

# NATIONAL ELECTRONICS HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 213)

## Interim Results for the six months ended 30 September 2008

### UNAUDITED INTERIM RESULTS

The board (“Board”) of directors (“Directors”) of National Electronics Holdings Limited (“Company”) would like to present the interim results of the Company and its subsidiaries (together, “Group”) for the six months ended 30 September 2008.

### CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months ended 30 September 2008*

		Six months ended 30 September	
		2008	2007
		(unaudited)	(unaudited)
	Notes	HK\$'000	HK\$'000
Revenue	3	1,747,918	570,707
Cost of sales		(1,561,432)	(501,604)
Gross profit		186,486	69,103
Other income	4	8,747	37,940
Increase in fair value of investment properties	9	47,166	21,798
Distribution costs		(4,368)	(4,510)
Administrative expenses		(45,700)	(42,475)
Finance costs	5	(7,187)	(14,114)
Gain on disposal of an investment property		—	8,929
Share of results of associates		591	—
Profit before taxation	6	185,735	76,671
Income tax expenses	7	(46,642)	(3,958)
Profit for the period		139,093	72,713
Dividend:			
2008 final dividend paid of 2.0 HK cents (2007: 2.0 HK cents) per ordinary share		19,847	20,638
Earnings per share – Basic	8	14.01 cents	7.05 cents

## CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2008

		<b>30 September</b>	<b>31 March</b>
		<b>2008</b>	<b>2008</b>
		<b>(unaudited)</b>	<b>(audited)</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Investment properties	9	964,973	880,020
Property, plant and equipment		107,034	100,549
Prepaid lease payments		260,100	262,322
Interests in associates		18,642	18,051
Available-for-sale investments		22,950	23,180
		<hr/>	<hr/>
		1,373,699	1,284,122
		<hr/>	<hr/>
<b>CURRENT ASSETS</b>			
Inventories		145,184	153,538
Prepaid lease payments		4,444	4,444
Investment held for trading		4,224	4,099
Inventory of unsold properties		28,469	28,514
Properties under development for sale		304,581	1,241,832
Deposits held in trust for property under development for sale		20,392	43,435
Bills receivables	10	7,300	12,000
Trade receivables, deposits and prepayments	10	84,627	113,041
Amounts due from associates		140,699	140,079
Tax recoverable		704	558
Bank balances and cash		212,372	91,950
		<hr/>	<hr/>
		952,996	1,833,490
		<hr/>	<hr/>

		<b>30 September</b>	<b>31 March</b>
		<b>2008</b>	<b>2008</b>
		<b>(unaudited)</b>	<b>(audited)</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>CURRENT LIABILITIES</b>			
Trade payables and accrued expenses	11	188,429	189,770
Bills payables	11	80,452	79,576
Taxation payable		38,777	1,318
Derivative financial instruments		343	457
Obligations under finance leases		4,262	3,706
Deposits received from sale of properties under development		7,837	448,301
Bank loans		468,472	1,034,105
		<u>788,572</u>	<u>1,757,233</u>
<b>NET CURRENT ASSETS</b>		<u>164,424</u>	<u>76,257</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u><u>1,538,123</u></u>	<u><u>1,360,379</u></u>
<b>CAPITAL AND RESERVES</b>			
Share capital		98,784	99,852
Reserves		685,574	568,745
		<u>784,358</u>	<u>668,597</u>
<b>NON-CURRENT LIABILITIES</b>			
Provision for long service payments		3,687	3,687
Obligations under finance leases		5,013	4,352
Bank loans		712,715	662,885
Derivative financial instruments		2,727	—
Deferred tax liabilities		29,623	20,858
		<u>753,765</u>	<u>691,782</u>
		<u><u>1,538,123</u></u>	<u><u>1,360,379</u></u>

## **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*For the six months ended 30 September 2008*

### **(1) BASIS OF PREPARATION**

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) and with the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

### **(2) PRINCIPAL ACCOUNTING POLICIES**

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

The accounting policies used in the preparation of this interim condensed consolidated financial statements are consistent with those used in the the Group’s annual financial statements for the year ended 31 March 2008, except that the Group has adopted all the new or revised standards, amendment or interpretations (“new HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year commencing on 1 April 2008. The adoption of these new HKFRSs did not have material impact on the results and financial position of the Group.

### (3) SEGMENT INFORMATION

The following is an analysis of the Group's revenue and result by principal activities and geographical segments for the six months ended 30 September 2008 and 2007:

#### Business Segments

##### 2008

	Manufacture, assembly and sale of electronic watches HK\$'000	Trading of watch movements and watch parts HK\$'000	Property development HK\$'000	Property investment HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<b>REVENUE</b>						
External sales	140,541	439,657	1,165,603	2,117	—	1,747,918
Inter-segment sales	—	582	—	—	(582)	—
Total revenue	<u>140,541</u>	<u>440,239</u>	<u>1,165,603</u>	<u>2,117</u>	<u>(582)</u>	<u>1,747,918</u>

Inter-segment sales are charged at cost.

##### RESULT

Segment result	<u>5,828</u>	<u>12,429</u>	<u>127,399</u>	<u>45,118</u>	<u>—</u>	190,774
Interest income						589
Unallocated net other income						11,267
Unallocated other expenses						(10,299)
Finance costs						(7,187)
Share of results of associates						591
Profit before taxation						185,735
Income tax expenses						(46,642)
Profit for the period						<u>139,093</u>

##### 2007

	Manufacture, assembly and sale of electronic watches HK\$'000	Trading of watch movements and watch parts HK\$'000	Property development HK\$'000	Property investment HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<b>REVENUE</b>						
External sales	171,580	396,234	327	2,566	—	570,707
Inter-segment sales	—	1,490	—	—	(1,490)	—
Total revenue	<u>171,580</u>	<u>397,724</u>	<u>327</u>	<u>2,566</u>	<u>(1,490)</u>	<u>570,707</u>

Inter-segment sales are charged at cost.

##### RESULT

Segment result	<u>8,682</u>	<u>15,206</u>	<u>5,252</u>	<u>22,756</u>	<u>—</u>	51,896
Interest income						2,480
Unallocated net other income						29,344
Unallocated other expenses						(1,864)
Finance costs						(14,114)
Gain on disposal of an investment property						8,929
Profit before taxation						76,671
Income tax expenses						(3,958)
Profit for the period						<u>72,713</u>

## Geographical Segments

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

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

	Sales revenue by geographical market	
	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Hong Kong and other regions in the People's Republic of China	445,954	404,430
North America	1,229,149	77,059
Europe	64,848	87,318
Others	7,967	1,900
	<u>1,747,918</u>	<u>570,707</u>

## (4) OTHER INCOME

	Six months ended 30 September	
	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Bank interest income	589	2,480
(Loss)/gain on disposal of property, plant and equipment	(92)	219
Gain on fair value changes of investment held for trading	125	52
Gain on disposal of available-for-sale investment	490	—
Management fee income received from associates	1,149	636
Exchange gain, net	5,746	31,287
Sundry income	740	3,266
	<u>8,747</u>	<u>37,940</u>

**(5) FINANCE COSTS**

	<b>Six months ended 30 September</b>	
	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
Amount due to a related party	—	25
Bank loans and overdrafts		
– wholly repayable within five years	13,944	31,218
– not wholly repayable within five years	5,068	3,272
Obligations under finance leases	232	212
	<hr/>	<hr/>
Total borrowing costs	19,244	34,727
Less: Amount capitalised to properties under development for sale	(3,147)	(20,613)
Amount capitalised to investment properties	(8,910)	—
	<hr/>	<hr/>
	7,187	14,114
	<hr/> <hr/>	<hr/> <hr/>

Borrowing costs capitalised during the period are calculated by applying a capitalisation rate of 6% (2007: 7%) to expenditure on properties under development for sale.

**(6) PROFIT BEFORE TAXATION**

	<b>Six months ended 30 September</b>	
	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation has been arrived at after charging:		
Allowance for inventories	6,037	12,114
Depreciation of property, plant and equipment	9,062	7,668
Less: Amount capitalised to properties under development for sale	(51)	(129)
	<hr/>	<hr/>
	9,011	7,539
	<hr/>	<hr/>
Amortisation of prepaid lease payments	2,244	334
Loss on fair value changes of derivative financial instruments	3,069	334
Minimum lease payments for operating leases in respect of land and buildings	1,947	762
Staff costs including directors' emoluments	43,334	47,687
Less: Amount capitalised to properties under development for sale	—	(332)
Amount capitalised to investment properties	(7,407)	(5,040)
	<hr/>	<hr/>
	35,927	42,315
	<hr/>	<hr/>
Cost of inventories recognised as an expense and after crediting:	1,555,394	489,489
Exchange gain, net	5,746	31,287
Gain on fair value changes of investment held for trading	125	52
Gain on disposal of available-for-sale investment	490	—
Gross rental income from properties	2,376	2,893
Less: Outgoings	(420)	(479)
	<hr/>	<hr/>
Net rental income from properties	1,956	2,414
	<hr/> <hr/>	<hr/> <hr/>

Minimum lease payments for operating leases in respect of staff quarters amounting to HK\$737,308 (2007: HK\$2,369,872) are included in staff costs.

**(7) TAXATION**

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax		
Hong Kong profits tax	13	3,157
Other jurisdictions	37,864	—
Deferred tax	8,765	801
	<u>46,642</u>	<u>3,958</u>

Hong Kong profits tax has been provided for at 16.5% (2007 – 17.5%) on the estimated assessable profit for the six months ended 30 September 2008.

**(8) EARNINGS PER SHARE**

The calculation of the basic earnings per share is based on the profit attributable to shareholders of HK\$139,093,803 (2007 – HK\$72,713,000) and on the weighted average number of 993,111,338 ordinary shares (2007 – 1,030,831,218 ordinary shares) in issue during the six months ended 30 September 2008.

**(9) INVESTMENT PROPERTIES**

	<i>HK\$'000</i>
<b>FAIR VALUE</b>	
At 1 April 2007	345,000
Additions	715,440
Increase in fair value recognised in the consolidated income statement	111,796
Gain on disposal of investment properties	55,103
Disposals	<u>(347,319)</u>
At 31 March 2008 and 1 April 2008	880,020
Additions	<u>37,787</u>
	917,807
Increase in fair value recognised in the consolidated income statement	<u>47,166</u>
At 30 September 2008	<u><u>964,973</u></u>

The fair value of the Group's investment properties at 30 September 2008 have been arrived at on the basis of a valuation carried out on that date by DTZ Debenham Tie Leung Limited, independent qualified professional valuers not connected with the Group. DTZ Debenham Tie Leung Limited is a member of the Hong Kong Institute of Surveyors, and has appropriate qualifications and recent experiences in the valuation of properties in the relevant locations. The valuation, which conforms to Valuation Standards on Properties of the Hong Kong Institute of Surveyors, was arrived at by reference to market evidence of transaction prices for similar properties.



#### (10) BILLS RECEIVABLES, TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS

Bills receivables with full recourse of HK\$7,300,000 (31 March 2008: HK\$12,000,000) which is aged within 30 days.

The Group has a policy of allowing an average credit period of 30-60 days to its trade customers.

Included in trade receivables, deposits and prepayments are trade receivables net of allowance for doubtful debts of HK\$59,779,555 (31 March 2008: HK\$53,692,129) with an aged analysis as follows:

	<b>At 30 September 2008</b>	<b>At 31 March 2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	50,759	50,729
31 to 90 days	4,841	1,898
91 to 180 days	3,738	873
Over 180 days	442	192
	<u>59,780</u>	<u>53,692</u>

#### (11) BILLS PAYABLES, TRADE PAYABLES AND ACCRUED EXPENSES

Included in bills payables, trade payables and accrued expenses are trade payables of HK\$126,260,069 (31 March 2008: HK\$112,910,976) with an aged analysis as follows:

	<b>At 30 September 2008</b>	<b>At 31 March 2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	86,721	77,365
31 to 90 days	32,798	29,562
91 to 180 days	2,021	1,820
Over 180 days	4,720	4,164
	<u>126,260</u>	<u>112,911</u>

#### (12) CONTINGENT LIABILITIES AND COMMITMENTS

	<b>At 30 September 2008</b>	<b>At 31 March 2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contingent liabilities:		
Other guarantees	<u>247</u>	<u>247</u>
Capital commitments:		
Contracted for but not provided:		
Acquisition of property, plant and equipment	—	733
Construction of investment properties	<u>31,915</u>	<u>38,057</u>
	<u>31,915</u>	<u>38,790</u>

### (13) RELATED PARTY TRANSACTIONS

- (1) Transactions with associates

Nature of transaction	Six months ended	
	30 September	
	2008	2007
	HK\$'000	HK\$'000
Management fee income received by the Group	<u>1,149</u>	<u>636</u>

- (2) The Group's balances with related parties are set out in the condensed consolidated balance sheet.
- (3) Directors' remuneration of HK\$4,374,777 (2007: HK\$6,627,714) has been paid during the six months ended 30 September 2008.

## **INTERIM DIVIDEND**

The Directors resolved to declare an interim dividend of 0.5 HK cent per share (2007 — 0.8 HK cent per share).

## **BUSINESS REVIEW**

The Group's turnover for the six months ended 30 September 2008 was HK\$1,747,917,527 as compared with HK\$570,706,881 over the same period last year. The increase was due to the sale of condominium units of our One St. Thomas project, Toronto, Canada.

Net profit for the six months ended 30 September 2008 was HK\$139,093,803 as compared with HK\$72,712,822 over the same period last year, representing an increase of 91%.

During the period under review, the profit margin of the Group's watch manufacturing division and the watch component trading division decreased slightly.

## **PROSPECTS**

The stringent labour law and other tough regulations in China have started to take its toll on factories in mainland China, especially those geared for export. Facing continued higher costs and reduced demand, the Group's watch manufacturing division has started to streamline its China factories' staff and labour force and slowed its pace in the relocation of its manufacturing facilities to Nanning, Guan Xi.

The occupancy rate of "The Putman", the Group's Luxurious Boutique Hotel at 202 Queen's Road Central, Hong Kong which is a Joint Venture Project with Citi Property Investors, is very satisfactory and the rental income has increased.

The superstructure work of the Group's second boutique hotel Joint Venture project with Citi Property Investors at 137-138 Connaught Road West, Hong Kong was completed and the hotel is expected to be ready by the first quarter of 2009.

The demolition work of the Group's third Joint Venture project with Citi Property Investors at Nos. 50 to 59 Connaught Road Central, Hong Kong for the development of a Grade A office building was completed and the foundation work has commenced.

The foundation work of the Group's boutique hotel project at 21 Whitfield Road, Causeway Bay, Hong Kong is in progress, and the Group targets to complete the building by mid 2010.

The foundation work of the Group's development project at 87 and 89 Jervois Street, Hong Kong has been completed and the Group expects the completion of this new boutique hotel to be around mid to end of 2010.

The demolition work of the Group's project at Nos. 99, 101 & 103 Bonham Strand and No. 127 Wing Lok Street, Hong Kong, has been completed and the foundation work has commenced. The target completion date is around mid to end of 2010.

The demolition work on No. 194-196 Queen's Road Central, Hong Kong is expected to be completed by the end of 2008. The Group aims to complete this new boutique hotel by early 2012.

## **FINANCIAL REVIEW**

### **Liquidity and financial resources**

As at 30 September 2008, the Group's total borrowings were HK\$1,181 million, representing a decrease of HK\$516 million from 31 March 2008. The maturity profile spreads over a period of 30 years, with HK\$461 million repayable within one year, HK\$423 million within two to five years and HK\$297 million beyond five years.

As at 30 September 2008, the Group's gearing ratio was 0.91 (31 March 2008: 0.99) which is calculated based on the Group's long-term bank borrowings of approximately HK\$713 million and shareholders' funds of approximately HK\$784 million.

As at 30 September 2008, the Group's total bank balances and cash was approximately HK\$212 million (31 March 2008: HK\$92 million).

Similar to last period, 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 30 September 2008, 76% of the Group's borrowings was in HK\$, 10% in US\$, 6% in JPY and 8% in CAD.

As at 30 September 2008, 32% of the Group's bank balances and cash was in HK\$, 18% in US\$, 48% in CAD and 2% in others.

All the Group's borrowings are variable-rate borrowings. The Group will carefully monitor its foreign exchange exposure and forward contracts have been used as hedging instruments.

### Future plans for material investments

The Group currently has no other plans for material investments. All investments, if any, will be funded by bank borrowings and the internal resources of the Group.

### Charges on assets

As at 30 September 2008, certain properties of the Group of approximately HK\$1,570 million (31 March 2008: HK\$2,425 million) were pledged to secure banking facilities for the Group.

### Employees

As at 30 September 2008, the Group employed approximately 2,630 employees in Hong Kong, the PRC and other overseas countries. The staff costs for the period including director's emoluments amounted to HK\$43 million (2007: HK\$48 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 SHARES

During the six months ended 30 September 2008 the Company repurchased a total of 10,682,000 shares of HK\$0.10 each of the Company on The Stock Exchange of Hong Kong Limited, all of which shares were cancelled upon repurchase. Particulars of the shares repurchased are as follows:

Month of repurchase	Number of shares of HK\$0.1 each	Price per share		Aggregate consideration
		Highest HK\$	Lowest HK\$	paid HK\$
April 2008	3,380,000	0.520	0.485	1,692,663
May 2008	1,462,000	0.530	0.510	762,253
June 2008	1,254,000	0.550	0.540	689,147
July 2008	50,000	0.530	0.520	26,730
August 2008	808,000	0.490	0.465	386,627
September 2008	3,728,000	0.480	0.400	1,678,268
	<u>10,682,000</u>			<u>5,235,688</u>

## **CORPORATE GOVERNANCE**

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the six months ended 30 September 2008.

## **AUDIT COMMITTEE**

The Company has established an Audit Committee and its members comprise Dr. Samson Sun, M.B.E., J.P., Mr. Chan Chak Cheung, William and Mr. Chan Kwok Wai who are all independent non-executive directors. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters. The interim results for the six months ended 30 September 2008, which have not been audited, have been reviewed by the Audit Committee.

## **MODEL CODE**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“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 period under review, they have complied with the required standard set out in the Model Code.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from 2 January 2009 to 7 January 2009 (both days inclusive) during which no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, should be lodged with the Company’s share registrar in Hong Kong, Tricor Standard Limited, 26/F, Tesbury Centre, 28 Queen’s Road East, Hong Kong not later than 4:30 p.m. on 31 December 2008.

## **PUBLICATION OF INTERIM REPORT**

The interim report of the Company for the six months ended 30 September 2008 containing all applicable information required by Appendix 16 of the Listing Rules will be published on the Stock Exchange's website ( <http://www.hkex.com.hk> ) and on the Company's website ( <http://www.irasia.com/listco/hk/national/index.htm> ) in due course.

By Order of the Board

**LEE YUEN CHING JIMMY**

*Chairman*

Hong Kong, 9 December 2008

*As at the date of this announcement, the executive Directors are Mr. Lee Yuen Ching, Jimmy, Mr. Lee Yuen Kui, James, Mr. Lee Bon Chi, Loewe, Mr. Lee Yuen Cheor, Edward and Mr. Wai Kwong Yuen, Ricky, the non-executive Director is Miss 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.*