NATIONAL ELECTRONICS HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 213)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31ST MARCH 2006

The following is a summary of the audited consolidated income statement and consolidated balance sheet of National Electronics Holdings Limited (the ''Company'') and its subsidiaries (together the ''Group'') for the year ended 31st March, 2006 together with comparative figures for the year ended 31st March, 2005 as follows: –

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31ST MARCH, 2006

	Notes	**2006** *HK$*	**2005** *HK$* (restated)
Revenue	(1)	1,045,505,970	1,026,973,336
Cost of sales		(950,112,380)	(919,973,629)
Gross profit		95,393,590	106,999,707
Other income	(2)	3,134,439	2,843,990
Increase in fair value/ revaluation increase in investment properties		16,000,000	27,411,840
Distribution costs		(8,446,224)	(8,562,511)
Administrative expenses		(67,072,947)	(63,231,151)
Finance costs	(3)	(14,986,831)	(6,075,492)
Gain on disposal of subsidiaries		37,912,580	–
Share of results of associates		(8,179)	1,316,539
Share of results of jointly controlled entities		(1,410)	(70,994)
Profit before taxation	(4)	61,925,018	60,631,928
Income tax expenses	(5)	(1,820,256)	(2,959,166)
Profit for the year		60,104,762	57,672,762
Earnings per share			
– Basic	(6)	5.5 HKcents	5.2 HKcents
Dividend per share			
– Final dividend proposed after the balance sheet date		1.5 HKcents	0.5 HKcents

CONSOLIDATED BALANCE SHEET
AT 31ST MARCH, 2006

	2006	2005
	HK$	*HK$*
		(restated)
Non-current assets		
Investment properties	166,000,000	150,000,000
Property, plant and equipment	68,951,429	55,262,594
Prepaid lease payments	42,411,871	43,036,497
Deposits held in trust for sale of property under development	69,658,709	33,978,471
Development costs	–	–
Interests in associates	31,564	1,316,543
Interests in jointly controlled entities	–	440,024
Available-for-sale investments	13,615,000	–
Other non-current assets	–	18,261,881
	360,668,573	302,296,010
Current assets		
Inventories	185,317,344	158,691,465
Prepaid lease payments	624,626	624,626
Investment held-for-trading	3,827,671	–
Investments in securities	–	8,018,823
Inventory of unsold properties	126,282,153	119,418,851
Properties under development for sale	635,083,626	450,962,653
Bills receivables	10,422,991	6,000,000
Trade receivables, deposits and prepayments	123,364,878	103,990,425
Amount due from an associate	1,144,399	–
Amount due from a jointly controlled entity	–	50
Tax recoverable	767,333	39,249
Bank balances and cash	119,157,381	28,940,736
	1,205,992,402	876,686,878
Current liabilities		
Trade payables and accrued expenses	147,900,811	94,205,582
Bills payables	75,904,757	63,788,574
Amount due to an associate	16,987	1,576,898
Amount due to a related party	7,556,135	–
Taxation payable	470	2,073,593
Derivative financial instruments	1,320,498	–
Obligations under finance leases	2,882,947	2,115,047
Bank overdrafts	262,792	–
Bank borrowings	217,020,225	187,324,534
	452,865,622	351,084,228
Net current assets	753,126,780	525,602,650
Total assets less current liabilities	1,113,795,353	827,898,660

	2006	2005
	HK$	*HK$*
		(restated)
Capital and reserves		
Share capital	107,590,393	109,790,393
Reserves	318,147,906	262,729,691
	425,738,299	372,520,084
Non-current liabilities		
Provision for long service payments	4,361,984	4,132,056
Obligations under finance leases	4,790,361	2,123,257
Bank borrowings	546,380,630	382,646,741
Deposits received from sale of properties under development	131,130,989	65,439,234
Deferred taxation	1,393,090	1,037,288
	688,057,054	455,378,576
	1,113,795,353	827,898,660

APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (''HKFRSs'')/CHANGES IN ACCOUNTING POLICIES

The financial statements have been prepared in accordance with HKFRSs (which also includes Statement of Standard Accounting Practice and Interpretation) issued by the Hong Kong Institute of Certified Public Accountants (''HKICPA''), Hong Kong Companies Ordinance and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual audited financial statements for the year ended 31st March, 2005, except that the Group has changed certain of its accounting policies following its adoption of new HKFRSs as mentioned below.

In the current year, the Group has applied, for the first time, a number of new and revised HKFRSs, Hong Kong Accounting Standards (''HKASs'') and Interpretations (''INTs'') (hereinafter collectively referred to as ''new HKFRSs'') issued by HKICPA that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of share of tax of associates and jointly controlled entities has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are prepared and presented:

Business combinations

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

Goodwill

In previous year, goodwill arising on acquisitions prior to 1st April, 2001 was held in reserves, and goodwill arising on acquisitions after 1st April, 2001 was capitalised and amortised over its estimated useful life. In accordance with the relevant transitional provisions in HKFRS 3, amortisation of goodwill discontinued from 1st April, 2005 onwards and goodwill will be tested for impairment at least annually and in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1st April, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. This change in accounting policy has had no effect on results of both current and prior period.

In the current year, the Group has also applied HKAS 21 The Effects of Changes in Foreign Exchange Rates which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisitions of foreign operations was reported at historical rates at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions prior to 1st April, 2005 is treated as a non-monetary foreign currency item of the Group. Therefore, no prior period adjustment has been made.

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as ''negative goodwill'')

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition (''discount on acquisition'') is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1st April, 2001 was held in reserves, and negative goodwill arising on acquisitions after 1st April, 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill on 1st April, 2005 of HK$2,256,230 was previously recorded in negative goodwill reserve with a corresponding increase of HK$2,256,230 to the Group's retained profits.

Financial instruments

In the current year, the Group has applied HKAS 32 ''Financial Instruments: Disclosure and Presentation'' and HKAS 39 ''Financial Instruments: Recognition and Measurement''. HKAS 32 requires retrospective application. The application of HKAS 32 has had no material effect on the presentation of financial instruments in the financial statements of the Group. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

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

By 31st March, 2005, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 (''SSAP 24'') ''Accounting for investment in securities'' issued by the HKICPA. Under SSAP 24, investments in debt or equity securities are classified as ''trading securities'', ''non-trading securities'' or ''held-to-maturity investments'' as appropriate. Both ''trading securities'' and ''non-trading securities'' are measured at fair value. Unrealised gains or losses of ''trading securities'' are reported in profit or loss for the period in which gains or losses arise. Unrealised gains or losses of ''non-trading securities'' are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for that period. From 1st April, 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as ''financial assets at fair value through profit or loss'', ''available-for-sale financial assets'', ''loans and receivables'', or ''held-to-maturity financial assets''. The classification depends on the purpose for which the assets are acquired ''Financial assets at fair value through profit or loss'' and ''available-for-sale financial assets'' are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured are measured at cost less impairment after initial recognition. ''Loans and receivables'' and ''held-to-maturity financial assets'' are measured at amortised cost using the effective interest method after initial recognition.

On 1st April, 2005, the Group reclassified its non-trading securities of HK$4,089,560 to available-for-sale investments and are carried at fair value. The cumulative unrealised losses previously recognised in reserves of HK$1,000,000 have been transferred to the Group's retained profits on 1st April, 2005.

On 1st April, 2005, the Group reclassified its trading securities of HK$3,929,263 which are listed debt securities to investment held-for-trading and are carried at fair value, with changes in fair values recognised in profit or loss. This change in accounting policy has had no material effect on the financial statements for the current or prior accounting periods.

By 31st March, 2005, the Group measured its investments in club debentures at cost less impairment loss (if any). From 1st April, 2005 onwards, the Group has designated and measured its investments in club debentures as ''available-for-sale investments'' in accordance with HKAS 39, which are carried at fair value with changes in fair values recognised in equity directly. On 1st April, 2005, club debentures with an aggregate carrying amount of HK$8,025,895 were reclassified to ''available-for-sale investments'' and remeasured at fair value at 1st April, 2005 under the transitional provisions of HKAS 39. As a result, the carrying amounts of ''available-for-sale investments'' and investment revaluation reserve as at 1st April, 2005 have been increased by HK$2,947,500.

Financial assets and financial liabilities other than debt and equity securities

From 1st April, 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as financial assets at fair value through profit or loss'', ''available-for-sales financial assets'', ''loans and receivables'' or ''held-to-maturity financial assets''. Financial liabilities are generally classified as ''financial liabilities at fair value through profit or loss'' or ''financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)''. ''Other financial liabilities'' are carried at amortised cost using the effective interest method after initial recognition. The application of HKAS 39 has had no material effect on financial assets and financial liabilities other than debt and equity securities.

Derivatives

By 31st March, 2005, the Group's derivative financial instruments, representing foreign currency forward contracts, were used to manage the Group's exposure to exchange rate fluctuation. The unrealised gains or losses on these derivatives were included in net profit or loss for the period.

From 1st April, 2006 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the host contracts) are deemed as held for trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise.

The Group has applied the relevant transitional provisions in HKAS 39, resulting in recognition of financial liabilities in respect of the foreign currency forward contracts, that are deemed as held for trading, as at 1st April, 2005. As a result, the carrying amounts of trade payables and accrued expenses and derivative financial instruments as at 1st April, 2005 have been decreased by HK$3,387,250 and increased by HK$2,741,804 respectively with a net increase of HK$645,446 to the Group's retained profits.

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has had early applied the revised accounting policy for transfers of financial assets from 1st April, 2004 onwards. As at 31st March, 2006, the Group's bills receivables discounted with full recourse and factored trade receivables with full recourse have not been derecognised. The related borrowing of HK$9,000,000, had been recognised on the consolidated balance sheet. This change has had no material effect on the results for the current year.

Owner-occupied leasehold interest in land

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

Investment properties

In the current year, the Group has, for the first time, applied HKAS 40 ''Investment Property''. The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the year in which they arise. In previous years, investment properties under SSAP 13 ''Accounting for Investment Properties'' were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation increase subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. This change in accounting policy has had no material effect on the financial statements for the current or prior accounting periods. Accordingly, no prior year adjustment has been required.

Deferred taxes related to investment properties

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation (SSAP-INT 20). In the current year, the Group has applied HK(SIC) Interpretation 21 ''Income Taxes – Recovery of Revalued Non-Depreciable Assets'' which removes the presumption that the carrying amount of investment properties is to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. This change has had no material effect on the results of both the current and prior year.

SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

	2006	**2005**
	HK$	*HK$*
Increase in loss on derecognition of derivative financial instruments	(645,446)	–
Decrease in depreciation charge on property, plant and equipment	412,032	412,032
Increase in amortisation arising from prepaid lease payments	(624,626)	(624,626)
Increase in loss on fair value changes of derivative financial instruments	(1,320,498)	–
Decrease in profit for the year	(2,178,538)	(212,594)

Analysis of decrease in profit for the year by line items presented according to their functions is as follows:

	2006 *HK$*	2005 *HK$*
Decrease in cost of sales	90,855	90,855
Increase in administrative expenses	(2,269,393)	(303,449)
Decrease in profit for the year	(2,178,538)	(212,594)

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

	As at 31st March, 2005 (originally stated)	Retrospective adjustments Effect of HKAS 17	As at 31st March, 2005 (restated)	Prospective adjustments Effect of HKFRS 3	Effect of HKAS 39	As at 1st April, 2005 (restated)
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Balance sheet items						
Property, plant and equipment	100,814,071	(45,551,477)	55,262,594	–	–	55,262,594
Prepaid lease payments						
– Non-current	–	43,036,497	43,036,497	–	–	43,036,497
– Current	–	624,626	624,626	–	–	624,626
Available-for-sale investments						
– Non-current	–	–	–	–	10,973,395	10,973,395
– Current	–	–	–	–	4,089,560	4,089,560
Other non-current assets	18,261,881	–	18,261,881	–	(8,025,895)	10,235,986
Investments in securities	8,018,823	–	8,018,823	–	(8,018,823)	–
Investment held-for-trading	–	–	–	–	3,929,263	3,929,263
Trade payables and accrued expenses	(94,205,582)	–	(94,205,582)	–	3,387,250	(90,818,332)
Derivative financial instruments	–	–	–	–	(2,741,804)	(2,741,804)
Total effects on assets and liabilities		(1,890,354)		–	3,592,946	
Negative goodwill arising on acquisition of subsidiaries	2,256,230	–	2,256,230	(2,256,230)	–	–
Investment revaluation reserve	(1,000,000)	–	(1,000,000)	–	3,947,500	2,947,500
Retained profits	157,135,340	(1,890,354)	155,244,986	2,256,230	(354,554)	157,146,662
Total effects on equity		(1,890,354)		–	3,592,946	

The financial effects of the application of the new HKFRSs to the Group's equity on 1st April, 2004 are summarised below:

	As originally stated *HK$*	Retrospective adjustments Effect of HKAS 17 *HK$*	As restated *HK$*
Retained profits	111,808,846	(1,677,760)	110,131,086
Total effects on equity		(1,677,760)	

Notes:

(1) REVENUE AND SEGMENTAL INFORMATION

Revenue represents the net amounts received and receivable for goods sold by the Group to the outside customers, proceeds from sales of properties and property rental income during the year. The following is an analysis of the Group's revenue and operating profit by principal activity and geographical market:

Business Segment Information

2006

	Manufacture of watches *HK$*	**Trading of watch movements** *HK$*	**Property development** *HK$*	**Property investment** *HK$*	**Eliminations** *HK$*	**Consolidated** *HK$*
REVENUE						
External sales	439,745,203	600,890,070	424,492	4,446,205	–	1,045,505,970
Inter-segment sales	–	11,462,014	–	–	(11,462,014)	–
Total revenue	439,745,203	612,352,084	424,492	4,446,205	(11,462,014)	1,045,505,970

Inter-segment sales are charged at cost.

RESULT						
Segment result	22,689,415	991,303	31,789,401	20,196,720	–	75,666,839
Interest income						643,523
Unallocated other income						6,915,750
Unallocated corporate expenses						(6,304,674)
Finance costs						(14,986,831)
Share of results of associates			(3,200)	(4,979)		(8,179)
Share of results of jointly controlled entities			(1,410)			(1,410)
Profit before taxation						61,925,018
Income tax expenses						(1,820,256)
Profit for the year						60,104,762

2005

	Manufacture of watches *HK$*	**Trading of watch movements** *HK$*	**Property development** *HK$*	**Property investment** *HK$*	**Eliminations** *HK$*	**Consolidated** *HK$*
REVENUE						
External sales	377,177,561	644,274,107	–	5,521,668	–	1,026,973,336
Inter-segment sales	–	6,071,983	–	–	(6,071,983)	–
Total revenue	377,177,561	650,346,090	–	5,521,668	(6,071,983)	1,026,973,336

Inter-segment sales are charged at cost.

RESULT						
Segment result	36,786,467	7,750,277	(7,649,275)	31,317,968	–	68,205,437
Interest income						584,819
Unallocated other income						1,132,264
Unallocated corporate expenses						(4,460,645)
Finance costs						(6,075,492)
Share of result of an associate				1,316,539		1,316,539
Share of results of jointly controlled entities			(70,994)			(70,994)
Profit before taxation						60,631,928
Income tax expenses						(2,959,166)
Profit for the year						57,672,762

Segment Information By Geographical Market

	Sales revenue by geographical market 2006 HK$	2005 HK$
Hong Kong and other regions in the People's Republic of China (the ''PRC'')	607,810,043	664,291,747
North America	264,956,291	186,508,087
Europe	168,123,957	173,244,075
Others	4,615,679	2,929,427
	1,045,505,970	1,026,973,336

(2) OTHER INCOME

	2006 HK$	2005 HK$
Bank interest income	643,523	584,819
Discount on acquisition of subsidiaries	681,524	–
Dividend income from unlisted investments	–	186,159
Gain on disposal of property, plant and equipment	170,211	–
Gain on fair value changes of investment held-for-trading	169,289	–
Management fee income received from others	–	96,604
Sundry income	1,469,892	1,976,408
	3,134,439	2,843,990

(3) FINANCE COSTS

	2006 HK$	2005 HK$
Interest on:		
Bank loans and overdrafts		
Wholly repayable within five years	21,668,460	13,295,938
Not wholly repayable within five years	4,346,759	2,339,102
Obligations under finance leases	516,926	208,552
Total borrowing costs	26,532,145	15,843,592
Less: Amount capitalised to properties under development for sale	(11,545,314)	(9,768,100)
	14,986,831	6,075,492

(4) PROFIT BEFORE TAXATION

	2006 HK$	2005 HK$
Profit before taxation has been arrived at after charging:		
Allowance for doubtful debts	2,214,382	–
Allowance for inventories	6,255,594	4,122,929
Amortisation of development costs included in administrativr expenses	–	133,709
Auditors' remuneration	1,600,522	853,271
Depreciation of property, plant and equipment	13,965,762	16,702,128
Less: Amount capitalised to properties under development for sale	(242,370)	(242,370)
	13,723,392	16,459,758
Amortisation of prepaid lease payment	624,626	624,626
Exchange loss, net	997,015	9,503,580
Impairment loss on investment in securities	–	199,801
Loss on disposal of property, plant and equipment	–	302,021
Loss on disposal of available-for-sale investments	4,453	–
Loss on fair value changes of derivative financial instrument	1,320,498	–
Loss on derecognition of derivative financial instruments	645,446	–
Minimum lease payments for operating leases in respect of land and buildings	2,072,918	2,998,477
Share of taxation of an associate	–	279,911
Staff costs including directors' emoluments	105,504,042	94,269,626
Less: Amount capitalised to properties under development for sale	(11,152,543)	(11,824,170)
	94,351,499	82,445,456
and after crediting:		
Gain on fair value changes of investment held-for-trading	169,289	–
Gross rental income from properties	4,870,697	5,521,668
Less: Outgoings	(51,488)	(507,843)
Net rental income from investment properties	4,819,209	5,013,825

(5) INCOME TAX EXPENSES

	2006 HK$	2005 HK$
The charge comprises:		
Hong Kong Profits Tax		
Current year	1,412,504	2,837,849
Underprovision in prior years	–	81,456
	1,412,504	2,919,305
Other jurisdictions – current year	51,950	39,861
	1,464,454	2,959,166
Deferred tax liabilities	355,802	–
Taxation attributable to the Company and its subsidiaries	1,820,256	2,959,166

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profit for both years.

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

(6) EARNINGS PER SHARE

The calculation of earnings per share are based on the profit for the year of HK$60,104,762 (2005: HK$57,672,762) and on the weighted average number of 1,083,381,512 (2005: 1,106,014,684) ordinary shares in issue during the year.

DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

A final dividend of HK1.5 cents per share (2005: HK0.5 cent) to the shareholders on the register of members on 4th August, 2006 has been proposed by the board of directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

The Register of Members of the Company will be closed from 4th August, 2006 to 11th August, 2006 (both days inclusive) for the purpose of establishing entitlement of shareholders to vote at the forthcoming Annual General Meeting to be held on 11th August, 2006.

RESULTS

The Board of Directors of National Electronics Holdings Limited (the ''Company'') is pleased to announce that the audited consolidated profit after taxation of the Company and its subsidiaries (together, the ''Group'') for the year ended 31st March, 2006 was HK$60,104,762 (2005: HK$57,672,762). The earnings per share of the Company for the year ended 31st March, 2006 was 5.5 HK cents per share (2005: 5.2 HK cents per share).

The Group's turnover for the year ended 31st March, 2006 amounted to HK$1,045,505,970 (2005: HK$1,026,973,336).

BUSINESS REVIEW

WATCHES AND WATCH COMPONENTS

During the year under review, the performance of the Group's watch manufacturing division, especially for the second half of this financial year, was below our initial expectation. The rising U.S. interest rate and high oil prices have started to adversely affect our U.S. business. The profit margin was further eroded by the increasing material cost resulting from high commodity prices. Due to the above, the Group was unable to improve the performance of its watch components trading business in the previous year.

PROPERTY DEVELOPMENT AND INVESTMENT

During the year under review, the construction work of the Group's residential development project in Toronto, One St. Thomas, was in progress and the building will be topped off in August this year.

The redevelopment work at 202-206 Queen's Road Central, Hong Kong to build a 26 single floor unit luxury boutique hotel is on schedule.

On 30th March 2006, the Group had disposed 80% of the interest in its subsidiary, which held the site at 137-138 Connaught Road West, Hong Kong with satisfactory profit. The site will be developed into a luxury boutique hotel.

The Group has revalued its investment properties in accordance with HKAS 40 ''Investment Property'', which has increased by HK$16,000,000 in fair value. Such amount was recognised directly in the profit and loss for the financial year under review.

PROSPECTS

WATCHES AND WATCH COMPONENTS

For the watch manufacturing division, the Group is cautious with its U.S. business and intends to further diversify its product distribution and implement tighter internal control in order to reduce overhead and other costs.

With the introduction of a new range of ''complication'' watch movements from our Japanese suppliers, the Group expects its watch components trading division's performance to improve in the coming year.

PROPERTY DEVELOPMENT AND INVESTMENT

OVERSEAS

The Group expects the first occupancy of its project in Canada, One St. Thomas to commence by early 2007. With the building being occupied in phases, full occupancy is expected by the end of 2007.

LOCAL

Further to the announcement made on 6th April 2006, the Group entered into a disposal agreement with CPI Asia to sell 80% of the interest in its subsidiary, which held the project at 202-206 Queen's Road Central, Hong Kong. The transaction was completed on 8th May, 2006 and the result is satisfactory.

Further to the Group's announcement on 23rd May, 2006, the Group has disposed two commercial units at Lippo Centre, Queensway, Hong Kong for a consideration of HK$39.96 million and the result is satisfactory.

The Group intends to continue its strategy of expanding its land bank at desirable locations with good value. In light of that, the Group has made the following acquisitions:

- On 11th April, 2006, the Group had entered into a sale and purchase agreement to purchase a 24-storey composite building with retail shop on ground floor and residential units on upper floors at No. 21 Whitfield Road, North Point, Hong Kong for a consideration of HK$78 million.
- On 10th June, 2006, the Group had entered into a sale and purchase agreement to purchase a 14-storey commercial building at 194-196 Queen's Road Central, Hong Kong with retail shops on the ground floor and office units on the upper floors at a consideration of HK$56.5 million.

MANAGEMENT DISCUSSION AND ANALYSIS

We have explained in Business Review section about a number of factors affected the Group's performance for the financial year under review and segmental analysis is discussed below.

For the year ended 31st March, 2006, the Group's profit from operations increased by 17% as per following segmental analysis:

	2006 *HK$*	**2005** *HK$*
Segment result		
Manufacture of watches	22,689,415	36,786,467
Trading of watch movements	991,303	7,750,277
Property development	31,789,401	(7,649,275)
Property investment	20,196,720	31,317,968
Consolidated segment result	75,666,839	68,205,437
Interest income	643,523	584,819
Unallocated other income	6,915,750	1,132,264
Unallocated corporate expenses	(6,304,674)	(4,460,645)
Profit from operations	76,921,438	65,461,875

For manufacture of watches, the division had made provision for obsolete stocks of HK$6,255,594 and provision for doubtful debts of HK$2,214,382 at the second half of this financial year which adversely affected the division's second half year's performance.

For trading of watch movements, the Group adopted the new HKFRS relating to derivative financial instruments which resulted in loss on fair value changes of derivative financial instruments of HK$1,320,498 and loss on derecognition of derivative financial instruments of HK$645,446 for the division at the year end date.

For property development, the division improved in performance mainly due to the disposal of 80% of the interest in its subsidiary which held the Connaught Road project resulted in a gain on disposal of HK$37,912,580.

For property investment, the decrease in segmental profit was mainly due to the increase in fair value in investment properties decreased from HK$27,411,840 in 2005 to $16,000,000 in 2006.

Capital structure

As at 31st March 2006, the shareholder's funds of the Group totaled approximately HK$426 million and total bank borrowings was approximately HK$763 million and the maturity profile of the Group's bank borrowings falling due within one year was 28% and more than one year was 72%.

Liquidity and financial resources

As at 31st March 2006, total bank balance was approximately HK$119 million (2005: HK$29 million).

The Group maintains a reasonable level of cash resources and stand-by credit facilities to provide adequate liquid funds to finance its business activities.

Gearing Ratio

As at 31st March 2006, the Group's gearing ratio was 1.28 which is calculated based on the Group's long-term borrowings of approximately HK$546 million and shareholders' funds of approximately HK$426 million.

Within this long-term bank borrowings of HK$546 million, approximately HK$276 million was the land and construction loan advanced for the Group's One St. Thomas project in Toronto, Canada which was fully secured by executed pre-sale purchase and sale agreement. Partial deposit of HK$131 million for the apartment units of One St. Thomas project has been received. Thus, the Group's gearing ratio based on the long-term bank borrowings of HK$270 million (excluding HK$276 million advanced for the Canadian project) is 0.63.

The Group's gearing ratio at 31st March 2005 was 1.03 which is calculated based on the Group's long-term borrowings of approximately HK$383 million and shareholders' funds of approximately HK$373 million.

Within this long-term bank borrowings of HK$383 million, approximately HK$122 million was the land and construction loan advanced for the Group's One St. Thomas project in Toronto, Canada which was also fully secured by executed pre-sale purchase and sale agreement. Partial deposit of HK$65 million for the apartment units of One St. Thomas project has been received. Thus, the Group's gearing ratio based on the long-term bank borrowings of HK$261 million (excluding HK$122 million advanced for the Canadian project) is 0.70.

As compared with the balance as at 31st March, 2005, the Group's gearings decreased from 0.70 in 2005 to 0.63 in 2006 after adjusting for the effect of the loans advanced for the Group's One St. Thomas project in Toronto, Canada.

Cashflow from Operating/Investing Activities

During the financial year, the Group generated net cash inflow from operating activities of approximately HK$34.2 million (2005: HK$52.7 million) and the net cash used in investing activities to approximately HK$155.3 million (2005: HK$183.7 million)

Future plan for material investments

As mentioned in the section of ''PROSPECTS'' above, the total future capital expenditure to be incurred for the acquisitions of two properties will be HK$134.5 million. Such purchase consideration will be funded by bank borrowings of HK$96.2 million and the remaining portion of funding of HK$38.3 million will be provided by the Group's internal resources at the future dates of completion.

Pledge of assets

Certain properties of the Group having a carrying value of approximately HK$991 million as at 31st March 2006 were pledged to secure banking facilities of the Group.

Treasury policy

The Group adopts a prudent treasury policy. The acquisition of investment properties and properties for development are financed partly by internal resources and partly by secured bank loans. Repayments of bank loans are scheduled to match asset lives and development project completion dates.

All borrowings are denominated in Hong Kong dollars, Japanese Yen, United States dollars or Canadian dollars and bear interest at floating rates. Foreign currency exposure is monitored closely by the management and hedged by forward foreign currency contracts and foreign currency borrowings to the extent desirable. The Group also uses derivative financial instruments to manage foreign exchange exposures for hedging purpose only.

Employees and remuneration policies

The Group employs approximately 4,849 employees in Hong Kong, in other parts of the People's Republic of China (''PRC'') and overseas. Remuneration is determined by reference to market terms and the qualifications and experience of the staff concerned. Salaries are reviewed annually with discretionary bonuses being paid depending on individual performance.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year under review, the Company repurchased a total of 22,000,000 (2005: 28,258,000) of its own shares on The Stock Exchange of Hong Kong Limited. The details are as follows:-

Month of repurchase	**Number of shares of HK$0.1 each**	**Price per share Highest**	**Price per share Lowest**	**Aggregate consideration paid**
		HK$	*HK$*	*HK$*
April 2005	1,862,000	0.246	0.240	453,135
May 2005	4,940,000	0.244	0.238	1,187,580
June 2005	2,916,000	0.246	0.243	716,614
July 2005	2,600,000	0.244	0.240	635,319
August 2005	2,642,000	0.243	0.236	639,043
September 2005	2,022,000	0.239	0.234	482,248
October 2005	1,302,000	0.233	0.221	299,012
November 2005	932,000	0.229	0.224	211,803
December 2005	1,300,000	0.228	0.225	296,415
January 2006	1,484,000	0.233	0.230	343,978
	22,000,000			5,265,147

A resolution granting the Directors of the Company a general mandate to repurchase the Company's own shares will be proposed at the forthcoming Annual General Meeting of the Company to be convened on 11th August, 2006.

CORPORATE GOVERNANCE

The Board and management of the Company are committed to maintaining high standards of corporate governance. The Board had adopted a Statement of Corporate Governance Policy which gives guidance on how corporate governance principles are applied to the Company. In addition to complying with applicable statutory requirements, we aim to continually review and enhance our corporate governance practices in the light of local and international best practices.

The Company had complied with Code provision set out in the Code on Corporate Governance Practices (the ''Code'') contained in Appendix 14 of the Rules Governing the Listing of Securities (the ''Listing Rules'') on The Stock Exchange of Hong Kong Limited (the ''Stock Exchange'') throughout the review year. Such terms of reference are considered appropriate in the light of the current organisation structure and business activities of the Group. Further information on the Company's corporate governance practices is set out in the Corporate Governance Report contained in the Annual Report.

AUDIT COMMITTEE

The Company established an audit committee in accordance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listed Securities on The Stock Exchange of Hong Kong Limited (the ''Listing Rules''). The Committee members comprises Dr. Samson Sun, M.B.E., J.P., Mr. Chan Chak Cheung, William and Mr. Chan Kwok Wai as Independent Non-Executive Directors. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters in connection with the preparation of the audited financial statements of the Company for the year ended 31st March 2006. All issues raised by members of the audit committee have been addressed by the management of the Company.

SHARE OPTION SCHEME

The Company has not adopted any share option scheme during the year and there was no outstanding options at the beginning and at the end of the financial year.

COMPLIANCE WITH CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions (the ''Code''). Having made specific enquiry of all directors of the Company, the directors of the Company have complied with the required standard as set out in the Code throughout the year ended 31st March, 2006.

FULL DETAILS OF FINANCIAL INFORMATION

All the information required by paragraph 45(1) to 45(3) of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

Finally, on behalf of the Board of Directors, I would like to thank all the staff of the Group for their loyalty and dedication during the previous year.

By Order of the Board
LEE YUEN CHING JIMMY
Chairman

Hong Kong, 11th July, 2006.

As at the date of this announcement, the executive Directors are Mr. Lee Yuen Ching, Jimmy, Mr. Lee Yuen Kui, James, Mr. Lee Yuen Wong, Peter, 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.