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NATIONAL ELECTRONICS HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 213)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2019

RESULTS

The board (the “Board”) of directors (the “Directors”) of National Electronics Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 March 2019 and the audited consolidated statement of financial position as at 31 March 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 MARCH 2019

	NOTES	2019 HK\$	2018 HK\$
Revenue	3	881,447,549	1,405,711,077
Cost of sales		(720,504,459)	(1,231,016,363)
Gross profit		160,943,090	174,694,714
Other income and gains	4	28,872,201	77,450,333
Increase in fair value of investment properties		415,178,334	246,758,357
Distribution costs		(9,639,238)	(10,809,965)
Administrative expenses		(201,071,032)	(159,006,311)
Finance costs	5	(90,375,429)	(76,025,841)
Share of result of an associate		(86,694)	(92,515)
Share of results of joint ventures		(3,910,784)	1,303,271
Profit before taxation	6	299,910,448	254,272,043
Income tax expense	7	(78,084,669)	(35,563,113)
Profit for the year		<u>221,825,779</u>	<u>218,708,930</u>
Earnings per share	8		
Basic		<u>21.7 HK cents</u>	<u>21.5 HK cents</u>
Diluted		<u>21.7 HK cents</u>	<u>21.3 HK cents</u>
Dividend per share			
— Final dividend and special cash dividend proposed after the end of the reporting period	12	<u>4.0 HK cents</u>	<u>4.0 HK cents</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

FOR THE YEAR ENDED 31 MARCH 2019

	2019	2018
	<i>HK\$</i>	<i>HK\$</i>
Profit for the year	221,825,779	218,708,930
Other comprehensive income/(expense)		
<i>Items that will not be reclassified to profit or loss:</i>		
Remeasurement of defined benefit obligation	<u>339,545</u>	<u>1,775,105</u>
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translating foreign operations	(19,522,457)	23,020,416
Fair value loss on other assets at fair value through other comprehensive income	(1,650,000)	—
Fair value loss on available-for-sale investments	<u>—</u>	<u>(1,230,000)</u>
	<u>(21,172,457)</u>	<u>21,790,416</u>
Other comprehensive (expense)/income for the year	<u>(20,832,912)</u>	<u>23,565,521</u>
Total comprehensive income for the year	<u>200,992,867</u>	<u>242,274,451</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2019

	<i>NOTES</i>	2019	2018
		<i>HK\$</i>	<i>HK\$</i>
Non-current assets			
Investment properties		3,816,951,052	3,652,884,300
Property, plant and equipment		450,506,420	464,554,299
Prepaid lease payments		2,505,354	2,573,319
Goodwill		1,269,932	1,269,932
Interest in an associate		7,389,666	7,476,360
Interests in joint ventures		366,222,526	370,133,310
Other assets at fair value through other comprehensive income		24,550,000	—
Available-for-sale investments		—	26,200,000
Debt instruments at amortised cost		3,173,350	—
Held-to-maturity investments		—	3,483,194
Deferred tax assets		6,498,562	3,448,974
		<u>4,679,066,862</u>	<u>4,532,023,688</u>
Current assets			
Inventories		132,109,337	165,510,507
Prepaid lease payments		67,965	67,965
Financial assets at fair value through profit or loss		191,926,464	157,199,165
Inventory of unsold properties		6,032,957	6,173,515
Properties under development for sale		881,054,373	396,496,623
Bills receivables	9	337,626	666,673
Trade receivables, deposits and prepayments	10	140,424,430	81,020,491
Amount due from a joint venture		43,496,822	41,651,822
Tax recoverable		2,859,393	523,216
Bank balances and cash		811,798,033	864,809,741
		<u>2,210,107,400</u>	<u>1,714,119,718</u>

	<i>NOTES</i>	2019 <i>HK\$</i>	2018 <i>HK\$</i>
Current liabilities			
Trade and bills payables	11	88,182,873	126,270,695
Customers' deposits		220,921,007	227,132,990
Accrued expenses and other payables		147,502,527	98,010,840
Amount due to an associate		4,555,148	4,555,148
Tax payable		8,099,075	13,858,028
Derivative financial instruments		1,872,974	224,999
Obligations under finance leases		4,311,029	4,155,476
Bank loans		<u>673,701,551</u>	<u>772,764,477</u>
		<u>1,149,146,184</u>	<u>1,246,972,653</u>
Net current assets		<u>1,060,961,216</u>	<u>467,147,065</u>
Total assets less current liabilities		<u>5,740,028,078</u>	<u>4,999,170,753</u>
Capital and reserves			
Share capital		101,658,496	102,806,496
Reserves		<u>2,272,687,218</u>	<u>2,129,711,303</u>
Total equity		<u>2,374,345,714</u>	<u>2,232,517,799</u>
Non-current liabilities			
Provision for long service payments		2,654,254	2,954,498
Obligations under finance leases		11,898,761	16,198,714
Bank loans		3,201,974,212	2,679,999,609
Deferred tax liabilities		<u>149,155,137</u>	<u>67,500,133</u>
		<u>3,365,682,364</u>	<u>2,766,652,954</u>
		<u>5,740,028,078</u>	<u>4,999,170,753</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

1. BASIS OF PREPARATION

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

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from contracts with Customers and the related Amendments
HK (IFRIC) — Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 <i>Financial Instruments</i> with HKFRS 4 <i>Insurance Contracts</i>
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 9 *Financial Instruments*

In the current year, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (i) the classification and measurement of financial assets and financial liabilities, (ii) expected credit losses (“ECL”) for financial assets and (iii) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9 i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 April 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 April 2018. The difference between carrying amounts as at 31 March 2018 and the carrying amounts as at 1 April 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (“FVTOCI”) and at fair value through profit or loss (“FVTPL”). On initial recognition the Group makes an election to designate the equity investments at FVTOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer’s perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained profits. It is not recycled through profit or loss. Dividends from equity investments, irrespective of whether classified as at FVTPL or FVTOCI (non-recycling), are recognised in profit or loss as other income when the Group’s right to receive payments is established.

The Group’s financial assets measured at amortised cost and FVTPL continue with their respective classification and measurements upon initial application of HKFRS 9.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liabilities’ credit risk to be recognised in other comprehensive income (non-recycling). The Group does not have any financial liabilities designated at FVTPL and therefore the new requirement on financial liabilities does not have any impact on the Group.

Summary of effects arising from initial application of HKFRS 9

Classification of financial assets and financial liabilities

On 1 April 2018 (the date of initial application of HKFRS 9), the Group’s management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The Group elected to present in other comprehensive income for the fair value changes of the investments previously classified as available-for-sale investments, of which previously measured at fair value under HKAS 39, as the investments are not held for trading and not expected to be sold in the foreseeable future. As at the date of initial application of HKFRS 9, financial assets with a fair value of HK\$26,200,000 were reclassified from available-for-sale investments to other assets at FVTOCI, and reserve amount of HK\$14,467,500 were reclassified from the investments revaluation reserve to the FVTOCI reserve. Listed bonds previously classified as held-to-maturity investments are reclassified and measured at amortised cost upon application of HKFRS 9. The Group intends to hold the assets to maturity to collect contractual cash flows and these cash consist solely of payments of principal and interest on the principal amount outstanding. There was no difference between the previous carrying amount and the revised carrying amount at 1 April 2018.

The table below illustrates the classification of financial assets under HKFRS 9 and HKAS 39 at the date of initial application, 1 April 2018. Line items that were not affected by the changes have not been included.

	Available- for-sale investments	Other assets at FVTOCI	Held-to- maturity investments	Debt instruments at amortised cost	Revaluation reserve	FVTOCI reserve
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
At 31 March 2018						
— HKAS 39	26,200,000	—	3,483,194	—	51,627,011	—
Reclassification upon initial application of HKFRS 9	<u>(26,200,000)</u>	<u>26,200,000</u>	<u>(3,483,194)</u>	<u>3,483,194</u>	<u>(14,467,500)</u>	<u>14,467,500</u>
At 1 April 2018						
— HKFRS 9	<u>—</u>	<u>26,200,000</u>	<u>—</u>	<u>3,483,194</u>	<u>37,159,511</u>	<u>14,467,500</u>

Impairment under ECL model

As at 1 April 2018, the directors of the Company reviewed and assessed the Group's existing financial assets at amortised cost for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with HKFRS 9. The results of the assessment and the impact thereof are detailed below.

The Group applies the HKFRS 9 simplified approach to measure ECL when uses a lifetime ECL for all trade receivables from initial recognition. To measure the ECL, except for those which had been determined as credit impaired under HKAS 39, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

Loss allowances for other financial assets at amortised cost mainly comprise of bills receivables, deposit, other receivables, amount due from a joint venture and bank balances are measured on 12-month ECL basis as there had been no significant increase in credit risk since initial recognition.

The directors of the Company considered that the measurement of ECL has no material impact to the Group's retained profits at 1 April 2018.

HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 April 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 April 2018.

The Group has the revenue which is recognised at a point in time under HKFRS 15, namely (i) manufacture of watches and trading of watch movements and (ii) property development and investment. Gross rental income from leasing of properties and hotel operation are specifically excluded from the scope of HKFRS 15. Management has performed an assessment and the implementation of HKFRS 15 does not result in any significant impact on the Group’s financial position and results of operations.

HKFRS 15 does not prohibit an entity from using alternative descriptions in the statement of financial position for contract assets and contract liabilities, provided that sufficient information is available for a financial statements user to distinguish between receivables and contract assets, payables and contract liabilities. The Group does not have any significant contract asset and continues to include contract liability in “customers’ deposits” in the consolidated statement of financial position. The amounts of contract liability were approximately HK\$220,921,000 as at 31 March 2019.

As a result of the application of HKFRS 15, the Company has changed the accounting policy with respect to revenue recognition.

There was no material impact of transition to HKFRS 15 on retained profits at 1 April 2018.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 16	Leases ⁴
HKFRS 17	Insurance Contracts ¹
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments ⁴
Amendments to HKFRS 3	Definition of a Business ²
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ⁴
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁵
Amendments to HKAS 1 and HKAS 8	Definition of Material ³
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ⁴
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ⁴
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycles ⁴

¹ Effective for annual periods beginning on or after 1 January 2021, with earlier application permitted.

² Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

³ Effective for annual periods beginning on or after 1 January 2020, with earlier application permitted.

⁴ Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

⁵ Effective for annual periods beginning on or after a date to be determined.

3. REVENUE AND SEGMENT INFORMATION

The following is an analysis of the Group's revenue from its major products and services:

	2019	2018
	HK\$	HK\$
Revenue from contracts with customers within the scope of HKFRS 15, disaggregated by products or services		
Watches and watch movements	740,137,503	832,357,105
Sale of properties	—	440,523,965
Property management service	—	875,000
	740,137,503	1,273,756,070
Leasing of properties	5,066,189	7,194,935
Hotel operation	136,243,857	124,760,072
	<u>881,447,549</u>	<u>1,405,711,077</u>

Information reported to the executive directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

1. Manufacture of watches and trading of watch movements - manufacture, assembly and sale of electronic watches and watch parts, trading of watch movements and watch parts.
2. Property development and investment - development and sale of properties and holding of properties for investment and leasing purposes.
3. Hotel operation - management and operation of hotels.

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segment:

For the year ended 31 March 2019

	Manufacture of watches and trading of watch movements <i>HK\$</i>	Property development and investment <i>HK\$</i>	Hotel operation <i>HK\$</i>	Consolidated <i>HK\$</i>
REVENUE				
External sales	<u>740,137,503</u>	<u>5,066,189</u>	<u>136,243,857</u>	<u>881,447,549</u>
RESULT				
Segment result	<u>5,084,020</u>	<u>325,467,805</u>	<u>78,732,449</u>	409,284,274
Bank interest income				6,151,362
Unallocated other income				20,418,345
Unallocated other expenses				(41,570,626)
Finance costs				(90,375,429)
Share of result of an associate				(86,694)
Share of results of joint ventures				<u>(3,910,784)</u>
Profit before taxation				299,910,448
Income tax expense				<u>(78,084,669)</u>
Profit for the year				<u>221,825,779</u>

For the year ended 31 March 2018

	Manufacture of watches and trading of watch movements <i>HK\$</i>	Property development and investment <i>HK\$</i>	Hotel operation <i>HK\$</i>	Consolidated <i>HK\$</i>
REVENUE				
External sales	<u>832,357,105</u>	<u>448,593,900</u>	<u>124,760,072</u>	<u>1,405,711,077</u>
RESULT				
Segment result	<u>6,468,022</u>	<u>229,553,573</u>	<u>74,067,365</u>	310,088,960
Bank interest income				2,970,006
Gain on disposal of an investment property				7,497,270
Gain on disposal of subsidiaries				4,152,518
Unallocated other income				55,473,502
Unallocated other expenses				(51,095,128)
Finance costs				(76,025,841)
Share of result of an associate				(92,515)
Share of results of joint ventures				<u>1,303,271</u>
Profit before taxation				254,272,043
Income tax expense				<u>(35,563,113)</u>
Profit for the year				<u>218,708,930</u>

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment result represents the profit earned by each segment without allocation of central administration costs, gain on disposal of an investment property, gain on disposal of subsidiaries, share of results of an associate and joint ventures, other income and finance costs. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

Segment assets

	2019	2018
	HK\$	HK\$
Manufacture of watches and trading of watch movements	264,453,013	284,367,456
Property development and investment	2,601,107,879	2,055,675,651
Hotel operation	<u>2,093,796,674</u>	<u>1,991,023,476</u>
Total segment assets	4,959,357,566	4,331,066,583
Interest in an associate	7,389,666	7,476,360
Interests in joint ventures	366,222,526	370,133,310
Amount due from a joint venture	43,496,822	41,651,822
Unallocated	<u>1,512,707,682</u>	<u>1,495,815,331</u>
Consolidated assets	<u>6,889,174,262</u>	<u>6,246,143,406</u>

Segment liabilities

	2019	2018
	HK\$	HK\$
Manufacture of watches and trading of watch movements	100,519,741	138,501,586
Property development and investment	333,994,481	289,247,987
Hotel operation	<u>15,135,087</u>	<u>15,112,326</u>
Total segment liabilities	449,649,309	442,861,899
Amount due to an associate	4,555,148	4,555,148
Unallocated	<u>4,060,624,091</u>	<u>3,566,208,560</u>
Consolidated liabilities	<u>4,514,828,548</u>	<u>4,013,625,607</u>

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than interest in an associate, interests in joint ventures, amount due from a joint venture, other assets at fair value through other comprehensive income, available-for-sale investments, debt instruments at amortised cost, held-to-maturity investments, deferred tax assets, financial assets at fair value through profit or loss, tax recoverable, bank balances and cash, and other unallocated corporate assets; and

- all liabilities are allocated to operating segments other than bank loans, tax payable, amount due to an associate, deferred tax liabilities and other unallocated corporate liabilities.

Other segment information

For the year ended 31 March 2019

	Manufacture of watches and trading of watch movements	Property development and investment	Hotel operation	Unallocated	Consolidated
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Capital additions	5,065,018	101,755,760	3,831,703	2,059,394	112,711,875
Depreciation of property, plant and equipment	7,467,238	4,450,275	2,405,832	13,732,413	28,055,758
Amortisation of prepaid lease payments	67,965	—	—	—	67,965
Reversal of write-down of inventories	(2,299,244)	—	—	—	(2,299,244)
Increase in fair value of investment properties	—	314,178,334	101,000,000	—	415,178,334
Gain on disposal of property, plant and equipment	<u>1,119,533</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,119,533</u>

For the year ended 31 March 2018

	Manufacture of watches and trading of watch movements <i>HK\$</i>	Property development and investment <i>HK\$</i>	Hotel operation <i>HK\$</i>	Unallocated <i>HK\$</i>	Consolidated <i>HK\$</i>
Capital additions	2,796,018	746,819,966	1,863,829	256,488	751,736,301
Depreciation of property, plant and equipment	9,095,093	1,688,473	1,896,444	13,796,509	26,476,519
Amortisation of prepaid lease payments	67,965	—	—	—	67,965
Write-down of inventories	8,708,512	—	—	—	8,708,512
Increase in fair value of investment properties	—	246,758,357	—	—	246,758,357
Gain/(Loss) on disposal of property, plant and equipment	<u>3,201,713</u>	<u>(723,894)</u>	<u>—</u>	<u>—</u>	<u>2,477,819</u>

Revenue from major products and services

The following is an analysis of the Group's revenue from its major products and services:

	2019 <i>HK\$</i>	2018 <i>HK\$</i>
Watches and watch movements	740,137,503	832,357,105
Leasing of properties	5,066,189	7,194,935
Sale of properties	—	440,523,965
Property management service	—	875,000
Hotel operation	136,243,857	124,760,072
	<u>881,447,549</u>	<u>1,405,711,077</u>

Geographical information

The Group's main operations are located in Hong Kong and other regions in the People's Republic of China (the "PRC"), North America and Europe.

Information about the Group's revenue from external customers is presented based on the geographical location of the customers. Information about the Group's non-current assets is presented based on the geographical location of assets.

	Revenue from external customers		Non-current assets	
	2019	2018	2019	2018
	HK\$	HK\$	HK\$	HK\$
Hong Kong and the PRC	856,223,766	926,844,018	3,927,054,873	3,846,368,811
North America	7,403,954	448,397,936	665,376,354	608,322,709
Europe	12,732,569	9,285,689	52,413,723	44,200,000
Others	5,087,260	21,183,434	—	—
	<u>881,447,549</u>	<u>1,405,711,077</u>	<u>4,644,844,950</u>	<u>4,498,891,520</u>

Note: Non-current assets excluded financial instruments and deferred tax assets.

Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total revenue of the Group are as follows:

	2019	2018
	HK\$	HK\$
Customer A ¹	187,236,938	212,859,256
Customer B ¹	<u>149,173,132</u>	<u>173,656,512</u>

¹ Revenue from manufacture of watches and trading of watch movements.

4. OTHER INCOME AND GAINS

	2019 <i>HK\$</i>	2018 <i>HK\$</i>
Bank interest income	6,151,362	2,970,006
Interest income from debt instruments at amortised cost	99,110	—
Interest income from held-to-maturity investments	—	95,570
Gain on fair value changes of derivative financial instruments	—	512,149
Gain on fair value changes of financial assets at fair value through profit or loss	19,928,291	27,675,979
Gain on disposal of an investment property	—	7,497,270
Gain on disposal of property, plant and equipment	1,119,533	2,477,819
Gain on disposal of subsidiaries	—	4,152,518
Net foreign exchange gains	—	13,870
Reversal of impairment loss on property, plant and equipment	—	25,400,000
Sundry income	1,573,905	6,655,152
	<u>28,872,201</u>	<u>77,450,333</u>

5. FINANCE COSTS

	2019 <i>HK\$</i>	2018 <i>HK\$</i>
Interest on:		
Bank loans and overdrafts	125,527,336	105,552,647
Obligations under finance leases	811,974	954,394
	<u>126,339,310</u>	<u>106,507,041</u>
Total borrowing costs	126,339,310	106,507,041
Less: Amounts capitalised to investment properties and properties under development	(35,963,881)	(30,481,200)
	<u>90,375,429</u>	<u>76,025,841</u>

6. PROFIT BEFORE TAXATION

	2019 <i>HK\$</i>	2018 <i>HK\$</i>
Profit before taxation has been arrived at after charging/(crediting):		
Staff costs including directors' emoluments	127,937,783	103,887,009
Depreciation of property, plant and equipment	28,055,758	26,476,519
Amortisation of prepaid lease payments	67,965	67,965
Auditors' remuneration	3,093,611	2,932,538
Cost of inventories recognised as an expense	694,061,791	785,372,696
Impairment loss reversed in respect of trade receivables (included in administrative expenses on consolidated statement of profit or loss)	(5,152)	—
Impairment loss recognised in respect of other receivables (included in administrative expenses on consolidated statement of profit or loss)	—	7,950,096
Net foreign exchange loss	8,984,705	—
Loss on fair value changes of derivative financial instruments	2,516,394	—
Minimum lease payments for operating leases in respect of land and buildings	14,915,263	12,159,783
(Reversal of write-down)/Write-down of inventories	(2,299,244)	8,708,512
Gross rental income from investment properties	(141,310,046)	(131,955,008)
Less: Outgoings	<u>21,973,744</u>	<u>15,898,745</u>
Net rental income from investment properties	<u>(119,336,302)</u>	<u>(116,056,263)</u>

Minimum lease payments for operating leases in respect of staff quarters amounting to HK\$9,000,000 (2018: HK\$6,065,226) are included in staff costs.

7. INCOME TAX EXPENSE

	2019 <i>HK\$</i>	2018 <i>HK\$</i>
Hong Kong Profits Tax		
Current year	224,551	4,669,269
(Over)/Under provision in prior years	<u>(427,550)</u>	<u>358,181</u>
	<u>(202,999)</u>	<u>5,027,450</u>
Other jurisdictions		
Current year	92,978	6,814,925
Over provision in prior years	<u>(2,824,275)</u>	<u>—</u>
	<u>(2,731,297)</u>	<u>6,814,925</u>
Deferred tax		
Current year	<u>81,018,965</u>	<u>23,720,738</u>
	<u>78,084,669</u>	<u>35,563,113</u>

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “Bill”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the People’s Republic of China on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

8. EARNINGS PER SHARE

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

	2019 <i>HK\$</i>	2018 <i>HK\$</i>
Earnings		
Earnings for the purpose of basic and diluted earnings per share (Profit for the year attributable to owners of the Company)	<u>221,825,779</u>	<u>218,708,930</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,022,762,546	1,016,927,499
Effect of dilutive potential ordinary shares:		
Share options	<u>—</u>	<u>7,839,368</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,022,762,546</u>	<u>1,024,766,867</u>

9. BILLS RECEIVABLES

Bills receivables of HK\$337,626 (2018: HK\$666,673) which are aged within 30 days.

10. TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2019 <i>HK\$</i>	2018 <i>HK\$</i>
Trade receivables	74,411,203	48,618,378
Less: allowance for credit losses	<u>(15,380,000)</u>	<u>(15,395,496)</u>
	59,031,203	33,222,882
Deposits and prepayments	48,764,513	30,573,464
Advance payment to suppliers	3,363,294	8,110,168
Other receivables	<u>29,265,420</u>	<u>9,113,977</u>
Total trade receivables, deposits and prepayments	<u>140,424,430</u>	<u>81,020,491</u>

The Group has a policy of allowing an average credit period of 30 days to its trade customers. The following is an ageing analysis of trade receivables net of allowance for credit losses presented based on the invoice date at the end of the reporting period:

	2019 <i>HK\$</i>	2018 <i>HK\$</i>
Within 30 days	55,373,252	32,511,528
31 to 90 days	620	55,607
91 to 180 days	—	743
Over 180 days	3,657,331	655,004
	<u>59,031,203</u>	<u>33,222,882</u>

11. TRADE AND BILLS PAYABLES

The following is an ageing analysis of trade and bills payables presented based on the invoice date:

	2019 <i>HK\$</i>	2018 <i>HK\$</i>
Within 30 days	66,960,550	101,596,579
31 to 90 days	19,304,629	19,478,000
91 to 180 days	132,298	1,279,076
Over 180 days	1,785,396	3,917,040
	<u>88,182,873</u>	<u>126,270,695</u>

The average credit period on purchases is 30 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

12. DIVIDENDS

	2019	2018
	<i>HK\$</i>	<i>HK\$</i>
Dividends recognised as distribution during the year		
2018 Final — 3.0 HK cents (2017: 3.0 HK cents) per share	30,750,449	30,516,209
2018 Special Cash — 1.0 HK cent (2017: 1.0 HK cent) per share	10,250,150	10,172,070
2019 Interim — 0.5 HK cent (2018: 0.5 HK cent) per share	<u>5,101,510</u>	<u>5,082,350</u>
	<u>46,102,109</u>	<u>45,770,629</u>

A final dividend of 3.0 HK cents (2018: 3.0 HK cents) per share and a special cash dividend of 1.0 HK cent (2018: 1.0 HK cent) per share in respect of the year ended 31 March 2019 have been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

A final dividend of 3.0 HK cents per share and a special cash dividend of 1.0 HK cent per share (Year ended 31 March 2018: A final dividend of 3.0 HK cents per share and a special cash dividend of 1.0 HK cent per share) payable to the shareholders whose names on the Register of Members of the Company at the close of business on Tuesday, 3 September 2019 have been proposed by the Board (the “Proposed Dividends”) and are subject to approval by the shareholders in the forthcoming annual general meeting.

For determining the entitlement to attend and vote at the forthcoming annual general meeting (the “AGM”) of the Company to be held on Monday, 26 August 2019, the Register of Members of the Company will be closed from Monday, 19 August 2019 to Monday, 26 August 2019 (both days inclusive), during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfers, accompanied by the relevant share certificates, must be lodged with the Company’s Share Registrar and Transfer Office in Hong Kong, Tricor Standard Limited, at Level 22 (or Level 54 as effective from 11 July 2019), Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Friday, 16 August 2019.

For determining the entitlement to the Proposed Dividends, the Register of Members of the Company will also be closed from Monday, 2 September 2019 to Tuesday, 3 September 2019 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the Proposed Dividends, all transfers, accompanied by the relevant share certificates, must be lodged with the Company’s Share Registrar and Transfer Office in Hong Kong, Tricor Standard Limited, at Level 22 (or Level 54 as effective from 11 July 2019), Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Friday, 30 August 2019.

The Proposed Dividends are expected to be paid on or about Monday, 16 September 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

The audited consolidated profit attributable to shareholders of the Group for the year ended 31 March 2019 was HK\$221,825,779 (Year ended 2018: HK\$218,708,930). The basic and diluted earnings per share of the Company for the year ended 31 March 2019 were 21.7 HK cents per share and 21.7 HK cents per share respectively (Year ended 2018: 21.5 HK cents per share and 21.3 HK cents per share respectively).

BUSINESS REVIEW

WATCHES MANUFACTURING AND WATCH COMPONENTS

During the period under review, the Group’s watch manufacturing and trading division was adversely affected by the Trade War between the United States of America and China and recorded decreases in turnover and profit.

HOTEL OPERATION

The Group's hotel business continued to grow through increased brand awareness and both revenue and profit recorded better performance than the previous year.

PROPERTY DEVELOPMENT AND INVESTMENT

As per our 6 March 2019 announcement to shareholders, the Group, on the same day, entered into a sale and purchase agreement with two independent third parties to dispose of its Phase II Land (Building B & C Land) of the Group's multi-phased mixed-use development at 88 Queen Street East, Toronto, Canada. Completion of the sale is targeted within the fourth quarter of this year. The result was satisfactory.

The construction for Phase I of the above-mentioned multi-phased development is proceeding according to schedule and interim occupancy is targeted in the first quarter of 2020.

PROSPECTS

WATCHES MANUFACTURING AND WATCH COMPONENTS

The demand for the Group's analogue quartz watches and watch components will continue to be weak. The Group expects that the protracted Trade War will create another challenging year ahead for its watch manufacturing and watch component trading business.

HOTEL OPERATION

The Group's hotel business will aim to cope with the ongoing Trade War and current political issues in Hong Kong by looking to capture different segments of the market and creating unique offerings for guests.

PROPERTY DEVELOPMENT AND INVESTMENT

Due to the same reason mentioned earlier, the Group is carefully monitoring the market for the best timing to start its full campaign for sales of its luxurious residential development at 45 Tai Tam Road, Hong Kong, a joint venture project with BPE Asia Real Estate Fund L.P.

The demolition work of the Group's luxurious residential project at 3 South Bay Close, Repulse Bay will be completed shortly and the Group is in the process of application for the foundation work permit.

Regarding the Group's multi-phased mixed-use development at 88 Queen Street East, Toronto, Canada, the Group is currently formulating its marketing strategy for the remaining Phase III Land.

FINANCIAL REVIEW

Liquidity and financial resources

As at 31 March 2019, the Group's total borrowings were approximately HK\$3,876 million (2018: HK\$3,453 million), representing an increase of approximately HK\$423 million from last year. The maturity profile spreads over a period of 30 years, with approximately HK\$674 million repayable within one year, approximately HK\$2,583 million within two to five years and HK\$619 million beyond five years.

At the year end date, the Group's gearing ratio was 1.35 (2018: 1.20) which is calculated based on the Group's long-term borrowings of approximately HK\$3,202 million (2018: HK\$2,680 million) and shareholders' funds of approximately HK\$2,374 million (2018: HK\$2,233 million).

As at 31 March 2019, the Group's total bank balances and cash was approximately HK\$812 million (2018: HK\$865 million).

Similar to the past years, the Group has maintained a reasonable level of cash resources and stand-by credit facilities to provide adequate liquid funds to finance its commitments and working capital requirements.

Treasury policies

As at 31 March 2019, 84% of the Group's borrowings were in HKD, 11% in CAD, 3% in JPY, 1% in USD and 1% in GBP. As at 31 March 2019, 58% of the Group's bank balances and cash was in HKD, 14% in USD, 12% in JPY, 9% in CAD, 4% in RMB, and 3% in others.

All the Group's borrowings are variable-rate borrowings. The Group will carefully monitor its foreign exchange and interest rates exposure and utilise financial instruments such as forward contracts and interest rate swaps as necessary.

Future plans for material investments

The Group currently has no other plans for material investments. Any acquisition will be funded by internal resources of the Group and bank borrowings.

Charges on assets

As at 31 March 2019, certain properties and time deposits of the Group of approximately HK\$5,034 million (2018: HK\$4,334 million) were pledged to secure banking facilities for the Group.

Employees

As at 31 March 2019, the Group employed approximately 300 employees in Hong Kong, the PRC and other overseas countries. The staff costs for the year including directors' emoluments amounted to approximately HK\$128 million (2018: HK\$104 million). Remuneration is determined by reference to market terms as well as the qualifications and experiences of the staff concerned. Salaries are reviewed annually and discretionary bonuses may be paid depending on individual performance and the profitability of the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During this financial year, the Company repurchased a total of 11,480,000 (2018: 5,862,000) of its own shares on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). The details are as follows:

Month of repurchase

	Number of ordinary shares of HK\$0.1 each	Price per share		Aggregate consideration paid (including expenses) HK\$
		Highest HK\$	Lowest HK\$	
April 2018	1,300,000	1.15	1.14	1,489,838
May 2018	552,000	1.14	1.14	631,533
June 2018	300,000	1.16	1.15	348,924
July 2018	898,000	1.16	1.16	1,045,464
August 2018	802,000	1.16	1.14	919,597
September 2018	296,000	1.14	1.13	337,757
October 2018	3,616,000	1.11	1.08	4,001,982
November 2018	382,000	1.09	1.09	417,871
December 2018	516,000	1.09	1.07	563,848
March 2019	<u>2,818,000</u>	1.19	1.13	<u>3,306,029</u>
	<u>11,480,000</u>			<u>13,062,843</u>

ENVIRONMENT, SOCIAL RESPONSIBILITIES AND GOVERNANCE REPORT

Details of the environment, social responsibilities and governance of the Company will be set out in the Environmental, Social Responsibilities and Governance Report to be issued separately pursuant to Rule 13.91 and Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

CORPORATE GOVERNANCE

During the year ended 31 March 2019, in the opinion of the Board, the Company has complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules, except for the following deviations.

CG Code A.4.2 stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. In the opinion of the Board, the Chairman and Managing Director play a pivotal role in charting of corporate strategies and direction of the Group and should not be subject to retirement by rotation in consideration of the stability and continuity development of the Group. As such, the Board has exempted the Chairman and Managing Director from retiring from office by rotation at AGM in accordance with the Bye-law 99 of the Company.

Pursuant to the CG Code A.4.1, Non-executive Directors should be appointed for a specific term, subject to re-election. However, each Non-executive and Independent Non-executive Director of the Company was appointed for a term of period up to his retirement by rotation and re-election at the AGM of the Company in accordance with the Bye-law 99. The Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in CG Code A.4.1.

An Audit and Risk Management Committee has been established by the Company to review and supervise the Company's financial reporting process and internal controls and review the relationship with the auditors. The Audit and Risk Management Committee has held meetings in accordance with the relevant requirements and reviewed the results for the year ended 31 March 2019.

The Company has also adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiries to all Directors who have confirmed that, during the year, they have complied with the required standard set out in the Model Code.

PUBLICATION OF RESULT ON THE STOCK EXCHANGE'S WEBSITE

The annual report of the Company for the year ended 31 March 2019 containing all applicable information required by Paragraph 45 of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website and on the Company's website (<http://www.irasia.com/listco/hk/national/index.htm>) in due course.

By Order of the Board
National Electronics Holdings Limited
Lee Yuen Ching, Jimmy
Chairman

Hong Kong, 24 June 2019

As at the date of this announcement, the Executive Directors of the Company are Mr. Lee Yuen Ching, Jimmy, Mr. Lee Bon Chi, Loewe, Mr. Lee Yuen Kui, James, Mr. Lee Yuen Cheor, Edward and Mr. Wai Kwong Yuen, Ricky; the Non-executive Director of the Company is Ms. Lee Yuen Yu, Dorathy; and the Independent Non-executive Directors are Dr. Samson Sun, M.B.E., J.P., Mr. Chan Chak Cheung, William and Mr. Chan Kwok Wai.