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## 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)

## 2008 FINAL RESULTS

### PROFIT FOR THE YEAR

The reported profit of the Company and its subsidiaries (collectively, the "Group") attributable to the Company's equity holders for the year ended 31st December, 2008 amounted to HK\$23,563,000 compared to HK\$434,359,000 for the corresponding period last year. Reported basic earning per share stood at HK\$0.0448, representing a decrease of 94.5% from the same period last year. The reported profit for the year included a revaluation deficit (net of deferred taxation and minority interest) on investment properties of HK\$73,655,000, a share option expense (net of minority interest) of HK\$36,769,000 and realized and unrealized losses on securities trading totalling HK\$62,286,000 compared to a revaluation gain (net of deferred taxation and minority interest) on investment properties of HK\$64,427,000, a share option expense (net of minority interest) of HK\$4,913,000 and realized and unrealized gains (net of profits tax) on securities trading totalling HK\$10,518,000 for the corresponding period last year.

Shareholders of the Company and potential investors may note that, excluding the effect of fair-value changes on investment properties, share option expenses and realized and unrealized losses and gains on securities trading, the underlying profit attributable to the Company's equity holders for the year ended 31st December, 2008 was HK\$196,273,000, representing a decrease of HK\$168,054,000 or 46.1% from the corresponding period last year. Underlying earnings per share was HK\$0.3735, representing a decrease of HK\$0.3198 or 46.1% from the same period last year.

### CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2008

	NOTES	2008 HK\$'000	2007 HK\$'000
Revenue	(4)	2,502,632	3,552,030
Cost of goods and services		(1,662,292)	(2,827,559)
Gross profit		840,340	724,471
Other income		44,231	68,781
Distribution and selling expenses		(73,194)	(65,048)
Administrative expenses		(300,415)	(227,391)
Other operating expenses		(107,239)	(70,684)
Other gains/(losses)			
Fair value (loss)/gain on investment properties		(64,337)	92,794
Fair value (loss)/gain on investments held for trading		(62,286)	20,779
Fair value loss on derivative financial instruments		—	(8,030)
Impairment loss on owner-occupied property		(3,423)	—
Impairment loss on goodwill arising on acquisition of a subsidiary		(2,283)	—
Impairment losses on other assets		(5,116)	(5,494)
Reversal of impairment of financial assets		7,684	21,008
Reversal of unutilised provision		67,309	23,478
Gain on acquisition of minority interests		—	106,987
Gain on disposal of a subsidiary		56,115	512
Others		4,755	1,004
Operating profit	(6)	402,141	683,167
Finance costs		(73,109)	(69,284)
Share of results of associates		46,354	80,512
Share of results of jointly controlled entities		7,366	1,635
Gain on disposal of an associate		—	45,302
Gain on disposal of a jointly controlled entity		176,533	—
Impairment loss on interest in a jointly controlled entity		(28,361)	—
<b>Profit before income tax</b>		<b>530,924</b>	<b>741,332</b>
Income tax expense	(7.1)	(456,518)	(198,787)
<b>Profit for the year</b>		<b>74,406</b>	<b>542,545</b>
Attributable to:			
Equity holders of the Company		23,563	434,359
Minority interests		50,843	108,186
		<b>74,406</b>	<b>542,545</b>
Dividends	(8)	31,470	105,097
Earnings per share	(9)	HK Cents	HK Cents
— Basic		4.48	82.66
— Diluted		3.81	82.55

**CONSOLIDATED BALANCE SHEET**

As at 31st December, 2008

	NOTES	2008 HK\$'000	2007 HK\$'000
<b>Non-current assets</b>			
Investment properties		747,220	791,956
Property, plant and equipment		209,592	180,936
Prepaid lease rental on land		21,239	20,592
Goodwill		84,934	106,173
Other intangible assets		240,591	230,813
Interests in associates		418,860	366,962
Interests in jointly controlled entities		222,800	232,591
Available-for-sale financial assets		2,920	7,990
Loans receivable		130,138	152,668
Deferred tax assets		1,908	—
Deposit paid for acquisition of other investment		—	77,496
		<u>2,080,202</u>	<u>2,168,177</u>
<b>Current assets</b>			
Inventories of properties		6,099,493	4,946,397
Other inventories		124,228	113,789
Trade and other receivables, prepayments and deposits	(10)	1,036,644	1,058,792
Prepaid lease rental on land		524	489
Loans receivable		15,345	3,853
Amounts due from associates		—	6,535
Amounts due from jointly controlled entities		77,295	177,140
Amounts due from investees		20,831	6,717
Amount due from a related party		—	1,367
Amounts due from minority shareholders		33,856	44,448
Investments held for trading		20,643	48,381
Tax prepaid		8,704	—
Pledged cash deposits		—	876,858
Restricted cash and deposits		52,582	116,288
Cash and cash equivalents		873,326	704,716
		<u>8,363,471</u>	<u>8,105,770</u>
Assets classified as held for sale		—	434,442
		<u>8,363,471</u>	<u>8,540,212</u>
<b>Current liabilities</b>			
Trade and other payables	(10)	2,378,746	2,165,436
Sales deposits received		772,395	776,671
Amount due to an associate		118	—
Amounts due to jointly controlled entities		226	2,044
Amounts due to minority shareholders		186,612	164,000
Amounts due to related parties		291	474,439
Consideration payable on acquisition of subsidiaries		210,097	290,473
Provisions		—	64,733
Taxation liabilities	(7.2)	607,398	215,696
Derivative financial instruments		—	6,738
Bank borrowings		929,179	1,885,688
		<u>5,085,062</u>	<u>6,045,918</u>
<b>Net current assets</b>		<u>3,278,409</u>	<u>2,494,294</u>
<b>Total assets less current liabilities</b>		<u>5,358,611</u>	<u>4,662,471</u>

**CONSOLIDATED BALANCE SHEET** *(Continued)**As at 31st December, 2008*

	<b>2008</b>	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Capital and reserves</b>		
Share capital	<b>262,742</b>	262,742
Share premium and reserves	<b>2,841,271</b>	2,745,913
Equity attributable to equity holders of the Company	<b>3,104,013</b>	3,008,655
Minority interests	<b>526,554</b>	460,234
<b>Total equity</b>	<b>3,630,567</b>	3,468,889
<b>Non-current liabilities</b>		
Bank borrowings	<b>1,282,184</b>	673,652
Loan from a minority shareholder	<b>3,386</b>	3,005
Other liabilities	<b>6,155</b>	—
Deferred tax liabilities	<b>436,319</b>	516,925
	<b>1,728,044</b>	1,193,582
	<b>5,358,611</b>	4,662,471

**NOTES TO THE FINANCIAL STATEMENTS****1. Basis of Presentation**

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (including all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), the Hong Kong Companies Ordinance and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

**2. Principal Accounting Policies**

The consolidated financial statements have been prepared under the historical cost convention except for investment properties, financial instruments classified as available-for-sale and at fair value through profit or loss, and derivative financial instruments which are measured at fair values. Disposal groups and non-current assets held for sale (other than investment properties) are stated at the lower of their carrying amounts and fair values less costs to sell.

The accounting policies used in preparing the consolidated financial statements are consistent with those followed in the Group’s annual financial statements for the year ended 31st December, 2007 with the addition of certain standards and interpretations of HKFRSs issued and became effective in the current year.

NOTES TO THE FINANCIAL STATEMENTS (*Continued*)**3. Adoption of New and Revised HKFRSs***3.1 Impact of new and revised HKFRSs which are effective during the year*

During the year, the Group has adopted, for the first time, the following amendments and interpretations to HKFRSs which are effective for annual periods beginning on 1st January, 2008.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) — Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC) — Int 12	Service Concession Arrangements
HK(IFRIC) — Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new and revised HKFRSs did not result in significant changes in the Group's accounting policies and had no significant financial impact on the Group's financial statements. Accordingly, no prior period adjustment is required.

*3.2 Impact of new and revised HKFRSs which are issued but not yet effective*

The Group has not early applied the following new and revised HKFRSs that have been issued as at the date of authorisation of these financial statements but not yet effective in the current financial year:

HKAS 1 (Revised)	Presentation of Financial Statements <sup>4</sup>
HKAS 1, HKAS 32, HKAS 39 & HKFRS 7 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>4</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>4</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>6</sup>
HKAS 39 (Amendment)	Eligible Hedged Items <sup>6</sup>
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards <sup>6</sup>
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a Subsidiary, Jointly Controlled Entity or an Associate <sup>4</sup>
HKFRS 2 (Amendment)	Share-based Payment — Vesting Conditions and Cancellations <sup>4</sup>
HKFRS 3 (Revised)	Business Combinations <sup>6</sup>
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments <sup>4</sup>
HKFRS 8	Operating Segments <sup>4</sup>
HKFRSs (Amendments)	Annual improvements to HKFRSs 2008 <sup>3</sup>
HK(IFRIC) — Int 9 & HKAS 39 (Amendments)	Embedded Derivatives <sup>5</sup>
HK(IFRIC) — Int 13	Customer Loyalty Programmes <sup>1</sup>
HK(IFRIC) — Int 15	Agreements for the Construction of Real Estate <sup>4</sup>
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation <sup>2</sup>
HK(IFRIC) — Int 17	Distribution of Non-cash Assets to Owners <sup>6</sup>
HK(IFRIC) — Int 18	Transfer of Assets from Customers <sup>7</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st July, 2008

<sup>2</sup> Effective for annual periods beginning on or after 1st October, 2008

<sup>3</sup> Generally effective for annual periods beginning on or after 1st January, 2009 unless otherwise stated in the specific HKFRS

<sup>4</sup> Effective for annual periods beginning on or after 1st January, 2009

<sup>5</sup> Effective for annual periods ending on or after 30th June, 2009

<sup>6</sup> Effective for annual periods beginning on or after 1st July, 2009

<sup>7</sup> Effective for transfers of assets from customers received on or after 1st July, 2009

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 4. Revenue

Breakdown of revenue, which also represents the Group's turnover, is as follows:

	2008 HK\$'000	2007 HK\$'000
Sales of goods	1,100,008	1,328,667
Sales of properties	1,200,246	2,090,447
Property management fee income	56,948	26,468
Property rental income	106,726	83,053
Taxi licence fee income	38,704	23,395
	<u>2,502,632</u>	<u>3,552,030</u>

## 5. Business and Geographical Segments

## 5.1 Business segments

The Group's primary format for reporting segment information is business segments. An analysis of the Group's revenue and results for the year by business segments is as follows:

	2008									
	Electrical household appliances* HK\$'000	Manufacturing and trading of electric cables HK\$'000	Leasing of properties HK\$'000	Property investment and development HK\$'000	Trading of securities HK\$'000	Taxi rental operation HK\$'000	Development and trading of computer hardware and software HK\$'000	Direct investments HK\$'000	Others HK\$'000	Consolidated HK\$'000
Segment revenue**	1,057,136	23,398	106,726	1,257,194	—	38,704	19,474	—	—	2,502,632
Segment results	59,474	(1,584)	14,853	419,030	(64,405)	24,818	(10,702)	6,099	—	447,583
Corporate and other unallocated income and expenses										(45,442)
										402,141
Finance costs										(73,109)
Share of results of associates	—	—	46,435	—	—	—	—	(81)	—	46,354
Share of results of jointly controlled entities ("JCE")	—	—	41,581	(36,671)	—	—	2,456	—	—	7,366
Gain on disposal of a JCE										176,533
Impairment loss on interest in a JCE										(28,361)
Profit before income tax										530,924
Income tax expense										(456,518)
Profit for the year										<u>74,406</u>
	2007									
	Electrical household appliances* HK\$'000	Manufacturing and trading of electric cables HK\$'000	Leasing of properties HK\$'000	Property investment and development HK\$'000	Trading of securities HK\$'000	Taxi rental operation HK\$'000	Development and trading of computer hardware and software HK\$'000	Direct investments HK\$'000	Others HK\$'000	Consolidated HK\$'000
Segment revenue**	1,272,443	31,145	78,992	2,120,976	—	23,395	17,607	—	7,472	3,552,030
Segment results	71,642	5,510	135,605	460,171	13,493	18,681	(22,816)	14,407	6,678	703,371
Corporate and other unallocated income and expenses										(20,204)
										683,167
Finance costs										(69,284)
Share of results of associates	—	—	74,949	—	—	—	—	5,563	—	80,512
Share of results of JCE	—	—	(1,598)	(308)	—	—	3,541	—	—	1,635
Gain on disposal of an associate										45,302
Profit before income tax										741,332
Income tax expense										(198,787)
Profit for the year										<u>542,545</u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 5. Business and Geographical Segments (Continued)

## 5.1 Business segments (Continued)

\* The business segment of electrical household appliances consists of manufacturing and marketing of electric fans, vacuum cleaners and other electrical household appliances, and contract manufacturing business.

\*\* There were no inter-segment sales between different business segments for the years ended 31st December, 2008 and 2007.

## 5.2 Geographical segments

The following table provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the goods:

	2008 HK\$'000	2007 HK\$'000
Hong Kong	18,624	25,667
Other regions of the People's Republic of China (the "PRC")	2,018,853	2,905,023
Asia, other than the PRC	46,266	49,188
North America (comprising Canada and the United States)	265,291	342,196
Europe (mainly in the United Kingdom)	56,427	105,448
Other regions	97,171	124,508
	<u>2,502,632</u>	<u>3,552,030</u>

## 6. Operating Profit

	2008 HK\$'000	2007 HK\$'000
Operating profit is arrived at after charging/(crediting):		
Amortisation	5,056	4,973
Depreciation of property, plant and equipment	21,844	18,872
Reversal of unutilised provision (note)	(67,309)	(23,478)
Equity-settled share-based payments	52,527	7,019
Donations	17,634	3,239
	<u>17,634</u>	<u>3,239</u>

Note: In previous year, a guarantee provision was made in respect of the maximum amount of guarantee issued by a subsidiary in favour of a former equity holder of the subsidiary as security for the loans granted by a bank in the PRC to the former equity holder. Since the former equity holder could not repay the loans, the bank claimed the subsidiary for repayment on behalf of the former equity holder and certain properties of the subsidiary had been impounded by the court in the PRC. Pursuant to the subsequent court order issued by the PRC government on 17th June, 2008, settlement agreement has been made between the former equity holder and the bank and, based on the request from the bank, legal proceeding against the subsidiary was withdrawn and the impounded properties were released. Accordingly, the directors of the Company consider that there is no financial impact arising from the guarantee issued by the subsidiary and full amount of the provision is reversed during the current financial year.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 7. Income Tax

## 7.1 Income tax expense

	2008 HK\$'000	2007 HK\$'000
Income tax expenses comprise:		
Current tax for the year		
Hong Kong profits tax	1,123	5,017
Other regions of the PRC		
— Enterprise income tax (“EIT”)	276,580	165,837
— Land appreciation tax (“LAT”)	272,226	125,082
Others	<u>1,022</u>	<u>—</u>
	<u>550,951</u>	<u>295,936</u>
(Over)/Under provision in prior years		
Hong Kong	(117)	5,305
Other regions of the PRC		
— EIT	18,671	(3,947)
— LAT	(4,291)	<u>—</u>
Others	<u>28</u>	<u>—</u>
	<u>14,291</u>	<u>1,358</u>
Deferred tax	<u>(108,724)</u>	<u>(98,507)</u>
	<u>456,518</u>	<u>198,787</u>

Hong Kong profits tax is calculated at 16.5% (2007: 17.5%) on the estimated assessable profits for the year. EIT arising from other regions of the PRC is calculated at 10% to 25% (2007: 15% to 33%) of the estimated assessable profits.

PRC LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditure including cost of land use rights and development and construction expenditure.

## 7.2 Taxation liabilities

Taxation liabilities as at 31st December, 2008 comprise Hong Kong profits tax liabilities of approximately HK\$23,000,000 (2007: HK\$42,600,000), EIT liabilities of approximately HK\$277,100,000 (2007: HK\$ 63,600,000) and LAT liabilities of approximately HK\$307,200,000 (2007: HK\$109,500,000). EIT liabilities as at 31st December, 2008 include income tax liabilities arising from the disposal of a subsidiary and a jointly controlled entity during the year amounting to approximately HK\$153,000,000.

## 8. Dividends

	2008 HK\$'000	2007 HK\$'000
Interim dividend declared and paid during the year of HK\$0.03 (2007: HK\$0.08) per ordinary share	15,765	42,039
Final dividend proposed after the balance sheet date of HK\$0.03 (2007: HK\$0.12) per ordinary share	<u>15,705</u>	<u>63,058</u>
	<u>31,470</u>	<u>105,097</u>

The final dividend of HK\$0.03 (2007: HK\$0.12) per ordinary share has been proposed by the Directors and is subject to the approval by the shareholders of the Company in the forthcoming annual general meeting. The proposed final dividend was determined based on the number of shares in issue as at the date of these financial statements taking into account the share redemption of 2,000,000 shares after the year end.

Dividend recognised as distributions during the year ended 31st December, 2008 amounted to HK\$78,823,000 (2007: HK\$84,078,000) or HK\$0.15 (2007: HK\$0.16) per ordinary share.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 9. Earnings Per Share

The calculation of the basic earnings per share is based on the profit for the year attributable to the equity holders of the Company of HK\$23,563,000 (2007: HK\$434,359,000) and the weighted average number of ordinary shares in issue during the year of 525,485,000 (2007: 525,485,000).

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

	2008 HK\$'000	2007 HK\$'000
<b>Earnings</b>		
Earnings used in calculating basic earnings per share	23,563	434,359
Adjustment to the share of profit of a subsidiary based on dilution of its earnings per share (note)	<u>(3,549)</u>	<u>(568)</u>
Earnings for the purpose of calculating diluted earnings per share	<u><b>20,014</b></u>	<u><b>433,791</b></u>

*Note:* The calculation of diluted earnings per share does not assume conversion or exercise of potential ordinary shares that would have an anti-dilutive effect on earnings per share.

The denominators for the calculation of diluted earnings per share are the same as those used for the basic earnings per share i.e. the weighted average number of ordinary shares in issue during the year of 525,485,000 (2007: 525,485,000).

## 10. Trade and Other Receivables, Prepayments and Deposits/Trade and Other Payables

Based on invoice date, the aged analysis of trade receivables net of impairment allowance and trade payables as at balance sheet date are as follows:

	Trade Receivables		Trade Payables	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
30 days or below	108,982	86,339	670,690	381,047
31–60 days	66,713	71,379	27,639	43,480
61–90 days	45,710	13,722	15,521	18,597
91–180 days	38,071	21,592	10,424	453,855
181–360 days	916	2,292	166,389	1,655
Over 360 days	<u>1,297</u>	<u>3,516</u>	<u>571,589</u>	<u>392,028</u>
	<u><b>261,689</b></u>	<u><b>198,840</b></u>	<u><b>1,462,252</b></u>	<u><b>1,290,662</b></u>

The Group maintains a defined credit policy. For sales of goods, the Group normally allows a credit period of 45 days or 60 days to its trade customers. Rentals receivable from tenants and service income receivable from customers are payable on presentation of invoices. The credit terms in connection with sales of properties granted to the buyers are set out in the sale and purchase agreements and vary from different agreements.



## **FINAL DIVIDEND**

The board of directors recommends a final dividend of HK\$0.03 per share for the year ended 31st December, 2008. This proposed final dividend, subject to approval by the Shareholders of the Company at the annual general meeting to be held on Wednesday, 3rd June, 2009, will be payable on Wednesday, 10th June, 2009 to the Shareholders on the Register of Members of the Company on Wednesday, 3rd June, 2009.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members will be closed from Monday, 1st June, 2009 to Wednesday, 3rd June, 2009 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 and to determine the identity of the Shareholders who are entitled to attend and vote at the annual general meeting, all share certificates with the duly completed transfer forms must be lodged with the Company's Registrars, Tricor Standard Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Friday, 29th May, 2009.

## **BUSINESS REVIEW**

### **Ceiling Fans**

The sales and profit of the ceiling fans business of the Group slowed down in 2008 compared to 2007. Due to the prolonged financial crisis, the markets in Europe and America were affected more severely; the impact on Middle East, Asia and Africa markets was smaller; and the sales in Australia and Hong Kong stayed stable. It is expected that the ceiling fans business in 2009 will continue to be affected by the global recession.

### **Contract Manufacturing — Optics and Imaging**

Fuser and laser scanner sales in 2008 recorded a 6% decrease compared with 2007, due to price reductions. In a difficult global economic environment, sales reduction is expected in 2009. Volume production of the paper handling options has started in the third quarter with satisfactory progress and new production models will be expected to contribute additional revenue in 2009.

### **Contract Manufacturing — Electric and Electronics**

Although the global economy slowed down rapidly in the second half of 2008, the implementation of "Cell Manufacturing" technology in 2008 increased operating efficiencies and kept us competitive in the market. We were able to maintain stable sales in 2008. For 2009, we will start development and production of LED lighting products and other innovative electronic products. We target to maintain our sales revenue for 2009.

### **Electric Wire and Cable**

The electric wire and cable business was affected by the slowing domestic economy and the partial closure of the factory due to heavy rainfall endangering the stability of the nearby slope, its revenue in 2008 decreased by 25% compared to 2007. The business recorded a loss in 2008 after the impairment provision made for the affected factory. The effectiveness of the economic stimulation policy in China is yet to be determined. The company will strive to reduce costs through controlling expenditures. It is expected the business performance will be affected in 2009.

### **Taxi Operation**

Guangzhou taxi company continues to adopt the rental operating model. Its turnover and profit in 2008 recorded double digit growth compared to the same period of 2007. In 2009, with the economic slow down, the company plans to lower its capital expenditures and continue to rent parking facilities for its operation. The company has improved the service quality of drivers, and the maintenance and management of vehicles to enhance its quality service and competitiveness. It is anticipated that business will grow steadily in 2009.

## **BUSINESS REVIEW** *(Continued)*

### **Real Estate Investment & Development**

Rental income from the retail properties of CITIC Plaza in Guangzhou recorded double digit increase in 2008 compared to 2007. The increase is due to new rental agreements signed in 2007 taking full effect in 2008 and the appreciation of Renminbi. The average rental rate of the office properties in 2008 was similar to 2007. The office properties rental income of 2008 was lower than the same period of 2007 as some office units were sold. New leasing demand for retail properties and offices has reduced resulting from impact of the financial tsunami. The rental price will be adjusted down to attract tenancy. The Group expects that the overall rental income will be slightly affected in 2009.

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

During the period under review, occupancy rate of the Group's office complex in Livermore, California remained stable while its rental income was reduced slightly. We expect the prolonged economic and credit problems will continue to pose adverse effect on the US property market as well as our occupancy rate and rental income in 2009.

The Group owns 70% of China Ever Bright Real Estate Development Limited ("EBRE"). In 2008, EBRE recorded revenue from two completed development projects, one in Guangzhou and one in Beijing, as well as profits from the disposal of the Pazhou exhibition centre project in Guangzhou and the Everbright International Plaza project in Heifei. Under the current project completion pipeline, we expect revenue in 2009 to be stable. A review of EBRE's major projects is as follows:

Tower 1 of the Ever Bright World Center in Beijing is a commercial office building with about 48,000 sq.m. saleable/leaseable GFA (and additional about 400 underground parking spaces); about 20,000 sq.m. were leased and about 4,800 sq.m. were sold under contract sales in 2008; EBRE's headquarters occupies the top floor. EBRE owns 100% of the project.

Guangzhou Ever Bright Garden Phase E was completed and delivered for use in 2008. The new phases J and K with total saleable GFA of about 350,000 sq.m. (including parking spaces) are under construction and 36,000 sq.m. were pre-sold under contract sales in 2008. Delivery of the new phases is expected to start in 2009.

The R&D office building in the Zhang Jiang High-tech Zone in Pudong, Shanghai has about 14,000 sq.m. of leaseable GFA and is about 90% leased. EBRE owns 65% interest in this project.

EBRE has contracted sales in 2008 for about 11,000 sq.m. of the commercial and residential development project located in Haidian district in Beijing consisting of about 86,000 sq.m. saleable GFA (with additional parking spaces of about 15,000 sq.m.). Continue marketing to university faculty staff and professors in the surrounding area has drawn much interest. EBRE owns 100% of the project.

The residential and retail shopping mall development project (about 150,000 sq.m.) located in Haizhu district in Guangzhou has started construction in late 2008 and is expected to be completed in 2011. The land parcel is directly connected to an inter-change station of the Guangzhou — Foshan light rail line and the Guangzhou extended No. 2 subway line. This will provide the development with superior shopper traffic advantage. The residential portion with a total saleable GFA of about 67,000 sq.m. is anticipated to start construction in 2010 and the shopping mall portion will be kept as a long term investment. EBRE owns 100% interest of this project.

## **BUSINESS REVIEW** *(Continued)*

### **Real Estate Investment & Development** *(Continued)*

EBRE has a 65.8% interest in the Guilin project with about 724,000 sq.m. land area. The project is planned to be a resort and residential property development in the future.

The primary land development project company in Hohhot, Inner Mongolia has started work on about 1,300 mu (equivalent to about 867,000 sq.m.) of land in 2008. When ready, the land will be auctioned to secondary development companies. EBRE owns 80% interest of the primary land development project company.

The property development projects in Hohhot, Inner Mongolia have commenced construction and will be developed in stages; the residential development portion consists about 380,000 sq.m. of saleable GFA and the initial phase is expected to be ready for pre-sale in 2009. EBRE owns 100% interest of these secondary property development projects.

EBRE owns 70% interest in a villa and low rise residential project located in the northern suburb of Beijing with total saleable GFA of about 175,000 sq.m.. Construction progress has been slowed down.

A residential project with superior view fronting the Pearl River in Guangzhou consists of total saleable/leaseable GFA of about 58,000 sq.m. (including parking spaces). Its construction will be postponed due to the market situation. EBRE owns 90% interest in this project.

### **Technology Investment Projects**

#### *Enterprise Software Solutions*

Appeon continues to operate a profitable business of providing IT outsourcing services and Web development software — Appeon<sup>®</sup> for PowerBuilder<sup>®</sup>. The turnover in the second-half of 2008 improved despite the global economic downturn. However, the appreciation of the Renminbi and inflation in the PRC has led to increased operational costs. The company is focusing on high-value IT outsourcing projects to boost its profitability and sales in the future.

#### *Computing and Data Storage System*

Galactic Computing offers three major product series: data storage systems, enterprise servers, super-computing products and associated software. During 2008, the company achieved over 25% revenue growth compared to 2007. The company shall focus on the development of data storage solutions targeting mid-range customers to enhance competitiveness and explore export markets.

### **Financial Investment**

Due to the serious down turn of the Hong Kong stock market in 2008, the Group's financial investment activities for the year ended 31st December, 2008 recorded loss of approximately HK\$64,405,000 and the market value of the Group's financial investment holdings amounted to about HK\$20,643,000. We plan to reduce our financial investment in 2009.

## FINANCIAL REVIEW

### Revenue and Operating Results

Revenue from the Group's continuing operations for the year ended 31st December, 2008 totalled HK\$2,503 million, representing a decrease of HK\$1,049 million or 29.5% compared to HK\$3,552 million for the corresponding period last year. Slowdown in the sales of PRC properties and decline in the sales of electric fans accounted for a majority of the decrease in revenue following a challenging business environment. However, the Group managed to achieve a total of HK\$820 million in contracted sales (to be recognised beyond 31st December, 2008) of PRC properties of which HK\$372 million and HK\$448 million would come from the property projects in Beijing and Guangzhou respectively.

Profit attributable to equity holders for the year ended 31st December, 2008 dipped from HK\$434 million to HK\$24 million representing a decrease of HK\$410 million or 94.5% over last year. The plunge in profit was mainly attributable to (i) a fair value loss (net of deferred taxation and minority interest) of HK\$74 million on certain investment properties within the Group coupled with a fair value gain (net of deferred taxation and minority interest) of HK\$64 million for the corresponding period last year; (ii) a sharing of fair value gain of HK\$14 million on certain investment properties held by associated companies compared to a sharing of fair value gain of HK\$47 million for the corresponding period last year; (iii) a share option expense (net of minority interest) of HK\$37 million compared to a HK\$5 million expense for the corresponding period last year; and (iv) realized and unrealized losses on securities trading totalling HK\$62 million compared to realized and unrealized gains (net of profits tax) totalling HK\$11 million relating to securities held for trading and derivative financial instruments for the same period last year. Both the fair value adjustment and the share option expense involved no cash movement.

### Financial Resources and Liquidity

The Group inevitably felt the pinch of the global economic downturn but was able to maintain a satisfactory financial position with its financial resources and liquidity position consistently monitored and put in place in a healthy state throughout the period under review. Given the current economic situation, the Group would constantly re-evaluate its operational and investment status with a view to improving its cash flow and minimising its financial risks.

During the period under review, certain bank loans totalling RMB1,350 million were secured to finance the Group's property development projects in the PRC based on certain real estate in Mainland China.

The U.S. and the PRC long term loans of US\$13 million and RMB900 million respectively were secured by certain assets of the group located in the United States and Mainland China respectively. The Group has secured and utilized a three-year long-term loan of HK\$150 million and converted a short-term loan of HK\$250 million into a three-year term loan during the period under review. Apart from the above, all banking facilities of the Group have been arranged on short-term basis.

The banking facilities of the Group were subject to a mix of fixed interest rates and floating interest rates. Interest cover of the Group as at 31st December, 2008, calculated as operating profit divided by total interest expenses net of those capitalized and interest income, stood at 7 times.

### Foreign Exchange Exposure

The Group's borrowings were mainly denominated in Hong Kong dollars, US dollars and Renminbi. The Group continued to conduct its sales mainly in US dollars and Renminbi and make payments either in US dollars, Hong Kong dollars or Renminbi. As the Group conducted its sales, receivables and payables, bank borrowings and expenditures in Renminbi for its PRC property development business, the directors considered that a natural hedge mechanism existed. The Group would, however, closely monitor the volatility of the Renminbi exchange rate. All in all, the directors considered that the Group's risk exposure to foreign exchange rate fluctuations remained minimal.

## FINANCIAL REVIEW *(Continued)*

### Gearing Ratio

The Group continued to follow its policy of maintaining a prudent gearing ratio. As at 31st December, 2008, the Group recorded a gearing ratio, expressed as a percentage of total bank borrowings net of cash and pledged deposit to total equity of the Company of 36.9% (31st December, 2007: 28.2% (restated)).

### Significant Acquisitions and Disposals

During the period under review, the Group disposed of its interest in a property development project through the disposal of its entire equity interest in 安徽博鴻房地產開發有限公司 to an independent third party at a cash consideration of RMB121 million. The transaction was completed in first quarter of 2008 and resulted in a gain after tax but before minority interests of HK\$28 million.

On 24th April, 2007, the Group entered into a sales and purchases agreement in relation to a disposal of its 50% interest in 廣州市環博展覽有限公司 at a consideration (including repayment of shareholder loan) of RMB545 million. Completion of the transaction took place in the first quarter of 2008 thus giving rise to a gain of HK\$52 million after tax but before minority interests.

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

### Commitments and Guarantee

During the period under review, the Group had commitments totalling HK\$3,414 million which related mainly to property development and construction works. In addition, the Group issued guarantees to banks amounting to HK\$1,284 million mainly for facilitating end-user mortgages in connection with its PRC property sales.

### Capital Expenditure and Charges on Assets

The Group had a capital expenditure totalling HK\$36 million during the period under review.

Based on certain real estate in Mainland China, the Group secured certain mortgage loans totalling RMB1,350 million from certain PRC banks during the period under review.

During the period under review, the Group had charges on assets totalling HK\$3,810 million mainly for securing mortgage loans.

The Group has also pledged its 100% interest of the issued share capital of its subsidiary, Full Revenue Inc, to a bank to secure for a long-term loan granted to the Group.

### Employees

As at 31st December, 2008, the Group has approximately 4,180 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.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is firmly committed to statutory and regulatory corporate governance standards and adheres to the principles of corporate governance emphasizing transparency, independence, accountability, responsibility and fairness. Detailed disclosure of the Company's corporate governance report is available in the 2008 Annual Report.

The Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 of the Listing Rules throughout the year ended 31st December, 2008 except for the following deviations:

## **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES** *(Continued)*

### **Code Provision A.2.1**

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 Group Chairman and the Chief Executive 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**

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.

Mr. Billy K Yung is the brother of Mr. Simon Yung Kwok Choi. Both of them are the sons of Madam Yung Ho Wun Ching (Executive Director of the Company). Save as disclosed above, during the year, none of the other directors has or maintained any financial, business, family or other material, relevant relationship with any of the other directors.

## **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 year ended 31st December, 2008.

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made thorough enquiry of the Directors, the Company can reasonably confirm that the Directors have complied with the required standard set out in the Model Code throughout the year ended 31st December, 2008.

## **REVIEW OF ACCOUNTS**

The Audit Committee has reviewed with the management and the auditors of the Company the accounting principles and practices adopted by the Group and discussed the audited financial statements for the year ended 31st December, 2008.

## **PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT**

This announcement is published on the website of the Company ([www.smc.com.hk](http://www.smc.com.hk)) and the designated website of Hong Kong Exchanges and Clearing Limited ([www.hkexnews.hk](http://www.hkexnews.hk)). The 2008 annual report will be dispatched to shareholders of the Company and available on the above websites in due course.

By order of the Board

**BILLY K YUNG**

*Group Chairman and Chief Executive*

Hong Kong, 22nd April, 2009

*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. Eddie HURIP as executive directors, Mr. Simon YUNG Kwok Choi as non-executive director and Mr. Peter WONG Chung On, Mr. Peter LAM and Mr. Lawrence LEUNG Man Chiu as independent non-executive directors.*