



SHELL ELECTRIC MFG. (HOLDINGS) COMPANY LIMITED

蜆壳電器工業（集團）有限公司

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

(Stock Code : 00081)

2004 FINAL RESULTS

PROFIT FOR THE YEAR

The Group's audited consolidated net profit after taxation for the year ended 31st December 2004 amounted to HK\$137,883,000. Earnings per share were 31.05 cents.

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Turnover	(2)	2,051,306	2,000,425
Other operating income		60,854	43,379
Changes in inventories of finished goods and work in progress		(8,844)	6,305
Changes in trading securities		178,416	(66,470)
Raw materials, subcontracted goods and consumables used		(563,911)	(597,978)
Purchases of trading goods		(420,446)	(467,453)
Purchases of trading securities		(897,667)	(560,218)
Staff costs		(110,441)	(84,113)
Depreciation and amortisation expenses		(42,434)	(45,344)
Other operating expenses		(132,811)	(106,169)
Impairment loss on goodwill		(14,581)	–
Impairment losses on other non-current assets		(191,032)	(32,800)
(Loss) profit from operations		(91,591)	89,564
Finance costs		(22,060)	(25,609)
Gain on disposal of discontinued operations		232,659	–
Share of results of associates		31,339	14,552
Loss on deemed and partial disposal of interest in an associate		(7,926)	–
Loss on disposal of an associate		–	(877)
Gain on partial disposal of interest in a subsidiary		–	1,594
Profit from ordinary activities before taxation		142,421	79,224
Taxation	(3)	(18,777)	(8,759)
Profit before minority interests		123,644	70,465
Minority interests		14,239	17,354
Net profit for the year		137,883	87,819
		2004	2003
		HK\$	HK\$
Dividends	(4)		
Final dividend proposed per share		7.00 cents	7.00 cents
Interim dividend paid per share		3.00 cents	3.00 cents
Earnings per share	(5)		
Basic		31.05 cents	19.80 cents
Diluted		N/A	19.80 cents

Notes:

1. Principal accounting policies

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and investments in securities. The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong.

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

2. Segment information

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

	Turnover		Contribution to profit (loss) from operations	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Continuing operations:				
– Manufacturing and marketing of electric fans, vacuum cleaners and other electrical household appliances, and EMS business	1,058,762	1,090,622	44,393	63,481
– Manufacturing and trading of electric cables and steel pipes	57,215	47,256	(23,065)	(9,452)
– Leasing of properties	60,653	58,663	53,239	53,076
– Property investment and development	–	–	(34)	37
– Taxi rental operation	13,618	9,298	(26,677)	5,119
– Trading of securities	794,072	659,899	75,222	30,544
– Computer hardware and software	3,624	–	(93,383)	–
– Direct investment in hi-tech business	–	–	(102,597)	(33,542)
	<u>1,987,944</u>	<u>1,865,738</u>	<u>(72,902)</u>	<u>109,263</u>
Discontinued operations:				
– Steel plate processing and trading	47,999	110,573	(125)	6,489
– Toll road management and operation	15,363	24,114	(2,106)	(4,530)
	<u>63,362</u>	<u>134,687</u>	<u>(2,231)</u>	<u>1,959</u>
	<u>2,051,306</u>	<u>2,000,425</u>	<u>(75,133)</u>	<u>111,222</u>
Unallocated corporate expenses			(38,737)	(35,191)
Other operating income excluding interest income			1,625	4,297
Interest income			20,654	9,236
(Loss) profit from operations			<u>(91,591)</u>	<u>89,564</u>

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

The Group's turnover analysed by geographical segments is as follows:

	2004 HK\$'000	2003 HK\$'000
– Hong Kong	707,832	552,396
– People's Republic of China ("PRC")	413,197	407,595
– North America	644,207	776,784
– Europe	166,794	99,128
– Asia, other than Hong Kong and the PRC	49,584	69,568
– Others	69,692	94,954
	<u>2,051,306</u>	<u>2,000,425</u>

3. Taxation

	2004 HK\$'000	2003 HK\$'000
Provision for the year		
Hong Kong	10,874	4,942
Other regions of the PRC	288	310
Under (over) provision in prior years for profit arose in		
Hong Kong	270	1,468
Other regions in the PRC	(266)	–
Deferred tax		
Current year	3,170	(1,165)
Attributable to a change in the rate of Hong Kong Profits Tax	–	38
	<hr/>	<hr/>
Taxation attributable to the Company and subsidiaries	14,336	5,593
Share of taxation of associates	4,441	3,166
	<hr/>	<hr/>
	18,777	8,759

4. Dividends

	2004 HK\$'000	2003 HK\$'000
Ordinary shares:		
Interim, paid – 3.00 cents (2003: 3.00 cents) per share	13,298	13,302
Final, proposed – 7.00 cents (2003: 7.00 cents) per share	31,352	31,038
	<hr/>	<hr/>
	44,650	44,340

5. Earning per share

The calculation of the basic and diluted earnings per share is based on the following data:

	2004 HK\$'000	2003 HK\$'000
Earnings		
Earnings for the purpose of basic and diluted earnings per share	<hr/>	<hr/>
	137,883	87,819
	<hr/>	<hr/>
	2004 '000	2003 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<hr/>	<hr/>
	444,132	443,574
Effect of diluted potential ordinary shares:		
Options		<hr/>
		67
Weighted average number of ordinary shares for the purpose of diluted earnings per share		<hr/>
		443,641

The options of the Company outstanding at 31st December, 2002 were lapsed during the year ended 31st December, 2003.

As the options of the Company's subsidiaries outstanding during the two years ended 31st December, 2004 were anti-dilutive to the Group's earnings per share, diluted earnings per share were not adjusted in this respect for both years.

DIVIDEND

The Board recommends the payment of a final dividend of 7.00 cents per share in respect of the year ended 31st December, 2004, such dividend to be satisfied in cash, with an alternative to shareholders to elect to receive such final dividend (or part thereof) in the form of new shares in lieu of cash, payable to shareholders whose names appear on the Register of Members of the Company on 11th May, 2005. This dividend, together with the interim dividend of 3 cents per share already paid, will make a total distribution of 10 cents per share for the full year.

The scrip dividend proposal is subject to : (1) the approval of the proposed final dividend at the Annual General Meeting to be held on 11th May, 2005; and (2) The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the new shares to be issued pursuant to this proposal.

In relation to the calculation of the number of new shares to be allotted and issued pursuant to the proposal, the issue price of a new share will be the average closing price of one share of the Company on The Stock Exchange of Hong Kong Limited for the five consecutive trading days (on which such price is available) up to and including 23rd May, 2005.

A circular containing details of the scrip dividend proposal will be despatched to shareholders together with the form of election for scrip dividend on or about 17th May, 2005. It is expected that share certificates for the new shares and/or cheques for cash dividend will be despatched to shareholders on or around 8th June, 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Friday, 6th May, 2005 to Wednesday, 11th May, 2005, both days inclusive, during which period no transfer of the Company's shares will be effected. In order to qualify for the proposed final 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 Thursday, 5th May, 2005.

BUSINESS REVIEW

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

In 2004 only modest result improvements were recorded for the ceiling fans business. The export business was more difficult compared to prior years. Lowered export tax rebate rates effected early in the year and rising material prices added to higher production costs pressure. The kind of difficult operating environment will continue to overshadow performance in 2005. The Group has started to develop higher value product series to preserve product margins.

The table fans business result was stable. Under fierce competition and high material costs pressures, the operating environment became increasingly difficult. The Group achieved modest price increases in orders from established relationship clients but such enhancements could only maintain an already narrow margin. A much challenging period is anticipated ahead.

Continuing material cost escalations and a competitive market that preempts sale price increases have affected both sales and profit performance for the vacuum cleaners business. The Group has secured two new private label vacuum cleaner OEM contracts for 2005, however, the ongoing material cost increases will continue to narrow profit margins.

Optics and Imaging

The laser scanner EMS business continues to enjoy strong growth. In 2005, the expected design completion of additional advanced models with low cost characteristics will drive double digit production growth. The fuser production was affected by start-up technical problems in 2004. We expect production will be smooth in 2005 and we are working on expansion plans to add three additional production lines.

Electric Wire and Cable

The Group's 98% owned Guangdong Macro Cable company recorded small revenue growth in 2004. The disposal of the land previously occupied by the company's factory was completed in early 2005 and the new cable factory has also commenced operation; the elimination of the associated land amortization expenses will help to enhance future profit performance. Raw material prices are expected to maintain at high levels; on the other hand the operations consolidation with the Group's stainless steel welded tube business shall create synergy benefits and the company's business can continue to develop.

Stainless Steel Welded Tubes Products

The Group's 90.1% owned Hua Feng Stainless Steel Welded Tubes company continued to report losses. Following the consolidation of resources with the Group's wire and cable business, operating expense savings shall result; the company has also planned for equipment additions to relieve the small tube capacity limitation to expand market penetration and improve operation performance.

Steel Processing and Steel Trading

During the year, the Group disposed of 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 Guangzhou SMC Taxi company continues its stable growth and it contributes steady monthly cash flow to the Group. The company owns 775 taxi licenses. The company has strengthened the operation management team to further improve performance.

Real Estate Investment & Development

The 80 storeyed and 395 meters high Citic Plaza, the 7th tallest building in the world, continues to attract quality tenants from multi-national and Fortune 500 companies. Lease renewals have also enjoyed stable rate increases. In 2004, the Group's Citic Plaza property portfolio generated rental income growth of approximately 20%.

The long term lease for the hi-tech clean room factory facility in Shenzhen continues to provide stable rental contribution.

Rental from the office complex in Livermore, California is still suffering from over supply conditions in the neighborhood market. Management is trying hard to recruit new tenants by offering more incentives.

The Group has also completed an investment for a 20% interest in a five-star hotel, office and retail integrated property development project located near Citic Plaza in Guangzhou. The project is under construction and is expected to complete by the first quarter of 2007. The final design will have a total of 130,000 m² of gross floor space consisting of approximately 60,000 m² of a five-star hotel, 34,000 m² of an office block, 8,000 m² of retail commercial space and the remaining in a 6-level underground parking lot and other supporting facilities. The project is expected to generate reasonable return for the Group.

Liang Xing Highway

The Group has completed the disposal of the 52% equity interest in the Liang Xing Highway investment to Shunde City Heng Shun Communication Investment Management Corporation in September 2004. Total sums of Rmb353,420,000 were received which included US dollar remittances for the equity interest consideration net of withholding taxes and repayment of related loans and associated interests. Pursuant to the agreements, the remaining loans of Rmb 81 million and interests will be repaid in three installments over three years ending 31st December, 2007. The details of the agreements were covered in the circular of 11th March, 2004 and the announcement of 28th June, 2004.

Technology Investment Projects

Internet Automatic Migration Software for Enterprises

Apeon Corporation released the new version of its software in 2004 and received good responses. The company has recruited a seasoned software business executive having extensive experience in the US, Europe, Asia Pacific and China markets to be the new CEO; new breakthroughs in sales development are anticipated. In 2005, the Group has entered into agreements to acquire certain shares of the company from the founders which will increase the Group's interest to approximately 91.97%.

Super Blade Computing System (formerly referred as "Internet Server")

With the world renowned expert authority in the computing community Dr. Steve Chen joining as full time CEO, Galactic Computing Corporation has achieved significant publicity in China. In late 2004, the company successfully hosted a product and technology presentation forum in the Great Hall of the People's Congress. The company's 256 CPU High Performance Computer (HPC) demo machine delivering one tera-flop (1 trillion floating point operations per second) performance has been ranked among the Top Ten High Performance Computers in China. The demo machine has earned tremendous acclaims from various PRC government departments and other HPC users. The company is pushing hard the HPC strategy to open up the PRC market and revenue growth opportunities in 2005.

System Integration and Software Development

The low end hardware trading business that commenced in the second half of 2003 by the Group's invested MDCL- Frontline (China) Limited has started to come on track and has successfully secured major customer accounts in 2004. The company made a modest profit contribution to the Group in 2004. The company has planned to organize its software development outsourcing business in 2005 and double digit growth is being targeted for the year. In early 2005, the Group's interest in the company was increased to approximately 26.66%.

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. During the year, a number of technical engineering problems were encountered which affected progress of the validation tests for the company's Field Programmable Gate Array (FPGA) implementation. These problems are gradually being resolved and the collaboration tests with other industry partners are expected to proceed as planned. Interim secured bridge financing by installments are being extended carefully by the Group.

Electronic Integrated Rectifier Chips

The Taiwan branch office of the Group's invested APD Semiconductor company in the US has commenced operation in 2004; the marketing and engineering teams have also expanded to drive the business development and marketing programs for APD's SBRTM integrated rectifier IC products. Sales are developing gradually. Utilizing the company's patented technology the SBRTM products deliver unique characteristics that minimize heat dissipation and provide superb advantages in power device applications and other electronics products.

Financial Investments

During the year the world's major stock markets have risen just over about 10%; for the year ended 31st December, 2004 the Group's financial investment activities have recorded profits of approximately HK\$75,222,000 and the market value of the Group's financial investment holdings amounted to HK\$205,338,000. The Group will continue to manage these investment activities in a prudent manner in 2005.

FINANCIAL REVIEW

Revenue and Operating Results

Turnover of the Group recorded for the year ended 31st December, 2004 amounted to approximately HK\$2,051,306,000, representing an increase of HK\$50,881,000 or 2.54% relative to 2003. The increase in the turnover was mainly due to increase in trading of securities which moved up to HK\$794,072,000 compared to HK\$659,899,000 in 2003, partly offset by loss in revenue resulting from the disposal of the Group's 70% and 52% equity interest in Shell & Shinsho Company Limited and Shunde Shunyue Highway Construction Limited respectively.

The Group has during the year made provisions for impairment loss on certain direct investments in high technology business and full amortization of development costs totalling approximately HK\$112,170,000 and HK\$46,360,000 respectively to keep pace with the rapid changes in the high technology market. Operating profit before provisions narrowed to approximately HK\$114,022,000, representing a decrease of HK\$8,342,000 or 6.8% over the corresponding 2003 results. After taking into account the provisions, the Group incurred a loss from operations amounting to HK\$91,591,000, compared to a profit of HK\$89,564,000 in 2003.

Financial and Liquidity Resources

The Group continued to adhere to a centralized funding policy and maintain its financial and liquidity resources in a healthy state and consistently maintained a stable liquidity position throughout 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 HK\$160,000,000 thereto by way of internal resources. The loan carries an interest rate of 15% per annum and is likely to be repaid on its anniversary.

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 shareholder's loan made by the Group. As a result, the Group received approximately Rmb272.6 million (approximately HK\$257 million) representing approximately 77% of the shareholder's loan and interest thereon, and approximately US\$9.8 million (approximately HK\$76.4 million) representing the consideration for the disposal of equity interest. According to the terms of the agreements, repayment of the remaining balance of the loan totalling Rmb81 million (approximately HK\$76.37 million), together with the accrued interest, will be made by three installments over three years ending 31st December, 2007.

During the year under review, the Group obtained a term loan from a bank for approximately HK\$195,237,000 to finance the purchase of securities. The Group repaid part of the loan for HK\$58,000,000 on 18th November, 2004. The original U.S. term loan, which was charged at fixed interest rate and secured by certain assets of the Group located in the United States, was fully repaid on 20th October, 2004 when a new U.S. term loan of US\$15,000,000, which was charged at floating interest rate and secured by the same assets, was obtained.

Other than the U.S. term loan, all banking facilities of the Group were arranged on short-term basis and subject to floating interest rates.

Apart from the above, there were no material changes to the Group's available banking facilities since 31st December, 2003.

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 Dollars and the US Dollars remained pegged, 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 31st December, 2004, the Group recorded a gearing ratio, expressed as a percentage of total bank borrowings to shareholders' funds, of 12.57% (31st December, 2003: 5.45%). Total bank borrowings and shareholders' fund of the Group amounted to approximately HK\$259,856,000 and HK\$2,067,831,000 respectively (31st December, 2003: HK\$107,200,000 and HK\$1,965,516,000 respectively). During the year ended 31st December, 2004, the Group obtained a term loan from a bank to finance the purchase of securities and approximately HK\$137,237,000 was outstanding as at 31st December, 2004. 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\$126,776,000 during the year ended 31st December, 2004.

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 entered into agreements in February and 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. Moreover, the Group has entered into an agreement in April 2004 with an independent third party for the disposal of certain property in respect of the cable factory in Mainland China held by its wholly owned subsidiary.

In January 2005, the Group has entered into an acquisition agreement with an independent third party to purchase 20% equity interest in Yue Tian Development Limited (“Yue Tian”) with cash consideration of HK\$3,814,400. Simultaneously with the execution of the acquisition agreement, the Group and Yue Tian entered into a loan agreement, pursuant to which the Group has agreed to advance a sum of HK\$60,000,000 to Yue Tian. Details of this acquisition are set out in the Circular distributed to the shareholders on 25th January, 2005. In addition, the Group has entered into agreements with two directors of Appeon Corporation (“Appeon”) for acquiring their shares representing 14.69% in aggregate in Appeon, details of which are set out in the press announcement dated 31st January, 2005.

Other than the above, there is no significant acquisition and disposal during the year and up to the date of this report.

Capital Commitments and Contingent Liabilities

There were no significant change 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 31st December, 2004, the Group has approximately 1,670 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 longer 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year, 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.

PUBLICATION OF DETAILED FINAL RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

A detailed 2004 final results announcement containing all the information in respect of the Group required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules in force prior to 31st March, 2004, which remains applicable to results announcements in respect of accounting periods commencing before 1st July, 2004 under the transitional arrangements will be available for publication on the web site of the Stock Exchange of Hong Kong Limited (<http://www.hkex.com.hk>) in due course.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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 practicing 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 involvement 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 April, 2005

As at the date of this announcement, the Board comprises Mr. Billy K YUNG, Madam YUNG HO Wun Ching, Mr. LEUNG Chun Wah and Mr. Plato POON Chak Sang as executive directors, Mr. Simon YUNG Kwok Choi as non-executive director and Dr. Leo Tung-Hai LEE, Mr. Shiu-Kit NGAI, Mr. WONG Chung On, Peter and Mr. Peter LAM as independent non-executive directors.

“Please also refer to the published version of this announcement in The Standard.”