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)

INTERIM RESULTS FOR 2005

PROFIT FOR THE FIRST HALF YEAR

The Group's unaudited consolidated net profit attributable to the shareholders of the Company for the first half of 2005 amounted to HK$79,219,000. Earnings per share were 17.61 cents.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2005

		Six months ended 30th June,	
		2005	2004
		(unaudited)	(unaudited) (restated)
	Notes	***HK$'000***	*HK$'000*
Continuing operations:			
Turnover	(3)	**923,381**	1,162,659
Other operating income		**55,200**	18,933
Changes in inventories of finished goods and work in progress		**10,063**	1,983
Changes in trading securities		**(3,267)**	248,847
Raw materials, subcontracted goods and consumables used		**(355,286)**	(346,961)
Purchases of trading goods		**(268,875)**	(268,138)
Purchases of trading securities		**(181,440)**	(644,673)
Staff costs		**(59,679)**	(47,814)
Depreciation and amortisation expenses		**(6,845)**	(23,326)
Other operating expenses		**(63,758)**	(46,179)
Fair value changes on investment properties		**14,650**	–
Impairment losses on non-current assets		**–**	(40,517)
Finance costs		**(7,131)**	(4,452)
Share of results of associates		**23,297**	13,924
Loss on disposal of an associate		**–**	(4,799)
Profit from ordinary activities before taxation		**80,310**	19,487
Taxation	(4)	**(2,605)**	(6,205)
Net profit for the period from continuing operations		**77,705**	13,282
Discontinued operations:			
Net profit (loss) for the period from discontinued operations		**192**	(8,970)
Net profit for the period		**77,897**	4,312
Attributable to :			
Shareholders of the Company		**79,219**	12,148
Minority interests		**(1,322)**	(7,836)
Net profit for the period		**77,897**	4,312
Dividends	(5)	**20,019**	13,298
		HK cents	HK cents
Earnings per share (Basic)	(6)		
From continuing and discontinued operations		**17.61**	2.74
From continuing operations		**17.30**	2.90

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June, 2005

	30th June, 2005	31st December, 2004
	(unaudited)	(audited) (restated)
	HK$'000	*HK$'000*
Non-current assets		
Investment properties	**577,810**	560,341
Property, plant and equipment	**147,886**	185,664
Prepaid lease rental on land	**21,130**	21,424
Goodwill	**19,055**	–
Intangible assets	**214,236**	160,287
Interests in associates	**613,384**	478,714
Interests in jointly controlled entities	**486,387**	–
Available-for-sale financial assets	**13,020**	–
Club debenture	**2,920**	2,920
Loans receivables	**211,402**	204,185
Deferred tax assets	**3,081**	2,958
Deposit paid for acquisition of investment properties	**14,374**	4,725
	2,324,685	1,621,218
Current assets		
Inventories of properties	**998,924**	–
Other inventories	**82,757**	91,672
Trade and other receivables	**366,229**	241,718
Prepaid lease rental on land	**542**	542
Loans receivables	**37,956**	37,059
Amount due from an associate	**1,740**	2,086
Amounts due from jointly controlled entities	**69,076**	–
Amounts due from investees	**5,012**	11,012
Amounts due from minority interests	**32**	–
Amounts due from related companies	**309**	–
Investment held for trading	**210,605**	–
Investments in securities	**–**	211,987
Bank balances and cash	**517,554**	439,342
	2,290,736	1,035,418
Assets classified as held for sale	**16,821**	–
	2,307,557	1,035,418
Current liabilities		
Trade and other payables	**919,678**	235,570
Deposit received for disposal of land	**–**	33,213
Amounts due to associates	**227**	227
Amounts due to jointly controlled entities	**42,667**	–
Amounts due to minority shareholders	**17,598**	–
Amount due to an investee	**77**	77
Amounts due to related companies	**6,730**	–
Provision	**3,900**	12,870
Taxation liabilities	**26,048**	22,727
Derivative financial liabilities	**7,540**	–
Bank borrowings	**745,310**	147,339
	1,769,775	452,023
Liabilities associated with assets classified as held for sale	**5,665**	–
	1,775,440	452,023
Net current assets	**532,117**	583,395
	2,856,802	2,204,613

	30th June, 2005	31st December, 2004
	(unaudited)	(audited) (restated)
	HK$'000	*HK$'000*
Capital and reserves		
Share capital	**250,242**	223,946
Share premium and reserves	**1,946,910**	1,835,991
Equity attributable to shareholders of the Company	**2,197,152**	2,059,937
Minority interests	**395,929**	3,781
	2,593,081	2,063,718
Non-current liabilities		
Bank borrowings	**110,684**	112,517
Loans from minority shareholders	**2,278**	9,210
Deferred tax liabilities	**150,759**	19,168
	263,721	140,895
	2,856,802	2,204,613

Notes:

1. **Change in Accounting Policies**

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2004, except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

Business Combinations

In the current period, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves, and goodwill arising on acquisitions on or after 1st January, 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves has been transferred to the Group's retained profits on 1st January, 2005. Goodwill arising on acquisitions on or after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. With respect to goodwill previously capitalised on the balance sheet, the whole amount was fully impaired in 2004 and accordingly the adoption of HKFRS 3 does not have any financial impact to the Group. Comparative figures for 2004 have not been restated.

Share-based Payments

In the current period, the Group has applied HKFRS 2 Share-based Payment which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company and its subsidiaries determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised.

The transitional provisions of HKFRS 2 allow the Group applies HKFRS 2 retrospectively for share options which were granted on or after 7th November, 2002 and had not yet vested on 1st January, 2005. Since all share options of the Company were lapsed or cancelled during the year ended 31st December, 2003, no retrospective application of HKFRS 2 was made for share options issued by the Company.

Certain share options were granted by the Group's unlisted subsidiaries to their directors, employees and consultants on or after 7th November, 2002 and had not yet vested on 1st January, 2005 (the "Relevant Share Options"). Since the Group was unable to estimate reliably the fair value of the Relevant Share Options at the measurement date in accordance with the requirements in HKFRS 2, the Group measured these Relevant Share Options at their intrinsic value, initially at the date the grantees rendered service and subsequently at each reporting date and when Relevant Share Options were exercised, were forfeited or lapsed, with any change in intrinsic value recognised in profit or loss. Since the subsidiaries issuing the Relevant Share Options are with net liabilities and continuing losses since their establishment, the directors of the Company estimated the intrinsic value of these options to be zero at each reporting date and accordingly, no prior period adjustment has been made.

Financial Instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31st December, 2004, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice ("SSAP") 24. Under SSAP 24, investments in debt or equity securities are classified as "trading securities", "non-trading securities" or "held-to-maturity investments" as appropriate. Both "trading securities" and "non-trading securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in the profit or loss for the period in which gains or losses arise. Unrealised gains or losses of "non-trading securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for that period. From 1st January, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

Financial assets and financial liabilities other than debt and equity securities

From 1st January, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method. An adjustment to the previous carrying amounts of assets and liabilities of HK$6,996,000 on 1st January, 2005 has been made to the Group's retained profits .

Derivatives

From 1st January, 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise.

Owner-occupied Leasehold Interest in Land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

Investment Properties

In the current period, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties under SSAP 13 "Investment Property" were measured at open market values, with revaluation increase or decrease credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1st January, 2005 onwards. The amount held in investment property revaluation reserve at 1st January, 2005 has been transferred to the Group's retained earnings.

Deferred Taxes related to Investment Properties

In previous periods, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current period, the Group has applied HK Interpretation 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets" which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK Interpretation 21, this change in accounting policy has been applied retrospectively. Comparative figures have been restated.

Intangible assets

In prior period, the taxi licences with indefinite useful lives were amortised over 50 years. In accordance with HKAS 38 "Intangible Assets", an intangible asset with an indefinite useful life shall not be amortised. Instead, in accordance with HKAS 36 "Impairment of Assets", the Group is required to test the intangible asset with an indefinite useful life for impairment by comparing its recoverable amount with its carrying amount annually, and whenever there is an indication that the intangible asset may be impaired. As a result of the adoption of HKAS 38, the Group has discontinued amortising the cost of the taxi licences with indefinite useful lives. This results in an increase in the profit for the period by approximately HK$1,682,000.

2. **Summary of The Effects of The Changes in Accounting Policies**

The effects of the changes in the accounting policies described in note 1 on the results for the current and prior period are as follows:

	Six months ended 30th June, 2005 HK$'000	2004 HK$'000
Fair value changes on other financial liabilities	**(66)**	–
Fair value changes on investment properties	**14,650**	–
Decrease in amortisation of intangible assets	**1,682**	–
Increase (decrease) in share of result of an associate	**10,476**	(1,673)
(Increase) Decrease in taxation	**(2,484)**	1,673
Total increase in profit	**24,258**	–

The cumulative effects of the application of the new HKFRSs as at 31st December 2004 and 1st January, 2005 are summarised below:

	As at 31st December, 2004 (originally stated) HK$'000	Effect of changes in accounting policies HK$'000	As at 31st December, 2004 (restated) HK$'000	Opening adjustments on adoption of new accounting standards HK$'000	As at 1st January, 2005 (restated) HK$'000
Balance sheet items					
Investment properties	560,341	–	560,341	–	560,341
Property, plant and equipment	207,630	(21,966)	185,664	–	185,664
Prepaid lease payments on land use rights included in:					
– non-current assets	–	21,424	21,424	–	21,424
– current assets	–	542	542	–	542
Investments in securities-current	211,987	–	211,987	(211,987)	–
Investments held for trading	–	–	–	211,987	211,987
Deferred tax liabilities	(11,274)	(7,894)	(19,168)	–	(19,168)
Loans from minority shareholders	(9,210)	–	(9,210)	6,996	(2,214)
Total effects on assets and liabilities	959,474	(7,894)	951,580	6,996	958,576
Retained profits	1,236,090	–	1,236,090	634	1,236,724
Investment properties revaluation reserve	22,422	(7,894)	14,528	(14,528)	–
Goodwill reserve	(20,890)	–	(20,890)	20,890	–
Minority interests	–	3,781	3,781	–	3,781
Total effects on equity	1,237,622	(4,113)	1,233,509	6,996	1,240,505
Minority interests	3,781	(3,781)	–	–	–

3. **Segment information**

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

	Turnover Six months ended 30th June 2005 HK$'000	2004 HK$'000	Contribution to profit (loss) from ordinary activities before taxation Six months ended 30th June 2005 HK$'000	2004 HK$'000
Continuing operations:				
– Manufacturing and marketing of electric fans, vacuum cleaners and other electrical household appliances, and EMS business	**688,437**	697,000	**49,200**	48,706
– Manufacturing and trading of electric cables	**15,700**	21,073	**2,243**	(8,043)
– Leasing of properties	**30,814**	30,092	**41,067**	26,451
– Property investment and development	**–**	–	**(4)**	(2)
– Taxi rental operation	**7,354**	6,396	**6,746**	3,798
– Trading of securities	**177,806**	406,565	**(4,661)**	11,419
– Development and trading of computer hardware and software	**3,270**	1,533	**(34,640)**	(20,673)
– Direct investment	**–**	–	**(1,539)**	(31,728)
	923,381	1,162,659	**58,412**	29,928
Discontinued operations:				
– Manufacturing and trading of steel pipes	**17,431**	9,285	**175**	(4,263)
– Steel plate processing and trading	**–**	39,995	**–**	(164)
– Toll road management and operation	**–**	11,269	**–**	1,490
	17,431	60,549	**175**	(2,937)
	940,812	1,223,208	**58,587**	26,991
Unallocated corporate expenses (net of other operating income)			**(16,598)**	(19,904)
Interest income			**22,347**	4,970
Finance costs			**(7,131)**	(13,461)
Share of results of associates			**23,297**	13,924
Gain on disposal of a subsidiary			**–**	2,796
Loss on disposal of an associate			**–**	(4,799)
Profit from ordinary activities before taxation			**80,502**	10,517
Taxation			**(2,605)**	(6,205)
Net profit for the period			**77,897**	4,312

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

The Group's turnover of continuing and discontinued operations analysed by geographical segments is as follows:

	Six months ended 30th June, 2005 HK$'000	2004 HK$'000
– Hong Kong	**146,116**	343,780
– People's Republic of China ("PRC")	**230,382**	213,038
– North America	**431,505**	483,590
– Europe	**59,129**	119,730
– Asia, other than Hong Kong and the PRC	**35,422**	33,257
– Others	**38,258**	29,813
	940,812	1,223,208

4. **Taxation**

	Six months ended 30th June, 2005 HK$'000	2004 HK$'000
Continuing operations:		
Current tax:		
Hong Kong	**3,652**	3,790
Other regions of the PRC	**–**	76
Deferred taxation	**(1,047)**	2,339
Taxation attributable to continuing operations	**2,605**	6,205

There was no taxation attributable to discontinued operations for the six months ended 30th June, 2004 and 2005.

Hong Kong Profits Tax is calculated at 17.5 per cent (six months ended 30th June, 2004: 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.

5. **Dividends**

On 22nd September, 2005, the directors declared an interim dividend of 4 cents (Six months ended 30th June, 2004: 3 cents) per share, amounting to HK$20,019,000 (Six months ended 30th June, 2004: HK$13,298,000), to be paid to the shareholders of the Company whose names appear in the Register of Members on 14th October, 2005.

During the period, a dividend of 7 cents (Six months ended 30th June, 2004: 7 cents) per share, amounting to HK$31,352,000 (Six months ended 30th June, 2004: HK$31,038,000) was paid to shareholders as the final dividend for the immediate preceding financial year end. Share scrip alternatives were offered in respect of these 2004 final dividends. These share scrip alternatives were accepted by the shareholders, as follows:

	HK$'000
Dividends:	
Cash	18,096
Share scrip alternative	13,256
	31,352

No share scrip alternatives were offered in respect of 2003 final dividends.

6. **Earnings per share**

The calculation of the basic earnings per share for continuing and discontinued operations is based on the net profit for the period attributable to the shareholders of the Company of HK$79,219,000 (six months ended 30th June, 2004: HK$12,148,000) and the weighted average number of ordinary shares of 449,769,000 (six months ended 30th June, 2004: 443,369,000).

The calculation of the basic earnings per share from continuing operations attributable to the shareholders of the Company is based on the following data:

	Six months ended 30th June, 2005 HK$'000	2004 HK$'000
Earnings:		
Net profit for the period from the continuing operation	**77,705**	13,282
Net loss (profit) attributable to minority interests	**124**	(411)
Amount attributable to the shareholders of the Company	**77,829**	12,871

The denominators used are the same as those detailed above for basic earning per share.

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

7. **Review of interim financial statements**

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

INTERIM DIVIDEND

The Board has resolved to pay an interim dividend of 4 cents per share (2004: 3 cents per share) in respect of the year 2005 to shareholders whose names appear on the Register of Members of the Company on 14th October, 2005. Warrants for the interim dividend will be posted on 25th October, 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 12th October, 2005 to Friday, 14th October, 2005, 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 Monday, 10th October, 2005.

BUSINESS REVIEW

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

The Group's ceiling fans sales recorded a small decrease compared with the prior year period, and gross profit has also decreased slightly. While orders from the European and U.S. markets in the period were affected by the cool weather in 2004, orders from the Middle East and African markets recorded an increase. The Group's focused effort in developing high-end models is showing results, these models are well received by customers and it is expected that the division's average sales price and gross margin performance can be improved.

The Group's table fans business recorded a sales drop compared with the prior year period. Due to an unbudgetted rise of raw material prices, only a small profit was recorded. Activities during the low season in the second half of the year will slow down and fierce competition will persist.

The business of the vacuum cleaner division was slow in the first half of the year. Strong improvement will result as two new models under contract manufacturing agreement will boost sales and profits in the second half of 2005.

Optics and Imaging

During the first half of 2005, sales & production volume of laser scanners have grown in excess of 60% and 70% respectively and the fuser component production has started to get into mass production. As more advanced models are being developed gradually, the Group expects healthy growth in this business and higher revenue and profit contributions will be generated.

Electric Wire and Cable

The Group's 98% owned Guangdong Macro Cables Company Limited has turned profitable in the first half of the year. Reduction in depreciation & amortization expenses resulting from the rationalization of the factory's operations has contributed to the improved results. Business is expected to remain difficult in 2005 as material prices and production costs remain at high levels.

Stainless Steel Welded Tubes Products

The Group's 90.1% owned Shunde Hua Feng Stainless Steel Welded Tubes Limited recorded a small profit in the first half of the year. In September 2005, the company entered into a conditional agreement for the sale of its production equipment and transfer of its operation staff team to an independent third party. The company will lease the existing factory premises to the buyer upon completion of the transaction. This divestiture is in line with the Group's strategy to rationalize its resources and focus on strengthening its strategic market position in its core businesses.

Taxi Operation

The SMC taxi company continues to produce strong cash flow from the operation of its 775 taxi licenses and fleet, it has made positive contribution to the Group's overall cash flow. Since October 2004, the Guangzhou Transportation Authority has temporarily suspended registration for transfer of taxi licenses, and this has affected the company's progress in acquiring additional licenses.

Real Estate Investment & Development

The 80 storey and 395 meters high Citic Plaza in Guangzhou, 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. The Guangzhou Metro Line is constructing a subway station on its No. 3 line (the CITIC Plaza Station) which connects to the main entrance of CITIC Plaza; the station is expected to bring in new traffic for the shopping center when it opens in late June of 2006. Taking advantage of strong interests in the market for top end offices, the Group has taken advantage of this uptrend and disposed of a number of office units in the upward trend.

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

Rental from the office complex in Livermore, California is still affected by the over supply conditions in the regional market. Several new leases have been signed and the vacancy rate has been reduced to about 25% recently.

In January, the Group invested in 20% interest in a property project in Guangzhou. The total gross floor area of the project is estimated to be 127,000 m^2 consisting of a five-star hotel, an office tower and a shopping mall. In May, the hotel division has successfully entered into an agreement with Starwood Hotels & Resorts Worldwide, Inc. for the management and operation of the hotel under the "Westin" brand. The structural construction work of the project composing 43 storeys has been completed up to level 27 as at the end of August this year. The office block is expected to complete for occupation by the forth quarter of 2006 and the hotel shall commence operation by the first quarter of 2007.

During the year, the Group acquired 56% indirect interests in China Everbright Real Estate Development Limited, a property development company in the PRC. The acquisition represents a strategic addition and will greatly enrich the Group's business opportunities in the property sector in the PRC. The company's current project portfolio consists of six ongoing developments in progress located in Guangzhou, Beijing, Hefei and Shanghai. Total gross floor area from projects under development and projects held for future development is approximately 1.3 million m^2 and is composed of various residential, office, and commercial property projects. These projects are progressing according to plan, based on current market conditions the company is expected to make reasonable profit contributions to the Group as each of these projects progress. The company will continue to look out for favourable purchase opportunities to strengthen its land bank reserve.

Technology Investment Projects

Internet Automatic Migration Software for Enterprises

Appeon Corporation under the newly appointed CEO is executing a new partnership strategy. The strategy not only delivers migration tool platform to the client server solution market and it also provides additional value stacks of outsourcing migration services; application maintenance and support services; and new application solution development services for the ISV (Independent Software Vendor) installed base. The new strategy will build a viable long term recurring revenue stream as well as higher average sales revenue per customer. The Appeon for Power Builder 3.0 product was released in April 2005 and received strong responses from partners and customers. The new product is up to five times faster than the former 2.8 version. To take advantage of this new momentum the management team is strengthening the company brand and awareness in the global market. The company is bringing in new talents to strengthen the sales and marketing team as well as the professional services consulting teams. The field offices in North America; and Asia Pacific and Japan were set up and would enable the company to serve the individual markets more directly. The company is confident to meet the sales target in 2005.

Super Blade Computing System

Galacting Computing has completed the installation and testing of a 4.0 Teraflops supercomputing blade system in Shenzhen, China. Apart from being ranked as the 3rd fastest China made supercomputer in the country, this supercomputer is also rated as the world's highest efficiency supercomputer based on Intel® Xeon™ Processors and Mellanox InfiniBand Interconnect and has attained the World's 100th fastest supercomputer ranking under the international standard, HPLinpack test. This ranking was recorded on the 25th TOP500 List released during the 20th International Supercomputer Conference held in Heidelberg, Germany in June (http://www.top500.org). Meanwhile, the company is working closely with various PRC government departments to finish performance testing and is optimistic to secure orders and support soon.

System Integration and Software Development

The Group's 26.66% owned MDCL-Frontline (China) Limited continues to develop its low end hardware trading business and expand its distribution network. Its applications systems and software services business has been productized. The company maintained profitability in the first half of the year and a slight increase in full year results is expected.

Broadband Communication IC

In May 2005, Broadband Physics successfully demonstrated and verified its Sub-band Division Multiplexing Wavelet Engine performance in a cable system validation test using its Field Programmable Gate Array (FPGA) implementation. The company is in discussion with potential investors and the Group on new financing proposals for its next development stage to extend its technology acceptance in the cable industry.

Electronic Integrated Rectifier Chips

The product range of SBR™ chips continues to expand and offer customers more complete selections for broad applications. The company expects to generate more attention as it can now react to sample requests much quicker than before. Using APD's patented technology the SBR™ rectifiers can minimize power loss in customer systems, increase efficiency of power supplies and performance of other power devices substantially. With the recently accomplished procurement cost reductions and the product's unique technical performance excellence, the Company will become more competitive and will attack the market aggressively.

Financial Investment

For six months ending 30th June, 2005, the world's major stock markets experienced a mild drop. The Group's financial investment activities have also recorded losses of approximately HK$4,661,000 and the market value of the Group's investment holdings amounted to HK$210,609,000.

FINANCIAL REVIEW

Revenue and Operating Results

Turnover from continuing operations of the Group recorded for the six months ended 30th June, 2005 amounted to approximately HK$923,381,000, representing a decrease of HK$239,278,000 or 21% compared to the same period last year. The decrease in the turnover was mainly due to less activity in trading of securities which went down to HK$177,806,000 compared to HK$406,565,000 in the corresponding period in 2004.

However, the Group recorded a significant increase in net profit from HK$4,312,000 in same period last year to HK$77,897,000 in the period under review. The upsurge of profit was mainly due to the absence of the non-recurring provisions for impairment loss on certain high technology direct investments and a piece of land in the PRC totalling approximately HK$31,717,000 and HK$8,800,000 respectively made in the first half of 2004. In addition, the adoption of the new accounting standards resulted in a valuation surplus amounting to HK$14,650,000 which was recognized as profits in the period under review.

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 sustained a stable liquidity position throughout the period under review. In addition, there was no material change in the timing orders were secured which might give rise to volatility of the sales.

A secured commercial loan of HK$160,000,000 advanced to an independent third party in 2004 continued up to the date of this report. The loan carried an interest rate of 15% per annum and was scheduled to be repaid in the second half of 2006.

According to the terms of the agreements entered into between the Group and Shunde City Heng Shun Communication Investment Management Corporation in February 2004, repayment of the remaining balance of the loan to a former subsidiary totalling Rmb81,000,000 (approximately HK$76,067,000), together with accrued interest, was scheduled to be made by three installments over three years ending 31st December, 2007. An amount of Rmb34,000,000 will be repaid together with accrued interest by the end of 2005.

During the period under review, the Group obtained new bank loans totalling approximately HK$430,000,000 to finance the acquisition of the entire issued share capital of Tigerlily Overseas Limited ("Tigerlily"). The outstanding balance of the term loan which was obtained from a bank to finance the purchase of securities in 2004 remained unchanged at approximately HK$137,237,000 as at 30th June, 2005.

All banking facilities of the Group were subject to floating interest rates. Other than a U.S. term loan which was secured by certain assets of the Group located in the United States, all banking facilities of the Group have been arranged on short-term basis.

Apart from the above, there were no material changes to the Group's available banking facilities since 31st December, 2004.

Foreign Exchange Exposure

The Group's borrowings were principally dominated 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. Insofar as the Hong Kong Dollars remained pegged to the US Dollars, the directors considers that no significant exposure to foreign exchange risk would entail.

As the group under Tigerlily conducted its sales, receivables and payables, bank borrowings and expenditures in Renminbi, the directors considers that, a natural hedging exists and there would be no foreign currency exposure to the whole Group.

Gearing Ratio

The Group continued to follow its policy of maintaining a prudent gearing ratio. As at 30th June, 2005, the Group recorded a net gearing ratio, expressed as a percentage of total bank borrowings net of cash to shareholders' funds, of 15.40% (31st December, 2004 (restated): zero). During the period under review, the Group obtained certain bank loans totalling approximately HK$430,000,000 to finance the acquisition of the entire issued share capital of Tigerlily. As a result, both the total bank borrowings net of cash and the Group's net gearing ratio went up significantly.

Capital Expenditure

The Group had total capital expenditures amounting to HK$30,344,000 during the period ended 30th June, 2005.

Significant Acquisitions and Disposals

In January 2005, the Group 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 $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 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 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.

On 25th June, 2005, the Group acquired 100% of the issued share capital of Tigerlily for a consideration of HK$515,739,000. Tigerlily and its subsidiaries were principally engaged in property development in the PRC. Details of this acquisition are set out in the Circular to shareholders dated 28th June, 2005.

On 1st September, 2005, Shunde Hua Feng Stainless Steel Welded Tubes Limited, an indirect 90.1% owned subsidiary of the Company agreed to sell its machinery and equipment for the production of steel pipes to a third party for a cash consideration of US$2,500,000. Upon completion of the agreements, the Group's business in manufacturing and trading of steel pipes would be discontinued.

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

Capital Commitments and Contingent Liabilities

The group under Tigerlily had issued guarantee to banks for mortgage loans granted to purchasers of properties amounting approximately HK$334,995,000 as at the acquisition date. In addition, Tigerlily Group had issued guarantee to banks for credit facilities to jointly controlled entities and independent third party amounting approximately HK$71,066,000 and HK$47,170,000 respectively as at the acquisition date.

Tigerlily group had commitments on capital expenditures for property development projects amounting to approximately $436,594,000 as at the balance sheet date.

Other than the above, there was no significant change in capital commitments and contingent liabilities compared to the position as at 31st December, 2004.

Charges on Assets

There was no significant change in charges on assets of the Group as at 30th June, 2005 compared to the position as at 31st December, 2004.

Employees

As at 30th June, 2005, the Group has approximately 2,230 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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with the code provisions (with the exception of Code Provision C.2 on internal controls which will apply to accounting periods commencing 1st July, 2005) of Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the accounting period for the six months ended 30th June, 2005, except for the following deviations:–

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should separate and should not be performed by the same individual. Mr. Billy K. Yung is currently the Chairman of the Board and the Managing Director of the Company. The Board considers that the present structure is more suitable to the Company because it can better promote the efficient formulation and implementation of the Company's strategies.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Mr. Simon Yung Kwok Choi, the Non-executive director of the Company, has not been appointed for a specific term but is subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Articles of Association.

PUBLICATION OF INTERIM REPORT ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

The 2005 interim report containing all the information in respect of the group required by the Listing Rules will be despatched to shareholders and published on the web site of the Stock Exchange of Hong Kong Limited (http://www.hkex.com.hk) in due course.

By Order of the Board
BILLY K YUNG
Chairman

Hong Kong, 22nd September, 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.