	5,106	–	–	5,106	
09.06.2003		01.10.2003 – 10.11.2012	0.10	2,553	–	–	2,553	
09.06.2003		01.04.2004 – 10.11.2012	0.10	2,553	–	–	2,553	
09.06.2003		01.10.2004 – 10.11.2012	0.10	2,553	–	–	2,553	
09.06.2003		01.04.2005 – 10.11.2012	0.10	2,553	–	–	2,553	
09.06.2003		01.10.2005 – 10.11.2012	0.10	2,553	–	–	2,553	
09.06.2003		01.04.2006 – 10.11.2012	0.10	2,554	–	–	2,554	
					33,425	–	–	33,425
Others		09.06.2003	03.05.2004 – 02.05.2005	2.50	–	–	6,750 [*]	6,750
	09.06.2003	03.05.2004 – 02.05.2005	2.50	–	–	3,375 [*]	3,375	
	09.06.2003	03.05.2004 – 02.05.2005	2.50	–	–	3,375 [*]	3,375	
				–	–	13,500	13,500	
				340,425	(13,500)	–	326,925	

No option was exercised by the grantees during the period.

Notes:

* These options shall be managed by the executrices of the late Dr. Yung Yau.

The movements represented the reclassification of options from the category of Employees to the category of Directors of Apeon.

Disclosure of Interests

SHARE OPTION SCHEME – continued

(c) Share option to subscribe for shares in Galactic Computing Corporation

Grantee	Date of grant	Period during which options are exercisable	Subscription price per share US\$	Number of share options			As at 30.6.2004
				As at 1.1.2004	Granted/ (Cancelled) during the period	Other movements (Notes)	
Directors of the Company							
Mr. Billy K Yung	09.06.2003	09.06.2003 – 10.11.2012	0.45	25,000	–	–	25,000
	09.06.2003	01.12.2003 – 10.11.2012	0.45	25,000	–	–	25,000
	09.06.2003	01.06.2004 – 10.11.2012	0.45	25,000	–	–	25,000
	09.06.2003	01.12.2004 – 10.11.2012	0.45	25,000	–	–	25,000
	09.06.2003	01.06.2005 – 10.11.2012	0.45	25,000	–	–	25,000
	09.06.2003	01.12.2005 – 10.11.2012	0.45	25,000	–	–	25,000
	09.06.2003	01.06.2006 – 10.11.2012	0.45	25,000	–	–	25,000
	09.06.2003	01.12.2006 – 10.11.2012	0.45	25,000	–	–	25,000
Dr. Yung Yau (deceased on 2nd May, 2004)	09.06.2003	09.06.2003 – 10.11.2012	0.45	25,000	–	(25,000)*	–
	09.06.2003	01.12.2003 – 10.11.2012	0.45	25,000	–	(25,000)*	–
	09.06.2003	01.06.2004 – 10.11.2012	0.45	25,000	(25,000)	–	–
	09.06.2003	01.12.2004 – 10.11.2012	0.45	25,000	(25,000)	–	–
	09.06.2003	01.06.2005 – 10.11.2012	0.45	25,000	(25,000)	–	–
	09.06.2003	01.12.2005 – 10.11.2012	0.45	25,000	(25,000)	–	–
	09.06.2003	01.06.2006 – 10.11.2012	0.45	25,000	(25,000)	–	–
	09.06.2003	01.12.2006 – 10.11.2012	0.45	25,000	(25,000)	–	–
				400,000	(150,000)	(50,000)	200,000
Directors of Galactic							
	25.11.2002	01.06.2003 – 10.11.2012	0.45	16,250	–	12,500#	28,750
	25.11.2002	01.12.2003 – 10.11.2012	0.45	16,250	–	12,500#	28,750
	25.11.2002	01.06.2004 – 10.11.2012	0.45	16,250	–	12,500#	28,750
	25.11.2002	01.12.2004 – 10.11.2012	0.45	16,250	–	12,500#	28,750
	25.11.2002	01.06.2005 – 10.11.2012	0.45	16,250	–	12,500#	28,750
	25.11.2002	01.12.2005 – 10.11.2012	0.45	16,250	–	12,500#	28,750
	25.11.2002	01.06.2006 – 10.11.2012	0.45	16,250	–	12,500#	28,750
	25.11.2002	01.12.2006 – 10.11.2012	0.45	16,250	–	12,500#	28,750
	09.06.2003	09.06.2003 – 10.11.2012	0.45	41,250	–	6,250#	47,500
	09.06.2003	01.12.2003 – 10.11.2012	0.45	41,250	–	6,250#	47,500
	09.06.2003	01.06.2004 – 10.11.2012	0.45	41,250	–	6,250#	47,500
	09.06.2003	01.12.2004 – 10.11.2012	0.45	41,250	–	6,250#	47,500
	09.06.2003	01.06.2005 – 10.11.2012	0.45	41,250	–	6,250#	47,500
	09.06.2003	01.12.2005 – 10.11.2012	0.45	41,250	–	6,250#	47,500
	09.06.2003	01.06.2006 – 10.11.2012	0.45	41,250	–	6,250#	47,500
	09.06.2003	01.12.2006 – 10.11.2012	0.45	41,250	–	6,250#	47,500
				460,000	–	150,000	610,000

Disclosure of Interests

SHARE OPTION SCHEME – continued

(c) Share option to subscribe for shares in Galactic Computing Corporation – continued

Grantee	Date of grant	Period during which options are exercisable	Subscription price per share US\$	Number of share options			As at 30.6.2004
				As at 1.1.2004	Granted/ (Cancelled) during the period	Other movements (Notes)	
Employees	25.11.2002	01.06.2003 – 10.11.2012	0.45	12,500	–	(6,250) [#]	6,250
	25.11.2002	01.12.2003 – 10.11.2012	0.45	12,500	–	(6,250) [#]	6,250
	25.11.2002	01.06.2004 – 10.11.2012	0.45	12,500	–	(6,250) [#]	6,250
	25.11.2002	01.12.2004 – 10.11.2012	0.45	12,500	–	(6,250) [#]	6,250
	25.11.2002	01.06.2005 – 10.11.2012	0.45	12,500	–	(6,250) [#]	6,250
	25.11.2002	01.12.2005 – 10.11.2012	0.45	12,500	–	(6,250) [#]	6,250
	25.11.2002	01.06.2006 – 10.11.2012	0.45	12,500	–	(6,250) [#]	6,250
	25.11.2002	01.12.2006 – 10.11.2012	0.45	12,500	–	(6,250) [#]	6,250
	01.06.2004	01.06.2004 – 10.11.2012	0.45	–	18,750	–	18,750
	01.06.2004	01.01.2005 – 10.11.2012	0.45	–	18,750	–	18,750
	01.06.2004	01.03.2005 – 10.11.2012	0.45	–	25,000	–	25,000
	01.06.2004	01.07.2005 – 10.11.2012	0.45	–	18,750	–	18,750
	01.06.2004	01.01.2006 – 10.11.2012	0.45	–	18,750	–	18,750
	01.06.2004	01.03.2006 – 10.11.2012	0.45	–	25,000	–	25,000
	01.06.2004	01.07.2006 – 10.11.2012	0.45	–	18,750	–	18,750
	01.06.2004	01.01.2007 – 10.11.2012	0.45	–	18,750	–	18,750
	01.06.2004	01.03.2007 – 10.11.2012	0.45	–	25,000	–	25,000
	01.06.2004	01.07.2007 – 10.11.2012	0.45	–	18,750	–	18,750
	01.06.2004	01.01.2008 – 10.11.2012	0.45	–	18,750	–	18,750
	01.06.2004	01.03.2008 – 10.11.2012	0.45	–	25,000	–	25,000
				100,000	250,000	(50,000)	300,000
Consultants of Galactic	25.11.2002	01.06.2003 – 10.11.2012	0.45	37,500	–	(6,250) [#]	31,250
	25.11.2002	01.12.2003 – 10.11.2012	0.45	37,500	–	(6,250) [#]	31,250
	25.11.2002	01.06.2004 – 10.11.2012	0.45	37,500	–	(6,250) [#]	31,250
	25.11.2002	01.12.2004 – 10.11.2012	0.45	37,500	–	(6,250) [#]	31,250
	25.11.2002	01.06.2005 – 10.11.2012	0.45	37,500	–	(6,250) [#]	31,250
	25.11.2002	01.12.2005 – 10.11.2012	0.45	37,500	–	(6,250) [#]	31,250
	25.11.2002	01.06.2006 – 10.11.2012	0.45	37,500	–	(6,250) [#]	31,250
	25.11.2002	01.12.2006 – 10.11.2012	0.45	37,500	–	(6,250) [#]	31,250
	28.01.2003	01.08.2003 – 10.11.2012	0.45	6,250	(6,250)	–	–
	28.01.2003	01.02.2004 – 10.11.2012	0.45	6,250	(6,250)	–	–
	28.01.2003	01.08.2004 – 10.11.2012	0.45	6,250	(6,250)	–	–
	28.01.2003	01.02.2005 – 10.11.2012	0.45	6,250	(6,250)	–	–
	28.01.2003	01.08.2005 – 10.11.2012	0.45	6,250	(6,250)	–	–
	28.01.2003	01.02.2006 – 10.11.2012	0.45	6,250	(6,250)	–	–
	28.01.2003	01.08.2006 – 10.11.2012	0.45	6,250	(6,250)	–	–
	28.01.2003	01.02.2007 – 10.11.2012	0.45	6,250	(6,250)	–	–

Disclosure of Interests

SHARE OPTION SCHEME – continued

(c) Share option to subscribe for shares in Galactic Computing Corporation – continued

Grantee	Date of grant	Period during which options are exercisable	Subscription price per share US\$	Number of share options			As at 30.6.2004	
				As at 1.1.2004	Granted/ (Cancelled) during the period	Other movements (Notes)		
Consultants of Galactic – continued	09.06.2003	09.06.2003 – 10.11.2012	0.45	6,250	–	(6,250) [#]	–	
	09.06.2003	01.08.2003 – 10.11.2012	0.45	6,250	(6,250)	–	–	
	09.06.2003	01.12.2003 – 10.11.2012	0.45	6,250	–	(6,250) [#]	–	
	09.06.2003	01.02.2004 – 10.11.2012	0.45	6,250	(6,250)	–	–	
	09.06.2003	01.06.2004 – 10.11.2012	0.45	6,250	–	(6,250) [#]	–	
	09.06.2003	01.08.2004 – 10.11.2012	0.45	6,250	(6,250)	–	–	
	09.06.2003	01.12.2004 – 10.11.2012	0.45	6,250	–	(6,250) [#]	–	
	09.06.2003	01.02.2005 – 10.11.2012	0.45	6,250	(6,250)	–	–	
	09.06.2003	01.06.2005 – 10.11.2012	0.45	6,250	–	(6,250) [#]	–	
	09.06.2003	01.08.2005 – 10.11.2012	0.45	6,250	(6,250)	–	–	
	09.06.2003	01.12.2005 – 10.11.2012	0.45	6,250	–	(6,250) [#]	–	
	09.06.2003	01.02.2006 – 10.11.2012	0.45	6,250	(6,250)	–	–	
	09.06.2003	01.06.2006 – 10.11.2012	0.45	6,250	–	(6,250) [#]	–	
	09.06.2003	01.08.2006 – 10.11.2012	0.45	6,250	(6,250)	–	–	
	09.06.2003	01.12.2006 – 10.11.2012	0.45	6,250	–	(6,250) [#]	–	
	09.06.2003	01.02.2007 – 10.11.2012	0.45	6,250	(6,250)	–	–	
		01.06.2004	01.06.2004 – 10.11.2012	0.45	–	50,000	–	50,000
		01.06.2004	01.01.2005 – 10.11.2012	0.45	–	25,000	–	25,000
		01.06.2004	01.07.2005 – 10.11.2012	0.45	–	25,000	–	25,000
		01.06.2004	01.01.2006 – 10.11.2012	0.45	–	25,000	–	25,000
	01.06.2004	01.07.2006 – 10.11.2012	0.45	–	25,000	–	25,000	
	01.06.2004	01.01.2007 – 10.11.2012	0.45	–	25,000	–	25,000	
	01.06.2004	01.07.2007 – 10.11.2012	0.45	–	25,000	–	25,000	
				450,000	100,000	(100,000)	450,000	
Others	09.06.2003	03.05.2004 – 02.05.2005	0.45	–	–	25,000 [*]	25,000	
	09.06.2003	03.05.2004 – 02.05.2005	0.45	–	–	25,000 [*]	25,000	
				–	–	50,000	50,000	
				1,410,000	200,000	–	1,610,000	

No option was exercised by the grantees of the Group during the period.

Notes:

* These options shall be managed by the executrixes of the late Dr. Yung Yau.

The movements represented the reclassification of options from the category of Employees and Consultants to the category of Directors of Galactic.

Disclosure of Interests

SUBSTANTIAL SHAREHOLDERS

At 30th June, 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Name of substantial shareholder	Capacity	Nature of interests	Number of ordinary shares held	Aggregate long position	Percentage of ordinary shares held to the issued share capital of the Company
Herald Rich Company Limited	Beneficial owner (Note 1)	Beneficial	118,880,000	118,880,000	26.82%
Parkway Company Limited	Interest of controlled corporation (Note 1)	Corporate	118,880,000	118,880,000	26.82%
Herald Rich Holdings Limited	Trustee of a Trust (Note 1)	Other	162,165,000	162,165,000	36.58%
UBS Trustees (Jersey) Limited	Trustee of a Trust (Note 1)	Other	162,165,000	162,165,000	36.58%
UBS Trustees (BVI) Limited	Trustee of a Trust (Note 2)	Other	55,968,000	55,968,000	12.63%
Diamond Key Enterprises Inc.	Beneficial owner (Note 2)	Beneficial	55,968,000	55,968,000	12.63%
Madam Vivian Hsu	Interest of Spouse (Note 3)	Family	67,940,000	67,940,000	15.33%

Notes:

- (1) The two references to 118,880,000 shares relate to the same block of shares in the Company. These shares form part of the 162,165,000 shares held by Herald Rich Holdings Limited and UBS Trustees (Jersey) Limited which are disclosed in the section headed "Directors' Interests" above as being held under a trust with Madam Yung Ho Wun Ching as one of the beneficiaries.
- (2) The two references to 55,968,000 shares relate to the same block of shares in the Company. These shares are disclosed in the section headed "Directors' Interests" above as being held under a trust with Mr. Billy K Yung and his family as the beneficiaries.
- (3) Madam Vivian Hsu's shares are in fact the same block of shares already disclosed under the personal and corporate interests of her husband, Mr. Billy K Yung and as disclosed in the section headed "Directors' Interests" above.

Other than as disclosed above, there was no person, other than the director of the Company, who has an interest or short position in the shares and underlying shares of the Company as recorded in the register of the Company kept under section 336 of the SFO.

Financial Review

REVENUE AND OPERATING RESULTS

The Group achieved a turnover of approximately HK\$1,223,208,000 for the first half of 2004, representing an increase of 16.85% over the corresponding period last year. The increase in the turnover was mainly due to increase in trading of securities which went up from HK\$183,359,000 in the corresponding period last year to HK\$406,565,000 in the period under review.

To keep pace with the changes in the high technology market and the progress the Group has made of certain direct investments in high technology businesses which has been behind schedule, the Group has during the first half of 2004 made provision for impairment loss totalling approximately HK\$31,717,000 on certain direct investments. In addition, the Group has speeded up the amortization of the development costs of certain high technology businesses to reach approximately HK\$13,308,000 in the period under review. As a result, net profit of the Group for the six months ended 30th June, 2004 went down by 48.17% to HK\$12,148,000.

FINANCIAL AND LIQUIDITY RESOURCES

With a centralized funding policy in place, the Group continued to maintain its financial and liquidity resources in a healthy state and consistently maintained a stable liquidity position throughout the period ended 30th June, 2004. In addition, there was no material change in the timing orders were secured which might give rise to volatility of the sales.

On 25th August, 2004, SMC Microtronic Company Limited, a wholly owned subsidiary of the Company entered into a loan agreement with an independent third party to advance a loan of not exceeding HK\$160,000,000 thereto by way of internal resources. Details of this transaction are set out in the press announcement dated 27th August, 2004.

Apart from a term loan obtained by the Group from a bank for approximately HK\$195,237,000 for financing the purchase of securities, there were no material changes to the Group's available banking facilities since 31st December, 2003. Other than a term loan charged at fixed interest rate and secured by certain assets of the Group located in the United States, all banking facilities of the Group were arranged on short-term basis and subject to floating interest rates. This U.S. term loan would become mature by 20th October, 2004.

FOREIGN EXCHANGE EXPOSURE

The Group's major borrowings were in Hong Kong Dollars and US Dollars. The Group continued to conduct its sales mainly in US Dollars and make payments either in US Dollars or Hong Kong Dollars. So far as the Hong Kong Dollar was pegged to the US Dollar, the Group considered that it had no significant exposure to foreign exchange risk.

GEARING RATIO

The Group has put in place its policy of maintaining a prudent gearing ratio. As at 30th June, 2004, the Group recorded a gearing ratio, expressed as a percentage of total bank borrowings to shareholders' funds, of 18.18% (31st December, 2003: 5.45%). Total bank borrowings and shareholders' fund of the Group amounted to approximately HK\$353,252,000 and HK\$1,942,634,000 respectively (31st December, 2003: HK\$107,200,000 and HK\$1,965,516,000 respectively). During the period under review, the Group obtained a term loan from a bank of approximately HK\$195,237,000 to finance the purchase of securities. As a result, both the bank borrowings and the Group's gearing ratio went up significantly.

CAPITAL EXPENDITURE

The Group had a total capital expenditure amounting to HK\$98,603,000 during the period ended 30th June, 2004.

Financial Review

SIGNIFICANT ACQUISITIONS AND DISPOSALS

The Group has entered into an agreement in March 2004 with an independent third party for the sale of all its 70% equity interest in the steel processing and steel trading business. In addition, the Group has entered into both a share transfer agreement and a loan repayment agreement on 20th February, 2004 and a supplemental agreement on 28th June, 2004 with Shunde City Heng Shun Communication Investment Management Corporation for the disposal of its 52% equity interest in Shunde Shunyue Highway Construction Limited, details of which are set out in the Circular distributed to the shareholders on 11th March, 2004 and the press announcement dated 28th June, 2004. Moreover, the Group has entered into an agreement in April 2004 with an independent third party for the disposal of certain properties in respect of the cable factory in Mainland China held by its wholly-owned subsidiary.

Other than the above, there were no significant acquisitions and disposals during the period ended 30th June, 2004.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

There were no significant changes in capital commitments and contingent liabilities compared to the position as at 31st December, 2003.

CHARGES ON ASSETS

There was no significant change in charges on assets of the Group compared to the position as at 31st December, 2003.

EMPLOYEES

As at 30th June, 2004, the Group has approximately 1,730 employees. The pay levels of these employees are commensurate with their responsibilities, performance and market condition. In addition, share option schemes are put in place as a long term incentive to align interests of employees to those of shareholders.

The Group's co-operative joint venture companies in Mainland China continued to provide employment to approximately 4,000 people.

Other Information

REVIEW OF INTERIM FINANCIAL STATEMENTS

The interim financial statements are unaudited, but have been reviewed by the Company's audit committee and auditors.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the period, the Company repurchased on the Stock Exchange a total of 130,000 ordinary shares of HK\$0.50 each of the Company at an aggregate price of HK\$245,000 before expenses. All of these shares had been cancelled. Details of the repurchase are as follows:

Month of repurchase	Number of ordinary shares repurchased	Price paid per share		Aggregate price paid HK\$
		Highest HK\$	Lowest HK\$	
May 2004	130,000	1.94	1.70	245,000

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period.

CORPORATE GOVERNANCE

The Company has complied throughout the period ended 30th June, 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

Independent Review Report



TO THE BOARD OF DIRECTORS OF SHELL ELECTRIC MFG. (HOLDINGS) COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

INTRODUCTION

We have been instructed by the Directors of the Company to review the interim financial report set out on pages 17 to 28.

DIRECTORS' RESPONSIBILITIES

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards No. 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2004.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

6th September, 2004

Condensed Consolidated Income Statement

For the six months ended 30th June, 2004

	Notes	Six months ended 30th June,	
		2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000
Turnover	3	1,223,208	1,046,818
Other operating income		20,118	18,710
Changes in inventories of finished goods and work in progress		(104)	(10,596)
Changes in trading securities		248,847	8,527
Raw materials, subcontracted goods and consumables used		(373,878)	(348,241)
Purchases of trading goods		(284,232)	(341,556)
Purchases of trading securities		(644,673)	(187,427)
Staff costs		(49,945)	(43,228)
Depreciation and amortisation expenses	4	(35,538)	(25,656)
Other operating expenses		(51,229)	(48,995)
Impairment losses on property, plant and equipment	10	(8,800)	–
Impairment losses on investments in securities not held for trading	5	(31,717)	(32,800)
Profit from operations		12,057	35,556
Finance costs		(13,461)	(12,756)
Share of results of associates		15,597	3,187
Gain on disposal of a subsidiary	20	2,796	–
Loss on disposal of an associate		(4,799)	(877)
Profit from ordinary activities before taxation		12,190	25,110
Taxation	6	(7,878)	(9,098)
Profit before minority interests		4,312	16,012
Minority interests		7,836	7,425
Net profit for the period		12,148	23,437
Dividends	7	13,298	13,302
		HK cents	HK cents
Earnings per share (Basic)	8	2.74	5.28

Condensed Consolidated Balance Sheet

As at 30th June, 2004

	<i>Notes</i>	30.6.2004 (unaudited) HK\$'000	31.12.2003 (audited) HK\$'000
Non-current assets			
Investment properties	9	543,250	526,707
Property, plant and equipment	10	589,045	634,971
Goodwill		10,291	10,984
Intangible assets	11	224,228	175,813
Interests in associates		497,749	505,429
Investments in securities	12	51,861	77,885
Club debenture		2,920	2,920
Loans receivable		1,499	–
Deferred tax assets		2,832	2,929
		<u>1,923,675</u>	<u>1,937,638</u>
Current assets			
Inventories		88,706	108,919
Trade and other receivables	13	250,739	278,888
Amount due from an associate		2,919	4,035
Amounts due from investees		1,593	2,952
Investments in securities	12	282,418	33,571
Bank and other deposits pledged	14	–	9,331
Bank balances and cash		298,193	208,658
		<u>924,568</u>	<u>646,354</u>
Current liabilities			
Trade and other payables	15	325,635	232,411
Amounts due to associates		227	227
Amounts due to minority shareholders		11,099	56,164
Taxation liabilities		16,855	10,912
Bank borrowings	16	353,252	107,200
		<u>707,068</u>	<u>406,914</u>
Net current assets		<u>217,500</u>	<u>239,440</u>
		<u>2,141,175</u>	<u>2,177,078</u>
Capital and reserves			
Share capital	17	221,638	221,703
Share premium and reserves		1,720,996	1,743,813
Shareholders' funds		<u>1,942,634</u>	<u>1,965,516</u>
Minority interests		<u>(116,327)</u>	<u>(99,564)</u>
Non-current liabilities			
Loans from minority shareholders		304,158	302,802
Deferred tax liabilities		10,710	8,324
		<u>314,868</u>	<u>311,126</u>
		<u>2,141,175</u>	<u>2,177,078</u>

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2004

	Share capital	Share premium	Investment property revaluation reserve	Capital redemption reserve	Investment revaluation reserve	Translation reserve	Goodwill reserve	Dividend reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2003	222,207	529,289	45,001	43,253	-	(126)	(24,017)	4,444	1,100,623	1,920,674
Exchange difference arising on translation of overseas operations	-	-	-	-	-	1,302	-	-	-	1,302
Decrease in fair value of investments in securities not held for trading	-	-	-	-	(32,800)	-	-	-	-	(32,800)
Impairment losses on investments in securities not held for trading	-	-	-	-	32,800	-	-	-	-	32,800
Net gains not recognised in consolidated income statement	-	-	-	-	-	1,302	-	-	-	1,302
Profit for the period	-	-	-	-	-	-	-	-	23,437	23,437
Realised on disposal of properties of an associate	-	-	(241)	-	-	-	-	-	-	(241)
Interim dividend	-	-	-	-	-	-	-	13,302	(13,302)	-
Dividends paid	-	-	-	-	-	-	-	(4,434)	-	(4,434)
Overprovision of dividend in previous period due to shares repurchased	-	-	-	-	-	-	-	(10)	10	-
Shares repurchased	(504)	-	-	504	-	-	-	-	(1,008)	(1,008)
Other changes in equity	(504)	-	(241)	504	-	-	-	8,858	9,137	17,754
At 30th June, 2003	221,703	529,289	44,760	43,757	-	1,176	(24,017)	13,302	1,109,760	1,939,730
At 1st January, 2004	221,703	529,289	22,697	43,757	-	(2,054)	(24,017)	31,038	1,143,103	1,965,516
Exchange difference arising on translation of overseas operations	-	-	-	-	-	2,914	-	-	-	2,914
Share of reserve of associates	-	-	(3,570)	-	-	-	-	-	-	(3,570)
Decrease in fair value of investments in securities not held for trading	-	-	-	-	(31,717)	-	-	-	-	(31,717)
Exchange effect of deferred tax liability	-	-	(144)	-	-	-	-	-	-	(144)
Impairment losses on investments in securities not held for trading	-	-	-	-	31,717	-	-	-	-	31,717
Net gains or losses not recognised in consolidated income statement	-	-	(3,714)	-	-	2,914	-	-	-	(800)
Profit for the period	-	-	-	-	-	-	-	-	12,148	12,148
Realised on disposal of properties of an associate	-	-	(2,946)	-	-	-	-	-	-	(2,946)
Interim dividend	-	-	-	-	-	-	-	13,298	(13,298)	-
Dividends paid	-	-	-	-	-	-	-	(31,038)	-	(31,038)
Shares repurchased	(65)	-	-	65	-	-	-	-	(246)	(246)
Other changes in equity	(65)	-	(2,946)	65	-	-	-	(17,740)	(1,396)	(22,082)
At 30th June, 2004	221,638	529,289	16,037	43,822	-	860	(24,017)	13,298	1,141,707	1,942,634

Condensed Consolidated Cash Flow Statement

For the six months ended 30th June, 2004

	Six months ended	
	30th June,	
	2004	2003
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Net cash (used in) from operating activities	<u>(56,702)</u>	<u>39,628</u>
Net cash used in investing activities	<u>(64,374)</u>	<u>(63,772)</u>
Financing activities		
New bank loans	431,550	183,463
Repayment of bank borrowings	(185,295)	(189,741)
Dividends paid	(31,038)	(4,434)
Others	<u>(4,828)</u>	<u>7,219</u>
Net cash from (used in) financing activities	<u>210,389</u>	<u>(3,493)</u>
Net increase (decrease) in cash and cash equivalents	89,313	(27,637)
Cash and cash equivalents at beginning of the period	208,658	202,831
Effect of foreign exchange rate changes	<u>222</u>	<u>101</u>
Cash and cash equivalents at end of the period	<u>298,193</u>	<u>175,295</u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	<u>298,193</u>	<u>175,295</u>

Notes to the Condensed Financial Statements

For the six months ended 30th June, 2004

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and 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 "Stock Exchange").

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2003.

3. SEGMENT INFORMATION

The Group's turnover and contribution to profit from operations, analysed by business segments (primary segments), are as follows:

	Turnover		Contribution to profit from operations	
	Six months ended		Six months ended	
	30th June,		30th June,	
	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Continuing operations:				
Manufacturing and marketing of electric fans, vacuum cleaners and other electrical household appliances, and EMS business	697,000	735,233	48,706	56,260
Manufacturing and trading of electric cables and steel pipes	30,358	24,164	(12,306)	(6,538)
Leasing of properties	30,092	29,165	26,451	25,733
Property investment and development	–	–	(2)	282
Taxi rental operation	6,396	5,064	3,798	2,463
Trading of securities	406,565	183,359	11,419	5,085
Direct investment in hi-tech business	1,533	–	(52,401)	(38,509)
	<u>1,171,944</u>	<u>976,985</u>	<u>25,665</u>	<u>44,776</u>
Discontinuing operations:				
Steel plate processing and trading (<i>note a</i>)	39,995	57,908	(164)	3,681
Toll road management and operation (<i>note b</i>)	11,269	11,925	1,490	1,621
	<u>51,264</u>	<u>69,833</u>	<u>1,326</u>	<u>5,302</u>
	<u>1,223,208</u>	<u>1,046,818</u>	<u>26,991</u>	<u>50,078</u>
Unallocated corporate expenses (net of other operating income)			(19,904)	(19,562)
Interest income			4,970	5,040
Profit from operations			<u>12,057</u>	<u>35,556</u>

There were no inter-segment sales between different business segments.

Notes to the Condensed Financial Statements

For the six months ended 30th June, 2004

3. SEGMENT INFORMATION – continued

Notes:

- (a) Pursuant to an agreement dated 16th March, 2004, the Company agreed to dispose of its entire equity interest in Shell & Shinsho Company Limited (subsequently changed name to VSC Shinsho Company Limited) (“Shell & Shinsho”), representing 70% equity interests in Shell & Shinsho, to an independent third party for a consideration of approximately HK\$29,274,000. The principal activities of Shell & Shinsho are steel plate processing and trading. The transaction was completed on 23rd March, 2004. Details of the disposal of the subsidiary are set out in note 20.
- (b) Pursuant to a conditional agreement dated 20th February, 2004, Dong Wen Investments Limited, the Company’s wholly owned subsidiary, agreed to dispose of its entire equity interest in Shunde Shunyue Highway Construction Limited (“Shunyue”), representing 52% equity interests in Shunyue, to an investment arm of 佛山市順德區人民政府 for a consideration of approximately RMB80,820,000 (equivalent to HK\$76,170,000). The principal activities of Shunyue are the investment, construction and operation of a toll road in the municipal area of Shunde, the People’s Republic of China (the “PRC”). Details of this transaction are set out in the circular to the shareholders of the Company dated 11th March, 2004. This transaction was completed on 3rd September, 2004.

The Group’s turnover analysed by geographical market is as follows:

	Six months ended	
	30th June,	
	2004	2003
	<i>HK\$’000</i>	<i>HK\$’000</i>
Hong Kong	343,780	118,712
PRC	213,038	201,740
North America	483,590	569,234
Europe	119,730	56,102
Asia, other than Hong Kong and the PRC	33,257	40,833
Others	29,813	60,197
	1,223,208	1,046,818

4. DEPRECIATION AND AMORTISATION EXPENSES

	Six months ended	
	30th June,	
	2004	2003
	<i>HK\$’000</i>	<i>HK\$’000</i>
Depreciation of property, plant and equipment	21,260	23,229
Less: amount capitalised in development costs	(1,566)	–
	19,694	23,229
Amortisation of:		
Goodwill		
Attributable to subsidiaries	693	694
Attributable to associate	25	28
Intangible assets	15,126	1,705
	35,538	25,656

Notes to the Condensed Financial Statements

For the six months ended 30th June, 2004

5. IMPAIRMENT LOSSES ON INVESTMENTS IN SECURITIES NOT HELD FOR TRADING

During the period, the directors of the Company reviewed the carrying value of the investment securities not held for trading. For investments in businesses which are involved in developing the advanced semiconductor, internet related hardware and software, the related investment cost of approximately HK\$31,717,000 (Six months ended 30th June, 2003: HK\$32,800,000) was considered to be fully impaired with regard to the current market situation.

6. TAXATION

	Six months ended	
	30th June,	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax:		
Hong Kong	3,790	6,598
Other regions of the PRC	76	56
Deferred tax:		
Current period	2,339	1,532
Attributable to increase in tax rate	–	38
	6,205	8,224
Taxation attributable to the Company and its subsidiaries		
Share of taxation attributable to associates	1,673	874
	7,878	9,098

Hong Kong Profits Tax is calculated at 17.5 per cent (2003: 17.5 per cent) of the estimated assessable profit for the period. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

7. DIVIDENDS

On 6th September, 2004, the directors declared an interim dividend of 3 cents (Six months ended 30th June, 2003: 3 cents) per share, amounting to HK\$13,298,000 (Six months ended 30th June, 2003: HK\$13,302,000), to be paid to the shareholders of the Company whose names appear in the Register of Members on 24th September, 2004.

During the period, a dividend of 7.0 cents (Six months ended 30th June, 2003: 1.0 cent) per share, amounting to HK\$31,038,000 (Six months ended 30th June, 2003: HK\$4,434,000) was paid to shareholders as the final dividend for the immediate preceding financial year end.

8. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the period of HK\$12,148,000 (Six months ended 30th June, 2003: HK\$23,437,000) and the weighted average number of ordinary shares of 443,369,000 (Six months ended 30th June, 2003: 443,744,000).

No diluted earnings per share has been presented for the current and prior periods as the potential ordinary shares issued are anti-dilutive.

Notes to the Condensed Financial Statements

For the six months ended 30th June, 2004

9. INVESTMENT PROPERTIES

During the period, the Group acquired investment properties in the PRC at a cost of HK\$16,104,000.

At 30th June, 2004, the directors reviewed the carrying amount of the Group's investment properties carried at revalued amounts or at cost and considered that the carrying amounts were not significantly different from that which would be determined using fair values at the balance sheet date. Consequently, no revaluation surplus or deficit was recognised in the current period.

10. PROPERTY, PLANT AND EQUIPMENT

- (a) During the period, the Group had additions in property, plant and equipment amounting to HK\$18,661,000 of which HK\$13,404,000 is the land premium paid for the change of the usage of a piece of land situated in the PRC (the "Land") held by the Group from industrial usage to residential and commercial usage.
- (b) On 19th April, 2004, the Group entered into a conditional agreement (the "Agreement") with an independent third party to dispose of the Land at a cash consideration of RMB58,826,000 (equivalent to approximately HK\$55,426,000). The completion of the Agreement has not yet been taken place on 30th June, 2004. Based on the sales proceeds of the Land, the directors assessed the net recoverable amount of the Land and determined that an impairment loss of HK\$8,800,000 was required to be provided in respect of the Land.
- (c) During the period, the Group disposed of a non-wholly owned subsidiary, Shell & Shinsho which resulted in the disposal of property, plant and equipment amounting to HK\$30,624,000.
- (d) The carrying value of other property, plant and equipment disposed of by the Group amounted to HK\$6,440,000 and recognised a gain of HK\$4,549,000 in the income statement.

11. INTANGIBLE ASSETS

During the period, the Group acquired additional taxi licences and capitalised development expenditure in a web-based computer software and computer hardware amounting to HK\$43,013,000 and HK\$19,745,000 respectively.

Notes to the Condensed Financial Statements

For the six months ended 30th June, 2004

12. INVESTMENTS IN SECURITIES

	30.6.2004	31.12.2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Investment securities		
Unlisted equity securities, at cost	261,248	255,555
<i>Less: fair value adjustments</i>	(209,387)	(177,670)
	<u>51,861</u>	<u>77,885</u>
Other investments, at fair value		
Equity securities:		
– Listed in Hong Kong	269,800	4,950
– Listed in overseas	12,615	12,627
– Unlisted in overseas	3	3
Equity – linked notes	<u>–</u>	<u>15,991</u>
	<u>282,418</u>	<u>33,571</u>
Total	<u>334,279</u>	<u>111,456</u>
Market value of listed securities	<u>282,415</u>	<u>17,577</u>
Represented by:		
Non-current assets	51,861	77,885
Current assets	<u>282,418</u>	<u>33,571</u>
	<u>334,279</u>	<u>111,456</u>

Included in the other investments is an amount of HK\$238,972,000, representing the Group's investment in Ping An Insurance (Group) Co. of China Ltd. ("Ping An Insurance"), a company incorporated in the PRC with its shares listed on the Stock Exchange. The Group's investment represents a 0.88% of the issued share capital of Ping An Insurance at 30th June, 2004.

Notes to the Condensed Financial Statements

For the six months ended 30th June, 2004

13. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables of HK\$131,671,000 (31st December, 2003: HK\$140,543,000). For sales of goods, the Group allows an average credit period of 60 days to its trade customers. Rentals receivable from tenants and service income receivable from customers are payable on presentation of invoices. The aged analysis of trade receivables at the balance sheet date is as follows:

	30.6.2004	31.12.2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	83,254	86,416
31 - 60 days	21,137	26,802
61 - 90 days	16,883	21,063
91 - 180 days	9,329	4,596
181 - 360 days	667	636
Over 360 days	401	1,030
	131,671	140,543

14. BANK AND OTHER DEPOSITS PLEDGED

The bank deposits at 31st December, 2003 amounting to HK\$8,428,000 were pledged to secure general banking facilities granted by the bank to a subsidiary. The other deposits at 31st December, 2003 amounting to HK\$903,000 were pledged to secure general investment facilities granted to a subsidiary of the Company.

15. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$69,425,000 (31st December, 2003: HK\$84,978,000). The aged analysis of trade payables at the balance sheet date is as follows:

	30.6.2004	31.12.2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	39,731	52,330
31 - 60 days	15,684	19,711
61 - 90 days	8,934	5,542
91 - 180 days	3,335	3,265
181 - 360 days	547	2,953
Over 360 days	1,194	1,177
	69,425	84,978

16. BANK BORROWINGS

During the period, the Group obtained new bank loans amounting to HK\$195,237,000 to finance the purchase of trading securities. The loans bear interest at 1% per annum over HIBOR and are repayable on or before 22nd June, 2005.

Notes to the Condensed Financial Statements

For the six months ended 30th June, 2004

17. SHARE CAPITAL

	30.6.2004		31.12.2003	
	Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal value HK\$'000
Authorised:				
Ordinary shares of HK\$0.50 each				
Balance at beginning and end of the period/year	<u>900,000</u>	<u>450,000</u>	<u>900,000</u>	<u>450,000</u>
Issued and fully paid:				
Ordinary shares of HK\$0.50 each				
Balance at beginning of the period/year	443,407	221,703	444,414	222,207
Shares repurchased and cancelled	<u>(130)</u>	<u>(65)</u>	<u>(1,007)</u>	<u>(504)</u>
Balance at end of the period/year	<u>443,277</u>	<u>221,638</u>	<u>443,407</u>	<u>221,703</u>

18. CONTINGENT LIABILITIES

As at the balance sheet date, the Group had the following outstanding contingent liabilities not provided for in the financial statements:

	30.6.2004 HK\$'000	31.12.2003 HK\$'000
Shipping and other guarantees granted to an associate	<u>22,400</u>	<u>22,400</u>

19. CAPITAL COMMITMENTS

As at the balance sheet date, the Group had commitments as follows:

	30.6.2004 HK\$'000	31.12.2003 HK\$'000
Contracted for but not provided in the financial statements:		
Establishment of a joint venture to develop manufacturing facilities in the PRC	3,899	3,943
Construction of factory premises	2,307	346
Purchase of tools, moulds and equipment	<u>–</u>	<u>209</u>
	<u>6,206</u>	<u>4,498</u>

Notes to the Condensed Financial Statements

For the six months ended 30th June, 2004

20. DISPOSAL OF A SUBSIDIARY

On 16th March, 2004, the Group entered into a sale agreement to dispose of a subsidiary, Shell & Shinsho, which carried out most of the Group steel processing operations. The control of Shell & Shinsho was passed to the acquirer on 23rd March, 2004.

The results of Shell & Shinsho for the interim reporting period included in the condensed consolidated income statement were as follows:

	3 months ended 23.3.2004 (unaudited) HK\$'000	6 months ended 30.6.2003 (unaudited) HK\$'000
Turnover	26,900	57,908
Other operating income	1,602	942
Operating costs	(28,594)	(55,677)
Finance costs	(285)	(815)
	<hr/>	<hr/>
(Loss) profit before tax	(377)	2,358
Income tax expense	–	–
	<hr/>	<hr/>
(Loss) profit from ordinary activities after tax	(377)	2,358
	<hr/>	<hr/>

The net assets of Shell & Shinsho at 23rd March, 2004 were as follows:

	23.3.2004 (unaudited) HK\$'000
Net assets disposed of	26,478
Profit on disposal	2,796
	<hr/>
Total consideration	29,274
	<hr/>
Satisfied by cash and net cash inflow arising on disposal:	
Cash consideration	29,274
Bank balances and cash disposed of	(22,287)
	<hr/>
	6,987
	<hr/>

Shell & Shinsho did not make any significant contribution to the results of the Group during the interim period.

21. POST BALANCE SHEET EVENT

A loan agreement was signed on 25th August, 2004 between SMC Microtronic Company Limited (“SMC Microtronic”), a wholly owned subsidiary of the Company, and Pacific Top International Corp. (“Pacific Top”), pursuant to which SMC Microtronic would advance a loan not exceeding HK\$160,000,000 to Pacific Top. Details of this transaction are set out in the press announcement dated 27th August, 2004.