THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in National Electronics Holdings Limited (the "Company"), you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

NATIONAL ELECTRONICS HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 213)

MAJOR TRANSACTION

13 September 2012

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In this circular, the following expressions have the following meanings unless the context requires otherwise:

"Announcement"	announcement of the Company dated 9 August 2012 in relation to the Transaction
"Assignment of Shareholder Loan"	the assignment to be entered into between the Seller and the Purchaser for the purposes of the assignment by the Seller of the Shareholder Loan on the Completion Date
"associates"	has the meaning ascribed in the Listing Rules
"Board"	the board of directors of the Company
"Business Day"	a day other than a Saturday or Sunday on which banks are open in New York and Singapore to the general public for business during their normal business hours
"Company"	National Electronics Holdings Limited, a company incorporated in Bermuda, whose shares are listed on the Main Board of the Stock Exchange
"Completion"	completion of the Transaction
"Completion Date"	27 September 2012 or such other date as the Parties may agree in writing
"connected person(s)"	has the meaning ascribed in the Listing Rules
"Consideration"	the consideration of HK$250,000,000 payable for the Transaction
"Deed of Termination of Shareholders' Agreement"	the deed of termination of the Shareholders' Agreement to be entered into between the Seller, the Purchaser and the JV Co on the Completion Date
"Deed of Termination of Shareholder Loan Agreement"	the deed of termination of the Shareholder Loan Agreement to be entered into between the Seller, the Purchaser and the JV Co on the Completion Date
"Directors"	the directors of the Company
"Enlarged Group"	the enlarged group of companies of National Electronics Holdings Limited immediately after completion of the Transaction, which shall include the Group and the JV Group
"Group"	the Company and its subsidiaries
"Hong Kong"	The Hong Kong Special Administrative Region of the People's Republic of China

"Independent Third Party"	an independent third party not connected with the Directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or their respective associates and connected persons as defined in the Listing Rules
"JV Co"	Tania Investments Holdings Limited, a company incorporated in the British Virgin Islands and a joint venture company owned as to 50% by the Purchaser and 50% by the Seller
"JV Group"	collectively, the JV Co and the Project Company
"Latest Practicable Date"	6 September 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information contain in this circular
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Longstop Date"	24 September 2012
"Other Documents"	the Assignment of Shareholder Loan, the Deed of Termination of Shareholders' Agreement, the Deed of Termination of Shareholder Loan Agreement and any other documents referred to in the Sale and Purchase Agreement
"Party"	a party to the Sale and Purchase Agreement
"Project Company"	Tania Development Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the JV Co
"Property"	the residential property located at No. 45 Tai Tam Road, Tai Tam, Hong Kong
"Purchaser"	Tania Investments Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company
"Sale and Purchase Agreement"	the conditional sale and purchase agreement dated 9 August 2012 and entered into between the Seller and the Purchaser for the purposes of the Transaction
"Sale Shares"	the fifty (50) Shares (representing 50% of the issued share capital of the JV Co) to be sold by the Seller to the Purchaser pursuant to the Sale and Purchase Agreement
"Seller"	GCPF Cayman Holding 6 Corp., an investment holding company and a wholly-owned subsidiary of a real estate fund

"Seller's Shareholder Loan"	all outstanding loans owed by the JV Co to the Seller from time to time (which shall amount to a total of HK$112,499,610 as at the Completion Date)
"Shareholder Loan Agreement"	the shareholder loan agreement dated 17 November 2009 and entered into between the Seller, the Purchaser and the JV Co pursuant to which the JV Co borrowed, and the Seller and the Purchaser as shareholders of the JV Co made available to the JV Co, shareholder loans
"Shareholders"	the shareholders of the Company
"Shareholders' Agreement"	the shareholders' agreement dated 5 November 2009 and entered into between the Seller, the Purchaser and the JV Co, as amended by a first letter agreement dated 11 March 2011, a second letter agreement dated 7 July 2011 and a third letter agreement dated 11 January 2012, all between the Seller, the Purchaser and the JV Co
"Shares"	ordinary shares of HK$0.10 each in the share capital of the JV Co
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Transaction" or "Proposed Acquisition"	the sale and purchase of the Sale Shares and the Seller's benefit in the shareholder loans granted by the Seller to the JV Co pursuant to the Sale and Purchase Agreement
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"%"	percentage

NATIONAL ELECTRONICS HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 213)

Executive Directors:
Mr. Lee Yuen Ching, Jimmy
Mr. Lee Bon Chi, Loewe
Mr. Lee Yuen Kui, James
Mr. Lee Yuen Cheor, Edward
Mr. Wai Kwong Yuen, Ricky

Non-executive Director:
Ms. Lee Yuen Yu, Dorathy

Independent non-executive Directors:
Dr. Samson Sun, M.B.E., J.P.,
Mr. Chan Chak Cheung, William
Mr. Chan Kwok Wai

Registered office:
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Principal place of business in Hong Kong:
Suite 3201, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

13 September 2012

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION

INTRODUCTION

References are made to the announcement of the Company dated 9 August 2012 in relation to the Sale and Purchase Agreement, and the earlier announcement of the Company dated 5 November 2009 in relation to the Shareholders' Agreement.

On 9 August 2012, the Purchaser namely, Tania Investments Limited, which is a wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with the Seller pursuant to which the Seller agreed to sell and the Purchaser agreed to purchase the Sale Shares and the benefit of the Seller's Shareholder Loan for the Consideration of HK$250,000,000. Completion of the sale and purchase of the Sale Shares is scheduled to take place on the Completion Date, being 27 September 2012.

As the relevant percentage ratio exceeds 25% but is less than 100%, the Transaction constitutes a major transaction of the Company and is therefore subject to the reporting, announcement, circular and shareholders' approval requirements under Chapters 14 of the Listing Rules.

The Company has obtained a written approval from Brentford Investments Limited, which held 244,602,979 Shares as at the date of the Announcement and this circular (representing approximately 25.01% of the issued share capital of the Company), and from Fenmore Investments Limited, which held 258,137,835 Shares as at the date of the Announcement and this circular (representing approximately 26.40% of the issued share capital of the Company) for the approval of the Sale and Purchase Agreement and the transactions thereunder. As such, no extraordinary general meeting will be convened by the Company to approve the Transaction.

The purpose of this circular is to provide you with further information on the Transaction.

SALE AND PURCHASE AGREEMENT

Date: 9 August 2012

Parties:

Seller	GCPF Cayman Holding 6 Corp., an investment holding company and a wholly-owned subsidiary of a real estate fund
Purchaser	Tania Investments Limited, a wholly-owned subsidiary of the Company

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Seller and its ultimate beneficial owners are Independent Third Parties.

Assets to be acquired

Pursuant to the Sale and Purchase Agreement, the Seller agreed to sell and the Purchaser agreed to purchase the Sale Shares and the benefit of the Seller's Shareholder Loan for a total consideration of HK$250,000,000. The Sale Shares represent the balance 50% of the total issued share capital of the JV Co, and the JV Co owns the entire issued share capital of the Project Company, which in turn owns the Property.

Consideration and payment terms

The total consideration for the Sale Shares and the benefit of the Seller's Shareholder Loan is HK$250,000,000, which will be satisfied by payment of an equivalent amount in United States dollars to the Seller on the Completion Date.

The Consideration was determined after arm's length negotiation between the Parties with reference to, among other things, the value of the Property. The Directors consider that the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Completion

Upon completion of the Transaction, the JV Co will become a direct wholly-owned subsidiary of the Purchaser.

Completion of the Transaction will take place on the Completion Date.

Conditions precedent

Completion is conditional upon the following conditions being satisfied on or before the Longstop Date:

(i) the JV Group receiving the consent of the bank of the Project Company to the transactions contemplated under the Sale and Purchase Agreement as required under a facility agreement;

(ii) the full release and discharge by the bank of the JV Co of all of the obligations of the parent entity of the Seller under a funding agreement and a subordination agreement; and

(iii) the passing of all necessary resolutions by Shareholders approving the transactions contemplated under the Sale and Purchase Agreement and the Other Documents and the compliance by the Purchaser and the Company with the Listing Rules, where applicable.

Each of the Parties will use all reasonable endeavours (so far as it lies within its powers) to procure the satisfaction of the conditions precedent of the Sale and Purchase Agreement as soon as reasonably practicable and in any event before the Longstop Date.

If any of the conditions precedent of the Sale and Purchase Agreement (which have not previously been waived) has not been satisfied on or before the Longstop Date then the relevant Party may on that date, at its option (but without prejudice to any other right or remedy it may have), (i) waive the conditions precedent which have not been satisfied; (ii) postpone the Longstop Date to a date (being a Business Day) as may be agreed between the Parties in writing; or (iii) terminate the Sale and Purchase Agreement whereupon, *inter alia*, the Parties shall not be bound or liable to proceed with the sale and purchase of the Sale Shares or the Seller's Shareholder Loan.

OTHER DOCUMENTS TO BE ENTERED INTO PURSUANT TO THE TRANSACTION

For the purposes of the Transaction, the following documents will also be entered into by the relevant parties with effect from the Completion Date.

(a) ASSIGNMENT OF SHAREHOLDER LOAN

In consideration of the payment of the Consideration by the Purchaser to the Seller, the Seller assigns and transfers to the Purchaser all its rights, title, benefits and interests in the Seller's Shareholder Loan free from all claims, charges, liens, encumbrances, option and equities of any kind whatsoever with effect from the Completion Date pursuant to the Assignment of Shareholder Loan.

(b) DEED OF TERMINATION OF SHAREHOLDERS' AGREEMENT

In connection with the entering into of the Sale and Purchase Agreement, the Purchaser, the Seller and the JV Co agreed to terminate the Shareholders' Agreement with effect from the Completion Date save, *inter alia*, in respect of the confidentiality obligations of the parties under the Shareholders' Agreement pursuant to the Deed of Termination of Shareholders' Agreement.

(c) DEED OF TERMINATION OF SHAREHOLDER LOAN AGREEMENT

In connection with the entering into of the Sale and Purchase Agreement and the Assignment of Shareholder Loan, the Purchaser, the Seller and the JV Co agreed to terminate the Shareholder Loan Agreement with effect from the Completion Date pursuant to the Deed of Termination of Shareholder Loan Agreement.

INFORMATION OF THE COMPANY, THE SELLER, THE PURCHASER AND THE JV CO

Information of the JV Co

The JV Co is an investment holding vehicle incorporated on 16 September 2009. The JV Co is a joint venture company owned by the Seller and the Purchaser on an equal basis prior to Completion.

The JV Co wholly-owned the Property through the Project Company. The Property is a residential property and has a registered site area of approximately 32,390 square feet located at No. 45 Tai Tam Road, Tai Tam, Hong Kong.

After completion of the Transaction, the Seller will cease to have any interests in the Sale Shares and the JV Co will become an indirect wholly-owned subsidiary of the Company held through the Purchaser.

Information of the Company

The Company is an investment holding company and its subsidiaries are principally engaged in the manufacture, assembly and sale of electronic watches and watch parts, trading of watch movements and watch parts, property development, property investment and hotel operation.

Information of the Seller

The Seller is an investment holding company incorporated in the Cayman Islands and is a wholly-owned subsidiary of a real estate fund.

Information of the Purchaser

The Purchaser is an investment holding company incorporated in the British Virgin Islands and is a wholly-owned subsidiary of the Company.

FINANCIAL INFORMATION OF THE JV GROUP

A summary of the consolidated financial information of the JV Group prepared in accordance with Hong Kong Financial Reporting Standards is as follows:

	For the period from 16 September 2009[(1)] to 31 December 2010	**For the year ended 31 December 2011**
	HK$ million	*HK$ million*
Net loss before taxation and extraordinary items	2.27	0.47
Net loss after taxation and extraordinary items	2.27	0.47

Note (1): The Company first acquired interests of the JV Co on 16 September 2009.

According to the consolidated financial statements of the JV Group, the net liabilities of the JV Group as at 30 June 2012 were approximately HK$6,370,000. The net liabilities of the JV Co as at 30 June 2012 were approximately HK$20,000.

REASONS FOR AND BENEFITS OF THE TRANSACTION

The Company, *via* its shareholding in the Purchaser, acquired interests in the Property in November 2009 as an investment purpose by way of rental income on a 50% jointly-owned basis. For this purpose, the Purchaser entered into the Shareholders Agreement with the Seller back in September 2009.

The Directors consider that the acquisition of the balance 50% shareholding interest in the JV Co, which will enable the Group to hold the entire issued capital of the JV Co indirectly, provides a valuable investment opportunity for the Group to increase its property ownership at a reasonable price and enjoy rental income derived from the Property on a fully-owned basis at the same time. The Directors believe that the property business portfolio of the Group will be strengthened and enhanced by the acquisition.

The Directors consider that the Transaction is on normal commercial terms and that such terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Group intends to finance the Consideration by internal resources.

FINANCIAL EFFECTS OF THE TRANSACTION

Earnings

Upon Completion, the JV Co will become an indirect wholly-owned subsidiary of the Company. The results of the JV Group will be consolidated into the consolidated financial statements of the Group following the Completion.

Earnings for the purpose of calculation of basic earnings per share is based on the profit for the year attributable to owners of the Company (as per page 78 of the Annual Report 2012 of the Company).

According to the audited consolidated income statement for the year ended 31 March 2012 as per page 22 of the Annual Report 2012 of the Company, the profit for the year of the Group for the year ended 31 March 2012 was approximately HK$210.05 million.

Assuming completion of the acquisition of the Sale Shares had taken place on the Completion Date, the unaudited profit for the year of the Enlarged Group for the year ended 31 March 2012 would be approximately HK$209.60 million after taking into consideration of the unaudited loss for the year of approximately of HK$0.45 million of the JV Group for the year ended 31 March 2012.

Assets and liabilities

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix V to this circular, the financial effects of the Acquisitions are summarized below:

As at 31 March 2012, the audited consolidated total assets of the Group amounted to approximately HK$2,729.47 million.

Assuming completion of the acquisition of the Sale Shares had taken place on the Completion Date, the unaudited pro forma consolidated total assets of the Enlarged Group would be approximately HK$3,437.41 million.

As at 31 March 2012, the audited consolidated total liabilities of the Group amounted to approximately HK$1,360.28 million.

Assuming completion of the acquisition of the Sale Shares had taken place on the Completion Date, the unaudited pro forma consolidated total liabilities of the Enlarged Group would be approximately HK$1,773.22 million.

IMPLICATIONS UNDER THE LISTING RULES

As the relevant percentage ratio exceeds 25% but is less than 100%, the Transaction constitutes a major transaction of the Company and is therefore subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Pursuant to Rule 14.44 of the Listing Rules, the Company has obtained a written approval from Brentford Investments Limited, which held 244,602,979 Shares as at the date of this announcement (representing approximately 25.01% of the issued share capital of the Company), and from Fenmore Investments Limited, which held 258,137,835 Shares as at the date of this announcement (representing approximately 26.40% of the issued share capital of the Company) for the approval of the Sale and Purchase Agreement and the transactions thereunder. The said 244,602,979 Shares held by Brentford Investments Limited are part of the property of a discretionary trust of which each of Messrs Lee Yuen Kui, James and Lee Yuen Cheor, Edward are named beneficiaries. The said 258,137,835 Shares held by Fenmore Investments Limited are part of the property of a discretionary trust of which Mr. Lee Yuen Ching, Jimmy and his family members including Mr. Lee Bon Chi, Loewe are named beneficiaries. Mr. Lee Yuen Kui, James and Mr. Lee Yuen Cheor, Edward are brothers and they are cousins of Mr. Lee Yuen Ching, Jimmy who is the father of Mr. Lee Bon Chi, Loewe.

As such, no extraordinary general meeting will be convened by the Company to approve the Transaction. If, despite the said written approval from Brentford Investments Limited and Fenmore Investments Limited having been obtained, voting was required and the Company held a general meeting for the approval of the Sale and Purchase Agreement and the transactions thereunder, the Directors would have recommended that the Shareholders vote in favour of such approval.

To the best of Directors' knowledge, information and belief, none of the Shareholders (including Brentford Investments Limited and Fenmore Investments Limited) has a material interest in the Transaction and as such, none of them is required to abstain from voting if the Company were to convene a general meeting to approve the Sale and Purchase Agreement and the transactions thereunder.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the Appendices to this circular.

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

1. FINANCIAL INFORMATION OF THE GROUP

Audited financial information of the Group for each of the three years ended 31 March 2010, 31 March 2011 and 31 March 2012 are disclosed in the annual reports of the Company for the years ended 31 March 2010 (pages 21 to 85), 31 March 2011 (pages 20 to 96) and 31 March 2012 (pages 22 to 112) dated 12 July 2010, 27 June 2011 and 27 June 2012 respectively were published on both the website of the Stock Exchange (www.hkex.com.hk) and the designated website of the Company (http://www.irasia.com/listco/hk/national/index.htm).

Save as aforesaid, the Directors are of the opinion that there is not any material adverse change in the financial or trading position of the Group since the date to which the latest published audited accounts of the Company have been made up.

2. INDEBTEDNESS OF THE ENLARGED GROUP

As at 31 July 2012, being the latest practicable date for the purpose of the statement of indebtedness prior to the printing of this circular, the Enlarged Group had outstanding bank borrowings of approximately HK$1,244 million (of which HK$848 million was secured by fixed charges on certain of the Enlarged Group's assets with net book value of approximately HK$1,659 million, including properties) representing short and long term loans and trust receipt loans. In addition, the Enlarged Group had outstanding at that date obligations under hire purchase contracts and finance leases of approximately HK$8 million and contingent liabilities in respect of guarantees given to third parties of approximately HK$0.6 million.

Save as aforesaid, and apart from intra-group liabilities, the Enlarged Group did not have outstanding at the close of business on 6 September 2012 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

3. WORKING CAPTIAL OF THE ENLARGED GROUP

The Directors are of the opinion that, after taking into account the financial resources and banking facilities available to the Enlarged Group and its internally generated funds and the effect of the Sale and Purchase Agreement and assuming that the existing banking facilities of the Enlarged Group will not be withdrawn, the Enlarged Group will have sufficient working capital to satisfy its present requirements for the next twelve (12) months from the date of this circular in the absence of unforeseen circumstances.

4. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

Watches and Watch Components

The current debt crisis in the Eurozone countries has caused worldwide concern and demand from consumers has been directly affected. The Enlarged Group is cautious on the performance of its watch manufacturing and watch component trading business in this coming financial year.

Property Development and Investment

Twenty One Whitfield, the Group's second joint venture boutique hotel apartment project with J.P.Morgan Asset Management located on 21 Whitfield Road, Hong Kong launched in June 2012.

The Group's third joint venture project with the same real estate fund, 99 Bonham Strand is expected to launch in the third quarter of this year.

With regards to the luxurious residential joint venture development at 45 Tai Tam Road, the application to the Hong Kong Town Planning Board for seven houses was approved in March this year and the Group is currently in the process of discussing the land premium with the Hong Kong Lands Department.

The foundation work of the Group's own boutique hotel apartment development at 194-196 Queen's Road Central, Hong Kong has completed and the superstructure work has commenced.

On 11 June 2012, the Group together with Apollo Global Real Estate Management disposed of their joint venture Grade A commercial investment property at 50 Connaught Road Central, Hong Kong for HK$4.88 billion to the Agricultural Bank of China. With the cash flow generated by this sale, the Group is searching for new investment opportunities. As at the Latest Practicable Date, the Company has not identified any investment opportunities.

The following is the text of the letter and valuation certificate in relation to the Property, received from DTZ Debenham Tie Leung Limited, an independent property valuer, prepared for the purpose of incorporation in this circular.

DTZ 戴德梁行

16th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

The Directors
Tania Development Limited
Suite 3201, Gloucester Tower, The Landmark
11 Pedder Street, Central
Hong Kong

6 September 2012

Dear Sirs,

RE: NO. 45 TAI TAM ROAD, TAI TAM, HONG KONG.

Instructions, Purpose & Date of Valuation

We refer to your instructions for us to carry out a market valuation of the property which is held by Tania Development Limited ("the Company") for sale and purchase purpose. We confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the value of the property as at 8 August 2012 (the "date of valuation").

Basis of Valuation

Our valuation of the property represents its market value which in accordance with the Valuation Standards on Properties of the Hong Kong Institute of Surveyors is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

Valuation Assumptions

Our valuation excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of any onerous nature which could affect its value.

Method of Valuation

We have valued the property by direct comparison approach assuming sale of the property in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market.

In valuing the property, we have complied with the requirements set out in Chapter 5 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards on Properties (First Edition 2005) issued by The Hong Kong Institute of Surveyors.

Source of Information

We have relied to a very considerable extent on the information given by the Company and have accepted advice given to us on such matters as planning approval, statutory notices, easements, tenure, particulars of occupancy, lettings, rentals, site and floor areas and all other relevant matters. Dimensions and measurements are based on the copies of documents provided to us and are therefore only approximations. No on-site measurement has been carried out.

Title Investigation

We have not been provided with copies of the title documents relating to the property but have caused searches to be made at the Land Registry. However, we have not searched the original documents to verify ownership or to ascertain any amendment. All documents have been used for reference only and all dimensions, measurements and areas are approximate.

Site Inspection

We have inspected the exterior of the property. We have not carried out any soil or site investigation. In undertaking our valuation, we have assumed that the property is suitable for development and no extraordinary costs or delays will be incurred during construction.

Our valuation certificate is hereby enclosed for your attention.

Yours faithfully,
For and on behalf of
DTZ Debenham Tie Leung Limited
Ho Siu Wa
Registered Professional Surveyor
(General Practice)
MHKIS, MRICS
Senior Director

Note: Mr. Ho Siu Wa is a Registered Professional Surveyor who has over 28 years' experience in the valuation of properties in Hong Kong.

VALUATION CERTIFICATE

Property held by the Company in Hong Kong for development

Property	**Description and tenure**	**Particulars of occupancy**	**Capital value in existing state as at 8 August 2012**
No. 45 Tai Tam Road, Tai Tam, Hong Kong. Rural Building Lot No. 442.	The property comprises a building lot with a registered site area of 32,390 sq.ft. (3,009.10 sq.m.). The property is held from the Government under Government Lease for a term of 75 years from 31 March 1941 renewable for a further term of 75 years. The current Government Rent payable for the lot is HK$372.00 per annum.	Vacant.	HK$1,070,000,000

Notes:

(1) The registered owner of the property is Tania Development Limited.

(2) The property is subject to a Mortgage in favour of Hang Seng Bank Limited to secure all moneys in respect of general banking facilities vide Memorial No. 10010702960015 dated 18 December 2009.

(3) The property is zoned for "Residential (Group C) 4" under Tai Tam and Shek O Zoning Plan No. S/H18/10 dated 6 May 2008.

(4) According to a letter from Town Planning Board dated 18 March 2011 provided by the Company, minor relaxation of plot ratio and site coverage to not more than 0.9 and 34.1% respectively for permitted house development on the subject site has been approved and shall be valid until 4 March 2015.

(5) The use and development of the property are principally governed by the conditions stipulated in the Government Lease, Permission Letter dated 24 June 2005 vide Memorial No. 05082200180234 and Modification Letter dated 8 August 2008 vide Memorial No. 08081300950053, in respect of R.B.L. 442. The whole of the said Lease, Permission Letter and Modification Letter should be noted, but the following extracted conditions are of particular relevance:-

Government Lease in respect of R.B.L. 442

"… And that the said Lessee or any other person or persons shall not nor will during the continuance of this demise use exercise or follow in or upon the said premises or any part thereof the trade or business of a Brazier Slaughterman Soap-maker Sugar-baker Fellmonger Melter of tallow Oilman Butcher Distiller Victualler or Tavern-keeper Blacksmith Nightman Scavenger or any other noisy noisome or offensive trade or business whatever without the previous licence of His said Majesty signified in writing by the Governor or other person duly authorized in that behalf…"

"… And will not erect on the said piece or parcel of ground any buildings other than detached residences of European type …"

"… And will not erect more than two such residences thereon …"

"… And will obtain the special approval of the said Director to the design of the exterior elevations and the disposition of any building erected or to be erected on the said piece or parcel of ground or on any future extension thereto and in no case will the height of any such building exceed thirty five feet except with the consent of the said Director …"

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the Company's reporting accountants, HLB Hodgson Impey Cheng Limited, Chartered Accountants, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited
Chartered Accountants
Certified Public Accountants

31/F., Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

13 September 2012

The Directors
National Electronics Holdings Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Tania Investments Holdings Limited (the "JV Co") and its subsidiaries (hereinafter collectively referred to as the "JV Group") for the period from 16 September 2009 (date of incorporation) to 31 December 2009 and for each of the two years ended 31 December 2010 and 2011 and the six months ended 30 June 2012 (the "Relevant Periods"), for inclusion in the circular of National Electronics Holdings Limited (the "Company") dated 13 September 2012 (the "Circular") in connection with the proposed acquisition of 50% equity interest of the JV Co.

The JV Co was incorporated with limited liability in the British Virgin Islands (the "BVI") on 16 September 2009. The JV Co acts as an investment holding company.

At the date of this report and during the Relevant Periods, the details of the subsidiaries comprising the JV Group are set out in Note 10 of Section A below.

No audited statutory financial statements have been prepared for the JV Co and Petstead Holdings Limited since their respective dates of incorporation as there is no such statutory audit requirement in the BVI.

The financial statements of Tania Development Limited (the "Project Company") for the period from 17 September 2009 (date of incorporation) to 31 December 2010 and the year ended 31 December 2011 were audited by PricewaterhouseCoopers, Certified Public Accountants in Hong Kong.

For the purpose of this report, the directors of the JV Co have prepared the consolidated financial statements of the JV Group for the Relevant Periods (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA. We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 ''Prospectuses and the Reporting Accountant'' as recommended by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements on the basis of presentation set out in Note 1 of Section A below and no adjustments to the Underlying Financial Statements are considered necessary in the preparation of this report for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the directors of the JV Co who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in Note 1 of Section A below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the JV Group and the JV Co as at 31 December 2009, 2010 and 2011, and 30 June 2012, and of the consolidated results and cash flows of the JV Group for the Relevants Periods.

The comparative consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity of the JV Group for the six months ended 30 June 2011 together with the notes thereon have been extracted from the unaudited financial information of the JV Group for the same period (the "30 June 2011 Financial Information") which was prepared by the directors of the JV Co solely for the purpose of this report. We have reviewed the 30 June 2011 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by Independent Auditor of the Entity" issued by the HKICPA. Our review consists principally of making enquiries of the JV Group's management and applying analytical and other review procedures to the 30 June 2011 Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the 30 June 2011 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the 30 June 2011 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with HKFRSs.

A. FINANCIAL INFORMATION

Consolidated Statement of Comprehensive Income

	Notes	From 16 September 2009 (date of incorporation) to 31 December 2009	Year ended 31 December 2010	Year ended 31 December 2011	Six months ended 30 June 2011	Six months ended 30 June 2012
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(unaudited)	
Administrative expenses		(183)	(2,085)	(467)	(154)	(125)
Loss before taxation		(183)	(2,085)	(467)	(154)	(125)
Income tax	7	—	—	—	—	—
Loss for the period/year	8	(183)	(2,085)	(467)	(154)	(125)
Other comprehensive (expense)/income						
Fair value (loss)/gain on hedging instruments in cash flow hedges		—	(4,476)	(205)	(1,496)	1,168
Total comprehensive (expense)/income for the period/year		(183)	(6,561)	(672)	(1,650)	1,043
Loss for the period/year attributable to owners of the JV Co		(183)	(2,085)	(467)	(154)	(125)
Total comprehensive (expense)/income for the period/year attributable to owners of the JV Co		(183)	(6,561)	(672)	(1,650)	1,043

Consolidated Statement of Financial Position

	Notes	As at 31 December 2009 HK$'000	As at 31 December 2010 HK$'000	As at 31 December 2011 HK$'000	As at 30 June 2012 HK$'000
Current assets					
Properties under development	12	487,561	502,130	528,049	541,998
Deposits		2	84	62	60
Bank balances	13	9,310	321	1,304	386
		496,873	502,535	529,415	542,444
Current liabilities					
Accruals and interest payables		7,056	894	1,878	689
Amounts due to shareholders	14	201,999	207,999	218,999	222,999
Derivative financial liability	16	—	—	—	3,513
		209,055	208,893	220,877	227,201
Net current assets		287,818	293,642	308,538	315,243
Non-current liabilities					
Bank borrowings	15	288,000	295,909	311,272	321,615
Derivative financial liability	16	—	4,476	4,681	—
		288,000	300,385	315,953	321,615
Net liabilities		(182)	(6,743)	(7,415)	(6,372)
Capital and reserves					
Share capital	18	1	1	1	1
Reserves		(183)	(6,744)	(7,416)	(6,373)
Total equity		(182)	(6,743)	(7,415)	(6,372)

Statement of Financial Position

	Notes	As at 31 December 2009 HK$'000	As at 31 December 2010 HK$'000	As at 31 December 2011 HK$'000	As at 30 June 2012 HK$'000
Non-current assets					
Investment in a subsidiary	10	1	1	1	1
Current assets					
Amount due from a subsidiary	11	201,991	207,983	218,978	222,978
Current liabilities					
Accruals		3	—	—	—
Amounts due to shareholders	14	201,999	207,999	218,999	222,999
		202,002	207,999	218,999	222,999
Net current liabilities		(11)	(16)	(21)	(21)
Net liabilities		(10)	(15)	(20)	(20)
Capital and reserves					
Share capital	18	1	1	1	1
Accumulated losses	19	(11)	(16)	(21)	(21)
Total equity		(10)	(15)	(20)	(20)

Consolidated Statement of Changes in Equity

	Attributable to owners of the JV Co			
	Share capital	**Hedging reserve**	**Accumulated losses**	**Total**
	HK$'000 *(Note 18)*	*HK$'000*	*HK$'000*	*HK$'000*
Loss and total comprehensive expense for the period	—	—	(183)	(183)
Issue of shares upon incorporation	1	—	—	1
Balance at 31 December 2009	1	—	(183)	(182)
Loss for the year	—	—	(2,085)	(2,085)
Other comprehensive expense				
Fair value loss on hedging instruments in cash flow hedges	—	(4,476)	—	(4,476)
Total comprehensive expense for the year	—	(4,476)	(2,085)	(6,561)
Balance at 31 December 2010	1	(4,476)	(2,268)	(6,743)
Loss for the year	—	—	(467)	(467)
Other comprehensive expense				
Fair value loss on hedging instruments in cash flow hedges	—	(205)	—	(205)
Total comprehensive expense for the year	—	(205)	(467)	(672)
Balance at 31 December 2011	1	(4,681)	(2,735)	(7,415)
Loss for the period	—	—	(125)	(125)
Other comprehensive income				
Fair value gain on hedging instruments in cash flow hedges	—	1,168	—	1,168
Total comprehensive income/(expense) for the period	—	1,168	(125)	1,043
Balance at 30 June 2012	1	(3,513)	(2,860)	(6,372)

	Attributable to owners of the JV Co			
	Share capital	**Hedging reserve**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 18)			
(Unaudited)				
Balance at 1 January 2011	1	(4,476)	(2,268)	(6,743)
Loss for the period	—	—	(154)	(154)
Other comprehensive expense				
Fair value loss on hedging instruments in cash flow hedges	—	(1,496)	—	(1,496)
Total comprehensive expense for the period	—	(1,496)	(154)	(1,650)
Balance at 30 June 2011	1	(5,972)	(2,422)	(8,393)

Consolidated Statement of Cash Flows

	From 16 September 2009 (date of incorporation) to 31 December 2009	Year ended 31 December 2010	Year ended 31 December 2011	Six months ended 30 June 2011	Six months ended 30 June 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Cash flows from operating activities					
Loss before taxation	(183)	(2,085)	(467)	(154)	(125)
Operating cash flows before movements in working capital	(183)	(2,085)	(467)	(154)	(125)
Increase in properties under development	(486,827)	(7,855)	(17,009)	(8,888)	(9,404)
(Increase)/decrease in deposits	(2)	(82)	22	(13)	2
Increase/(decrease) in accruals	6,895	(6,331)	964	(32)	(1,190)
Net cash used in operating activities	(480,117)	(16,353)	(16,490)	(9,087)	(10,717)
Cash flows from financing activities					
Proceed from issue of shares	1	—	—	—	—
Interest paid	(573)	(6,545)	(8,890)	(4,406)	(4,544)
New bank loans raised	288,000	7,909	15,363	8,702	10,343
Advances from shareholders	201,999	6,000	11,000	6,000	4,000
Net cash generated from financing activities	489,427	7,364	17,473	10,296	9,799

	From 16 September 2009 (date of incorporation) to 31 December 2009	Year ended 31 December 2010	Year ended 31 December 2011	Six months ended 30 June 2011	Six months ended 30 June 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Net increase/(decrease) in cash and cash equivalents	9,310	(8,989)	983	1,209	(918)
Cash and cash equivalents at the beginning of period/year	—	9,310	321	321	1,304
Cash and cash equivalents at the end of period/year	9,310	321	1,304	1,530	386
Represented by:					
Bank balances	9,310	321	1,304	1,530	386

Notes to the Financial Information

1. GENERAL INFORMATION AND BASIS OF PRESENTATION OF THE FINANCIAL INFORMATION

The JV Co was incorporated with limited liability in the British Virgin Islands on 16 September 2009. The address of the registered office and the principal place of business of the JV Co is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. The JV Co acts as an investment holding company. The principal activity of its subsidiary is property development.

The Financial Information is presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the JV Co.

In preparing the Financial Information, the directors of the JV Co have given careful consideration to the liquidity position and going concern status of the JV Group. The JV Group incurred a net loss of approximately HK$125,000 for the six months ended 30 June 2012 and, as of that date, the JV Group's total liabilities exceeded its total assets by approximately HK$6,372,000.

The Financial Information has been prepared on a going concern basis because the beneficial shareholder of the JV Co, National Electronics Holdings Limited, has agreed to provide adequate funds for the JV Group to meet in full its financial obligations as they fall due for the foreseeable future.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the JV Group has throughout the Relevant Periods consistently applied Hong Kong Accounting Standards, Hong Kong Financial Reporting Standards, amendments and interpretations (collectively "HKFRSs"), which are effective for the JV Group's financial year beginning on or after 16 September 2009.

At the date of this report, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued the following new and revised standards, amendments and interpretations that are not yet effective. The JV Group has not early applied these standards, amendments and interpretation.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle[2]
Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
Amendments to HKFRS 1	Government Loans[2]
Amendments to HKFRS 7	Disclosure — Transfers of Financial Assets[1]
Amendments to HKFRS 7	Disclosure — Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]

Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets[4]
HKAS 19 (Revised in 2011)	Employee Benefits[2]
HKAS 27 (Revised in 2011)	Separate Financial Statements[2]
HKAS 28 (Revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC) — Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2011.

2 Effective for annual periods beginning on or after 1 January 2013.

3 Effective for annual periods beginning on or after 1 January 2015.

4 Effective for annual periods beginning on or after 1 January 2012.

5 Effective for annual periods beginning on or after 1 July 2012.

6 Effective for annual periods beginning on or after 1 January 2014.

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realization and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

HKFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial instruments* (as revised in October 2010) adds the new requirements for the financial liabilities and for derecognition.

Under HKFRS 9, all recognized financial assets that are within the scope of HKAS 39 *Financial instruments: Recognition and measurement* are subsequently measured at either amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Currently, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is recognized in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted. The directors of the JV Co anticipate that the application of HKFRS 9 may have significant impact on amounts reported in respect of the JV Group's financial assets and financial liabilities.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK(SIC)-Int 12 *Consolidation — Special Purpose Entities*. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 12 requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. HKFRS 12 is required to be applied by an entity that has an interest in subsidiaries, joint arrangements (joint operations or joint ventures), associates and unconsolidated structured entities.

The HKFRS 10 and HKFRS 12 are effective for annual periods beginning on or after 1 January 2013. The directors of the JV Co anticipate that the HKFRS 10 and HKFRS 12 will be adopted in the JV Group's consolidated financial statements for the annual period beginning 1 January 2013. The directors of the JV Co have not yet performed a detailed analysis of the impact of the application of these standards to the JV Group but considered that application of these standards would have no significant impact on the JV Group.

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 *Financial Instruments: Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors of the JV Co anticipate that HKFRS 13 will be adopted in the JV Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The directors of the JV Co anticipate that the application of the other new or revised standards, amendments and interpretations may not have material effect on the results and the financial position of the JV Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA.

In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared on the historical cost basis except for certain financial instruments that are measured of fair values, as explained in the accounting policies set out below.

The principal accounting policies are set out below.

Basis of consolidation

The Financial Information incorporates the financial statements of the JV Co and entities controlled by the JV Co (its subsidiaries). Control is achieved where the JV Co has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated statements of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the JV Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Investment in a subsidiary

Investment in a subsidiary is included in the statement of financial position of the JV Co at cost less any identified impairment loss. The results of the subsidiary are accounted for by the JV Co on the basis of dividend received and receivable.

Revenue recognition

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the JV Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The JV Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the JV Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the JV Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Properties under development

Properties under development comprise land cost, development expenditure and borrowing costs capitalized, and are carried at the lower of cost and net realizable value. Properties under development included in the current assets are expected to be realized in, or is intended for sale in the JV Group's normal operating cycle.

Impairment losses on tangible assets

At the end of the reporting period, the JV Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the JV Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

Provisions

Provisions are recognized when the JV Group has a present obligation as a result of a past event, and it is probable that the JV Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provision are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Financial instruments

Financial assets and financial liabilities are recognized in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

The JV Group's financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including deposits, amount due from a subsidiary and bank balances) are carried at amortized cost using the effective interest method, less any identified impairment losses (see the accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the JV Group after deducting all of its liabilities. Equity instruments issued by the JV Co are recognized at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis.

Other financial liabilities

Other financial liabilities (including accruals and interest payables, amounts due to shareholders and bank borrowings) are subsequently measured at amortized cost using the effective interest method.

Derivative financial instruments and hedging

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

<u>Hedge accounting</u>

The JV Group designates certain derivatives as hedging instruments for cash flow hedges.

At the inception of the hedging relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the JV Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

<u>Cash flow hedges</u>

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in other comprehensive income and accumulated in hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Amounts previously recognized in other comprehensive income and accumulated in equity (hedging reserve) are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the consolidated statement of comprehensive income as the recognized hedged item.

Hedge accounting is discontinued when the JV Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Derecognition

The JV Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the JV Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the JV Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability. If the JV Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the JV Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety, the JV Group allocates the previous carrying amount of the financial asset between the part it continues to recognize, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

The JV Group derecognizes financial liabilities when, and only when, the JV Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the JV Group's accounting policies, which are described in Note 3, the directors of the JV Co are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Provision for properties under development

The JV Group assesses the carrying amounts of properties under development according to their recoverable amounts based on the reliability of these properties, taking into account estimated costs to completion and estimated net sales/rental value based on prevailing market conditions. Provision is made when events or changes in circumstances indicate that the carrying amounts may not be realized. The assessment requires the use of judgement and estimates.

5. SEGMENT INFORMATION

The JV Group's operating activities are attributable to a single operating segment focusing on the property development. This operating segment has been identified on the basis of internal management reports, prepared in accordance with HKFRSs, that are regularly reviewed by the directors of JV Co, for allocating resources to the segment and assessing its performance. The directors of the JV Co review the JV Group's loss for the period/year as a whole for performance assessment.

There is no revenue during the Relevant Periods and all assets of the JV Group are located in Hong Kong, therefore no geographical information is presented.

6. FINANCE COSTS

	From 16 September 2009 (date of incorporation) to 31 December 2009	Year ended 31 December 2010	Year ended 31 December 2011	Six months ended 30 June 2011	Six months ended 30 June 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Interest on:					
bank borrowings wholly repayable within five years	154	4,440	4,718	2,298	2,607
derivative financial instruments	—	1,991	3,922	1,942	1,809
Other finance costs	580	283	270	137	129
	734	6,714	8,910	4,377	4,545
Less: amount capitalized in properties under development	(734)	(6,714)	(8,910)	(4,377)	(4,545)
	—	—	—	—	—

Borrowing costs capitalized during the period from 16 September 2009 (date of incorporation) to 31 December 2009, each of the two years ended 31 December 2010 and 2011, and the six months period ended 30 June 2012 are calculated by a capitalization rate of 1.4%, 1.54%, 1.52% and 1.68% per annum to expenditure on qualifying assets.

7. INCOME TAX

No provision for Hong Kong Profits Tax has been made in the Financial Information as the JV Group has no assessable profits during the Relevant Periods.

The tax charge for the Relevant Periods can be reconciled to the loss per the consolidated statements of comprehensive income as follows:

	From 16 September 2009 (date of incorporation) to 31 December 2009	Year ended 31 December 2010	Year ended 31 December 2011	Six months ended 30 June 2011	Six months ended 30 June 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Loss for the period/year	(183)	(2,085)	(467)	(154)	(125)
Tax at Hong Kong Profits Tax rate of 16.5%	(30)	(344)	(77)	(25)	(21)
Tax effect of expenses not deductible for tax purpose	30	344	1	1	—
Tax effect of tax losses not recognized	—	—	76	24	21
Tax charge for the period/year	—	—	—	—	—

8. LOSS FOR THE PERIOD/YEAR

Loss for the period/year has been arrived at after charging:

	From 16 September 2009 (date of incorporation) to 31 December 2009	Year ended 31 December 2010	Year ended 31 December 2011	Six months ended 30 June 2011	Six months ended 30 June 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Auditors' remuneration	60	120	127	—	—
Directors' emoluments *(Note 9)*	—	—	—	—	—

9. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to the directors of the JV Co were as follows:

	From 16 September 2009 (date of incorporation) to 31 December 2009	Year ended 31 December 2010	Year ended 31 December 2011	Six months ended 30 June 2011	Six months ended 30 June 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Directors					
- Mr. Lee Yuen Ching, Jimmy	—	—	—	—	—
- Mr. Lee Bon Chi, Loewe	—	—	—	—	—
- Mr. Lee Yuen Kui, James	—	—	—	—	—
- Mr. Jean-Christophe Ehlinger	—	—	—	—	—
- Mr. Theodore Todd Wong	—	—	—	—	—
- Mr. Vincent Chang Wai Kwan	—	—	—	—	—

Note:

Mr. Lee Yuen Ching, Jimmy, Mr. Lee Bon Chi, Loewe, Mr. Lee Yuen Kui, James, Mr. Jean-Christophe Ehlinger, Mr. Theodore Todd Wong and Mr. Vincent Chang Wai Kwan were appointed on 24 September 2009.

During the Relevant Periods, no emoluments have been paid by the JV Group to any of the JV Co's directors as an inducement to join or upon joining the JV Group or as compensation for loss of office. None of the JV Co's directors waived any emoluments during the Relevant Periods.

10. INVESTMENT IN A SUBSIDIARY

	As at 31 December 2009	As at 31 December 2010	As at 31 December 2011	As at 30 June 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted shares, at cost	1	1	1	1

As at the date of this report, the JV Co has the following subsidiaries:

Name of subsidiary	Legal form, date and place of incorporation/ operations	Issued and fully paid up share capital	Proportion ownership interest held by the JV Co				Principal activities
			As at 31 December 2009	As at 31 December 2010	As at 31 December 2011	As at 30 June 2012	
Tania Development Limited	Limited liability company incorporated on 17 September 2009, British Virgin Islands/ Hong Kong	100 shares of US$1 each	100% (direct)	100% (direct)	100% (direct)	100% (direct)	Investment holding and property development
Petstead Holdings Limited (Note)	Limited liability company incorporated on 29 November 2007, British Virgin Islands	2 shares of US$1 each	100% (indirect)	100% (indirect)	—	—	Inactive

Note: Petstead Holdings Limited was dissolved on 25 May 2011.

11. AMOUNT DUE FROM A SUBSIDIARY

Amount due from a subsidiary is unsecured interest-free and repayable on demand.

12. PROPERTIES UNDER DEVELOPMENT

	As at 31 December 2009 HK$'000	As at 31 December 2010 HK$'000	As at 31 December 2011 HK$'000	As at 30 June 2012 HK$'000
Land cost	480,000	480,000	480,000	480,000
Development costs	6,827	14,682	31,691	41,095
Borrowing costs capitalized	734	7,448	16,358	20,903
	487,561	502,130	528,049	541,998

The properties are located in Hong Kong and held on long lease.

The properties have been pledged to secure banking facilities granted to the JV Group.

13. BANK BALANCES

Bank balances carry interest at the prevailing market rates at a rate of 0.01% per annum.

14. AMOUNTS DUE TO SHAREHOLDERS

The amounts due to shareholders are unsecured, interest-free and repayable on demand.

15. BANK BORROWINGS

	As at 31 December 2009 HK$'000	As at 31 December 2010 HK$'000	As at 31 December 2011 HK$'000	As at 30 June 2012 HK$'000
Secured bank loans	288,000	295,909	311,272	321,615
Carrying amount repayable more than two years, but not exceeding five years*	288,000	295,909	311,272	321,615

* The amounts due are based on the scheduled repayment dates set out in the loan agreements.

The bank borrowings are denominated in Hong Kong dollar.

The bank borrowings at 31 December 2009, 2010 and 2011 and 30 June 2012 were secured by the properties under development at carrying amount of approximately HK$487,561,000, HK$502,130,000, HK$528,049,000 and HK$541,998,000 respectively.

The bank borrowings carry interest at HIBOR plus 1.28% per annum.

16. DERIVATIVE FINANCIAL LIABILITY

	As at 31 December 2009	As at 31 December 2010	As at 31 December 2011	As at 30 June 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash flow hedges — Interest rate swap	—	4,476	4,681	3,513
Analyzed as:				
Non-current liabilities	—	4,476	4,681	—
Current liabilities	—	—	—	3,513
	—	4,476	4,681	3,513

The JV Group uses interest rate swap to minimize its exposure to cash flow interest risk by swapping the variable rate bank borrowings from floating rate to fixed rate. The interest rate swap and the corresponding bank borrowings have the same terms and the directors of the JV Co consider that the interest rate swap is highly effective hedging instruments. Major terms of the interest rate swap outstanding at 31 December 2010 and 2011 and 30 June 2012 are set out below:

Notional amount	Maturity	Swaps
HK$288,000,000	18 June 2013	From HIBOR to 1.64%

During the years ended 31 December 2010 and 2011, losses from fair value change of approximately HK$4,476,000 and HK$205,000 were recognized in other comprehensive income and accumulated in equity.

During the six months ended 30 June 2012, gain from fair value change of approximately HK$1,168,000 was recognized in other comprehensive income and accumulated in equity.

The fair value of interest rate swap is measured at the present value of future cash flows estimated and discounted based on the applicable yield curves of interest rates as determined by the counterparty financial institution.

17. DEFERRED TAX

At 31 December 2011 and 30 June 2012, the JV Group has unused tax losses of approximately HK$462,000 and HK$587,000 available for offset against future profits. No deferred tax asset has been recognized in respect of the tax losses due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

18. SHARE CAPITAL

	Number of shares	Amount
		US$
Ordinary shares of US$1 each		
Authorized:		
At 16 September 2009 (date of incorporation), 31 December 2009, 2010 and 2011, and 30 June 2012	50,000	1
Issued and fully paid:		
At 16 September 2009 (date of incorporation), 31 December 2009, 2010 and 2011, and 30 June 2012	100	1
Present in the Financial Information as		HK$780

The JV Co was incorporated in the BVI on 16 September 2009 with an authorized share capital of US$50,000 divided into 50,000 shares of US$1 each and 100 shares were issued thereafter.

19. ACCUMULATED LOSSES OF THE JV CO

	HK$'000
At 16 September 2009 (date of incorporation)	—
Loss and total comprehensive expense for the period	11
At 31 December 2009	11
Loss and total comprehensive expense for the year	5
At 31 December 2010	16
Loss and total comprehensive expense for the year	5
At 31 December 2011	21
Loss and total comprehensive expense for the period	—
At 30 June 2012	21

20. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

During the Relevant Periods, the JV Group entered into the following significant transactions with related parties:

	From 16 September 2009 (date of incorporation) to 31 December 2009	Year ended 31 December 2010	Year ended 31 December 2011	Six months ended 30 June 2011	Six months ended 30 June 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Project management fee paid to a related company (Note (i))	—	1,863	2,033	1,016	1,016
Accounting and secretarial fee paid to a related company (Note (ii))	—	240	240	120	120

Notes:

(i) Project management fee was paid for management services provided by Tania Limited, a subsidiary of National Electronics Holdings Limited, at terms agreed by both parties.

(ii) Accounting and secretarial fee was paid for book-keeping services provided by Tania Limited, a subsidiary of National Electronics Holdings Limited, at terms agreed by both parties.

(b) Outstanding balances with related parties

Details of outstanding balances with related parties of the JV Group and the JV Co at the end of each reporting period are set out in Notes 11 and 14.

(c) Compensation of key management personnel

The emoluments of the JV Co's directors, who are also identified as members of key management of the JV Group, are set out in Note 9.

21. CAPITAL COMMITMENTS

	As at 31 December 2009	As at 31 December 2010	As at 31 December 2011	As at 30 June 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure contracted for but not provided in the Financial Information in respect of properties under development	18	20,825	47,556	39,741

22. CONTINGENT LIABILITIES

The JV Group had no significant contingent liabilities at the end of each of the reporting period.

23. CAPITAL RISK MANAGEMENT

The JV Group manages its capital to ensure that the entities in the JV Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The JV Group's overall strategy remains unchanged throughout the Relevant Periods.

The capital structure of the JV Group consists of net debt (which includes amounts due to shareholders and bank borrowings net of cash and cash equivalents) and equity attributable to owners of the JV Co (comprising issued share capital and reserves).

The directors of the JV Co review the capital structure regularly. As part of this review, the JV Co's directors consider the cost of capital and the risks associated with each class of the capital. Based on recommendations of the directors, the JV Group will balance its overall capital structure through the payment of dividends and new share issues as well as the issue of new debt or the redemption of existing debt.

24. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

JV Group	As at 31 December 2009	As at 31 December 2010	As at 31 December 2011	As at 30 June 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Loans and receivables				
- Deposits	2	84	62	60
- Bank balances	9,310	321	1,304	386
	9,312	405	1,366	446
Financial liabilities				
Amortized cost				
- Accruals and interest payables	7,056	894	1,878	689
- Amounts due to shareholders	201,999	207,999	218,999	222,999
- Bank borrowings	288,000	295,909	311,272	321,615
	497,055	504,802	532,149	545,303
Derivative instruments in designated hedge accounting relationships	—	4,476	4,681	3,513

JV Co	As at 31 December 2009	As at 31 December 2010	As at 31 December 2011	As at 30 June 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Loans and receivables				
- Amount due from a subsidiary	201,991	207,983	218,978	222,978
Financial liabilities				
Amortized cost				
- Accruals	3	—	—	—
- Amounts due to shareholders	201,999	207,999	218,999	222,999
	202,002	207,999	218,999	222,999

(b) Financial risk management objectives and policies

The JV Group's major financial instruments include bank balances, amounts due to shareholders and bank borrowings. The JV Co's major financial instruments include amount due from a subsidiary and amounts due to shareholders. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include interest rate risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

The JV Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see Note 15 for details of these borrowings) and receive-fixed interest rate swap. It is the JV Group's policy to keep its borrowings at fixed rate of interests so as to minimize the cash flow interest rate risk. In order to achieve this result, the JV Group entered into interest rate swap to hedge against its exposures to variable interest rate of the borrowings. The critical terms of this interest rate swap are similar to those of hedged borrowings. This interest rate swap is designated as effective hedging instruments and hedge accounting is used (see Note 16 for details).

The JV Group cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR arising from the JV Group's Hong Kong dollar denominated borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for derivative instruments. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole period. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the JV Group's equity would increase/decrease by approximately HK$7,060,000, HK$4,317,000 and HK$2,878,000 at 31 December 2010, 2011 and 30 June 2012 respectively, mainly as a result of the changes in the fair value of interest rate swap.

Credit risk

At the end of each reporting period, the JV Group's and the JV Co's maximum exposure to credit risk which will cause a financial loss to the JV Group and the JV Co due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated statements of financial position and the statement of financial position.

The credit risk on liquid funds is limited because the counterparty is a bank with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on liquid funds which are deposits with a bank with high credit ratings, the JV Group does not have any other significant concentration of credit risk.

At 31 December 2009, 2010 and 2011 and 30 June 2012, the JV Co has concentration of credit risk in relation to amount due from a subsidiary. The JV Co's credit risk position is monitored closely by management of the JV Co.

Liquidity risk

In the management of the liquidity risk, the JV Group and the JV Co monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance the JV Group's and the JV Co's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The JV Group had net liabilities at 30 June 2012, which exposed the JV Group to liquidity risk. In order to mitigate the liquidity risk, the beneficial shareholder has agreed to provide adequate funds for the JV Group to meet in full its financial obligations as they fall due for the foreseeable future.

The following tables detail the JV Group's and the JV Co's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the JV Group and the JV Co can be required to pay. The maturity dates for non-derivative financial liabilities are based on the agreed repayment dates.

The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from the interest rate curve at the end of the reporting period.

In addition, the following table details the JV Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash (inflows) and outflows on derivative instruments that settle on a net basis, and the undiscounted gross (inflows) and outflows on those derivatives that require gross settlement. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the JV Group's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

Liquidity tables

JV Group

	Weighted average interest rate	On demand or less than 1 year *HK$'000*	Over 1 year to 2 years *HK$'000*	Over 2 years to 5 years *HK$'000*	Total undiscounted cash flows *HK$'000*	Total carrying amount *HK$'000*
31 December 2009						
Non-derivative financial liabilities						
Accruals and interest payables	—	7,056	—	—	7,056	7,056
Amounts due to shareholders	—	201,999	—	—	201,999	201,999
Bank borrowings	1.40%	4,363	7,686	311,535	323,584	288,000
		213,418	7,686	311,535	532,639	497,055
31 December 2010						
Non-derivative financial liabilities						
Accruals and interest payables	—	894	—	—	894	894
Amounts due to shareholders	—	207,999	—	—	207,999	207,999
Bank borrowings	1.54%	4,714	6,982	308,116	319,812	295,909
		213,607	6,982	308,116	528,705	504,802
Derivatives — net settlement						
Interest rate swap		3,496	1,607	(418)	4,685	4,476

	Weighted average interest rate	On demand or less than 1 year *HK$'000*	Over 1 year to 2 years *HK$'000*	Over 2 years to 5 years *HK$'000*	Total undiscounted cash flows *HK$'000*	Total carrying amount *HK$'000*
31 December 2011						
Non-derivative financial liabilities						
Accruals and interest payables	—	1,878	—	—	1,878	1,878
Amounts due to shareholders	—	218,999	—	—	218,999	218,999
Bank borrowings	1.52%	5,040	5,655	332,305	343,000	311,272
		225,917	5,655	332,305	563,877	532,149
Derivatives — net settlement						
Interest rate swap		3,588	1,742	—	5,330	4,681
30 June 2012						
Non-derivative financial liabilities						
Accruals and interest payables	—	689	—	—	689	689
Amounts due to shareholders	—	222,999	—	—	222,999	222,999
Bank borrowings	1.68%	5,236	5,998	323,832	335,066	321,615
		228,924	5,998	323,832	558,754	545,303
Derivatives — net settlement						
Interest rate swap		3,564	—	—	3,564	3,513

JV Co

	Weighted average interest rate	On demand or less than 1 year *HK$'000*	Total undiscounted cash flows *HK$'000*	Total carrying amount *HK$'000*
31 December 2009				
Non-derivative financial liabilities				
Accruals	—	3	3	3
Amounts due to shareholders	—	201,999	201,999	201,999
		202,002	202,002	202,002
31 December 2010				
Non-derivative financial liabilities				
Amounts due to shareholders	—	207,999	207,999	207,999
31 December 2011				
Non-derivative financial liabilities				
Amounts due to shareholders	—	218,999	218,999	218,999
30 June 2012				
Non-derivative financial liabilities				
Amounts due to shareholders	—	222,999	222,999	222,999

(c) Fair value

The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and

- the fair values of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve of interest rates as determined by counterparty financial institution.

The directors of the JV Co consider that the carrying amounts of financial assets and financial liabilities recorded at amortized costs in the Financial Information approximate their fair values.

Fair value measurements recognized in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	31 December 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial liabilities at fair value through profit or loss				
Derivative financial liability	—	4,476	—	4,476

	31 December 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial liabilities at fair value through profit or loss				
Derivative financial liability	—	4,681	—	4,681

	30 June 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial liabilities at fair value through profit or loss				
Derivative financial liability	—	3,513	—	3,513

There were no transfers between Level 1 and 2 and no transfers into or out of Level 3 during the Relevant Periods.

25. EVENT AFTER THE REPORTING PERIOD

There is no significant subsequent event occurred after 30 June 2012.

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the JV Group have been prepared in respect of any period subsequent to 30 June 2012.

Yours faithfully,
HLB Hodgson Impey Cheng Limited
Chartered Accountants
Certified Public Accountants
Hong Kong
Hui Chun Keung, David
Practising Certificate Number: P05447

MANAGEMENT DISCUSSION AND ANALYSIS OF THE JV GROUP

(i) For the six months ended 30 June 2012 (the "Period")

Business review

During the Period, Tania Investments Holdings Limited and its subsidiary, Tania Development Limited, (the "JV Group") are principally engaged in property investment. The JV Group holds a parcel of land located at 45 Tai Tam Road, Tai Tam, Hong Kong, which was acquired at the cost of HK$480 million in November 2009. The land is situated at an elevated platform above Tai Tam Road and commands a panoramic seaview over Tai Tam Bay. The preliminary master layout plan for a deluxe multi-house development is being prepared to take advantage of the wide frontage and full seaview of the site. The design and disposition of the houses would be under continued refinement in order to fully explore the merits and potential of the site.

Financial review

During the period ended 30 June 2012, the JV Group's property was under development. The JV Group did not have revenue and recorded a consolidated net loss of approximately HK$0.12 million for the Period. The loss was attributable to other operating expenses. Fair value gain on cash flow hedges of around HK$1.17 million was recorded in other comprehensive income.

Capital structure, liquidity and financial resources

During the Period, the JV Group funded its operations mainly by loans from its shareholders and long term bank loans. As at 30 June 2012, the shareholders' loan of the JV Group was approximately HK$223 million, which was unsecured and interest free, and bank borrowings was approximately HK$321.61 million, which was secured by the Property.

As at 30 June 2012, the current assets and current liabilities of the JV Group were approximately HK$542.44 million and HK$227.20 million respectively. The current ratio, represented by current assets as a percentage of current liabilities, was approximately 2.39 times as at 30 June 2012, which was stable with that of 2.40 times as at 31 December 2011.

As at 30 June 2012, the JV Group's total assets and total liabilities amounted to approximately HK$542.44 million and HK$548.82 million respectively. The gearing ratio, represented by total liabilities as a percentage of total assets, was relatively stable and amounted to approximately 101% as at 30 June 2012, as compared with 101% as at 31 December 2011.

Employment and remuneration policy

As at 30 June 2012, the JV Group did not have any employee and therefore no staff cost was recorded for the Period.

Significant investment held and future plans for material investments or capital assets

Save as the development of the Property, there was no significant investment held by the JV Group during the Period and the JV Group will focus on its existing business of properties development.

Charge on assets

As at 30 June 2012, the JV Group's properties under development of approximately HK$542 million were pledged to bank to secure certain loan facility granted to the Project Company.

Contingent liabilities

The JV Group did not have any significant contingent liabilities as at 30 June 2012.

Significant acquisition and disposal

During the Period, the JV Group did not have any significant acquisition or disposal of investment.

(ii) For the year ended 31 December 2011 (the "Year 2011")

Business review

During the Year 2011, the JV Group was engaged in property investment. The principal property of the JV Group is the land located at 45 Tai Tam Road, Tai Tam, Hong Kong and has been planned to be developed into a deluxe multi-house development.

Financial review

During the Year 2011, the JV Group's property was under development. The JV Group did not have revenue and recorded a consolidated net loss of approximately HK$0.47 million for the Year 2011, representing a significant decrease of approximately 78% as compared to that of Year 2010. The loss was attributable to other operating expenses.

Capital structure, liquidity and financial resources

The JV Group funded its operations mainly by loans from its shareholders and long term bank loans during the Year 2011. As at 31 December 2011, the shareholders' loan of JV Group was approximately HK$219 million, which was unsecured and interest free, and bank borrowings was approximately HK$311.27 million, which was secured by the Property.

As at 31 December 2011, the current assets and current liabilities of the JV Group were approximately HK$529.42 million and HK$220.88 million respectively. The current ratio, represented by current assets as a percentage of current liabilities, was approximately 2.40 times as at 31 December 2011, which was stable with that of 2.41 times as at 31 December 2010.

The JV Group's total assets and total liabilities amounted to approximately HK$529.42 million and HK$536.83 million respectively. The gearing ratio, represented by total liabilities as a percentage of total assets, was relatively stable and amounted approximately 101% as at 31 December 2011, as compared with 101% as at 31 December 2010.

Employment and remuneration policy

As at 31 December 2011, the JV Group did not have any employee and no staff cost was recorded for the Year 2011.

Significant investment held and future plans for material investments or capital assets

Save as the development of the Property, there was no significant investment held by the JV Group during the year and the JV Group will focus on its existing business of properties development.

Charge on assets

As at 31 December 2011, the JV Group's properties under development of approximately HK$528.05 million were pledged to bank to secure certain loan facility granted to the Project Company.

Contingent liabilities

The JV Group did not have any significant contingent liabilities as at 31 December 2011.

Significant Acquisition and Disposal

During the Year 2011, the JV Group did not have any significant acquisition or disposal of investment.

(iii) For the year ended 31 December 2010 (the "Year 2010")

Business review

During the Year 2010, the JV Group was engaged in property investment. The principal property of the JV Group is the land located at 45 Tai Tam Road, Tai Tam, Hong Kong and has been planned to be developed into a deluxe multi-house development.

Financial review

During the Year 2010, the JV Group's property was under development. The JV Group did not have revenue and recorded a consolidated net loss of approximately HK$2.08 million for the year. The loss was primarily attributable to an impairment loss of other receivables approximately HK$1.65 million and other operating expenses. The JV Group recorded fair value losses on cash flow hedges of approximately HK$4.48 million in other comprehensive loss.

Capital structure, liquidity and financial resources

The JV Group funded its operations mainly by loans from its shareholders and long term bank loans during the Year 2010. As at 31 December 2010, the shareholders' loan of JV Group was approximately HK$208 million, which was unsecured and interest free, and bank borrowings was approximately HK$295.91 million, which was secured by the Property.

As at 31 December 2010, the current assets and current liabilities of the JV Group were approximately HK$502.53 million and HK$208.89 million respectively. The current ratio, represented by current assets as a percentage of current liabilities, was approximately 2.41 times as at 31 December 2010, which was stable with that of 2.38 times as at 31 December 2009.

The JV Group's total assets and total liabilities amounted to approximately HK$502.53 million and HK$509.28 million respectively. The gearing ratio, represented by total liabilities as a percentage of total assets, was relatively stable and amounted approximately 101% as at 31 December 2010, as compared with 100% as at 31 December 2009.

Employment and remuneration policy

As at 31 December 2010, the JV Group did not have any employee and no staff cost was recorded for the Year 2010.

Significant investment held and future plans for material investments or capital assets

Save as the development of the Property, there was no significant investment held by the JV Group during the year and the JV Group will focus on its existing business of properties development.

Charge on assets

As at 31 December 2010, the JV Group's properties under development of approximately HK$502.13 million were pledged to bank to secure certain loan facility granted to the Project Company.

Contingent liabilities

The JV Group did not have any significant contingent liabilities as at 31 December 2010.

Significant Acquisition and Disposal

During the Year 2010, the Group did not have any significant acquisition or disposal of investment.

(iv) For the period from 16 September 2009 (Date of Incorporation) to 31 December 2009 (the "Period 2009")

Business review

During the Period 2009, the JV Group was engaged in property investment since the date of acquisition of the land located at 45 Tai Tam Road, Tai Tam, Hong Kong on 5 November 2009 and the land has been planned to be developed into a deluxe multi-house development.

Financial review

During the Period 2009, the JV Group's property was under development since its incorporation. The JV Group did not have revenue and recorded a consolidated net loss of approximately HK$0.18 million for the 2009 Period. The loss was primarily attributable to other operating expense.

Capital structure, liquidity and financial resources

The JV Group funded its operations mainly by loans from its shareholders and long term bank loans during the Period 2009. As at 31 December 2009, the JV Group had shareholders' loan of approximately HK$202 million, which was unsecured and interest free, and bank borrowings of approximately HK$288 million, which was secured by Property.

As at 31 December 2009, the current assets and current liabilities of the JV Group were approximately HK$496.87 million and HK$209.06 million respectively. The current ratio, represented by current assets as a percentage of current liabilities, was approximately 2.38 times.

As at 31 December 2009, the JV Group's total assets and total liabilities amounted to approximately HK$496.87 million and HK$497.06 million respectively. The gearing ratio, represented by total liabilities as a percentage of total assets amounted approximately 100% as at 31 December 2009.

Employment and remuneration policy

As at 31 December 2009, the JV Group did not have any employee and no staff cost was recorded for the Period 2009 under review.

Significant investment held and future plans for material investments or capital assets

Save as the development of the Property, there was no significant investment held by the JV Group during the Period 2009 and the JV Group will focus on its existing business of properties development.

Charge on assets

As at 31 December 2009, the JV Group's properties under development of approximately HK$487.56 million were pledged to bank to secure certain loan facility granted to the Project Company.

Contingent liabilities

The JV Group did not have any significant contingent liabilities as at 31 December 2009.

Significant Acquisition and Disposal

During the Period 2009, the JV Group did not have any significant acquisition or disposal of investment.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The accompanying unaudited pro forma consolidated statement of financial position of the Enlarged Group (the "Unaudited Pro Forma Financial Information") has been prepared by the Directors to illustrate the effect of the Proposed Acquisition.

The Unaudited Pro Forma Financial Information has been prepared as if the Proposed Acquisition had been completed on 31 March 2012 and is based on (i) the audited consolidated statement of financial position of the Group as at 31 March 2012 as extracted from the annual report of the Group for the year ended 31 March 2012; and (ii) the audited consolidated statement of financial position of the JV Group as at 30 June 2012 as set out in Appendix III to this circular, after making pro forma adjustments that are (i) directly attributable to the Proposed Acquisition and not relating to future events or decisions; and (ii) factually supportable.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only, based on the judgments and assumptions of the Directors, and, because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group as at 31 March 2012 or any future date.

	The Group as at 31 March 2012	**The JV Group as at 30 June 2012**	**Pro forma adjustment**	**Pro forma adjustment**	**Pro forma adjustment**	**Pro forma adjustment**	**Pro forma Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	*(Audited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*
	(Note 1)	(Note 2)	(Note 3)	(Note 4(i))	(Note 4(ii))	(Note 4(iii))	
Non-current assets							
Investment properties	768,596	—					768,596
Property, plant and equipment	256,346	—					256,346
Prepaid lease payments	14,544	—					14,544
Goodwill	32,790	—					32,790
Interests in associates	481,238	—					481,238
Interests in jointly controlled entities	—	—				—	—
Available-for-sale investments	20,490	—					20,490
Held-to-maturity investments	11,722	—					11,722
	1,585,726	—					1,585,726

	The Group as at 31 March 2012	The JV Group as at 30 June 2012	Pro forma adjustment	Pro forma adjustment	Pro forma adjustment	Pro forma adjustment	Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	*(Audited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*
	(Note 1)	(Note 2)	(Note 3)	(Note 4(i))	(Note 4(ii))	(Note 4(iii))	
Current assets							
Inventories	173,215	—					173,215
Prepaid lease payments	323	—					323
Investment held for trading	4,098	—					4,098
Inventory of unsold properties	127,380	—					127,380
Properties under development for sale	78,820	541,998				528,002	1,148,820
Bills receivables	1,721	—					1,721
Trade receivables, deposits and prepayments	174,434	60					174,494
Amounts due from associates	173,904	—					173,904
Amounts due from jointly controlled entities	125,500	—	111,499		(222,999)		14,000
Tax recoverable	1,495	—					1,495
Bank balances and cash	282,850	386	(251,000)				32,236
	1,143,740	542,444					1,851,686
Current liabilities							
Trade payables, customers' deposits and accrued expenses	176,406	689					177,095
Bills payables	128,448	—					128,448
Amount due to an associate	7	—					7
Amounts due to shareholders	—	222,999			(222,999)		—
Tax payable	4,582	—					4,582
Derivative financial instruments	9,990	3,513					13,503
Obligations under finance leases	2,003	—					2,003
Bank loans	583,051	—					583,051
	904,487	227,201					908,689
Net current assets	239,253	315,243					942,997

	The Group as at 31 March 2012 HK$'000 (Audited) (Note 1)	The JV Group as at 30 June 2012 HK$'000 (Audited) (Note 2)	Pro forma adjustment HK$'000 (Unaudited) (Note 3)	Pro forma adjustment HK$'000 (Unaudited) (Note 4(i))	Pro forma adjustment HK$'000 (Unaudited) (Note 4(ii))	Pro forma adjustment HK$'000 (Unaudited) (Note 4(iii))	Pro forma Enlarged Group HK$'000 (Unaudited)
Total assets less current liabilities	1,824,979	315,243					2,528,723
Non-current liabilities							
Provisions for long service payments	4,338	—					4,338
Derivative financial instruments	658	—					658
Obligations under finance leases	2,555	—					2,555
Bank loans	378,403	321,615					700,018
Deferred tax liabilities	69,837	—				87,120	156,957
	455,791	321,615					864,526
Net assets / (liabilities)	1,369,188	(6,372)					1,664,197
CAPITAL AND RESERVES							
Share capital	97,754	1		(1)			97,754
Reserves	1,271,434	(6,373)	(1,000)	6,373		250,000 46,009	1,566,443
Total equity	1,369,188	(6,372)					1,664,197

Notes to the Unaudited Pro Forma Financial Information:

1. The balances have been extracted from the audited consolidated statement of financial position of the Group as at 31 March 2012 as set out in the annual report of the Company for the year ended 31 March 2012.

2. The adjustment reflects the inclusion of the assets, liabilities and equity of the JV Group as if the Proposed Acquisition had been completed on 31 March 2012. The balances have been extracted from the audited consolidated statement of financial position of the JV Group as at 30 June 2012 as set out in Appendix III to this circular.

3. The adjustment represents payment of the cash consideration of HK$250,000,000 as set out in the Sale and Purchase Agreement, and the estimated transaction costs of the Proposed Acquisition of approximately HK$1,000,000 by the Group from its internal resources. The increase in amount due from the JV Group of approximately HK$111,499,000 is due to the assignment of shareholder's loan upon the Completion.

4. The identifiable assets and liabilities of the JV Group acquired by the Group will be accounted for in the consolidated financial statements of the Enlarged Group at fair value under the purchase method of accounting in accordance with Hong Kong Financial Reporting Standards 3 (Revised) "Business Combinations" ("HKFRS 3").

For the purposes of the Unaudited Pro Forma Financial Information, the allocation of the purchase price is determined based on the Director's estimates of the fair value of the identifiable assets and liabilities of the JV Group as at 31 March 2012 and with reference to an property valuation reported dated 6 September 2012 on the fair value of the properties under development as held by the JV Group. The property valuation is prepared with reference to comparable sales transactions available in the market.

The actual fair values of the assets and liabilities will be determined as of the date of acquisition and may differ materially from the amounts disclosed in the Unaudited Pro Forma Financial Information because of changes in fair values of the assets and liabilities to the date of the transaction, and as further analysis is completed. Consequently, the actual allocation of the purchase price will likely result in different amounts that those in the Unaudited Pro Forma Financial Information.

In accordance with HKFRS 3, the Group's existing 50% equity interest in the JV Group will be remeasured at fair value as at the date of acquisition and any difference between the fair value of the original 50% equity interest in the JV Group as at the date of acquisition and the carrying amount of such interest that was equity accounted for in the consolidated financial statement of the Group as at the date of acquisition will be recognized in the consolidated income statement of the Group as a gain or loss.

For the purposes of the Unaudited Pro Forma Financial Information, the fair value of the Group's previously held 50% equity interest in the JV Group is estimated based on the consideration for the purchase of the additional 50% equity interest.

On Completion, the actual fair value of the Group's previously held 50% equity interest will have to be reassessed and accordingly, its fair value at the date of Completion will be different from the amount disclosed in the Unaudited Pro Forma Financial Information.

(i) This adjustment represents the consolidation entry to eliminate the share capital of the JV Group and pre-acquisition reserves on consolidation;

(ii) This adjustment represents the elimination of balance receivable and payable between the Group and the JV Group amounting to approximately HK$222,999,000;

(iii) This adjustment relates to the recognition of:

- fair value adjustment of approximately HK$528,002,000 on properties under development held by the JV Group.

	HK$'000
Book value of properties under development as set out in Appendix III to this circular	541,998
Market value of properties under development as set out in Appendix II to this circular	1,070,000
Fair value adjustment	528,002

- fair value gain arising from the remeasurement of the Group's previously held 50% equity interest in the JV Group of approximately HK$250,000,000 and bargain purchase gain of approximately HK$46,009,000, being the excess amount of the fair value of the identifiable net assets of the JV Group over the aggregate of the consideration transferred and the fair value of the Group's previously held 50% equity interest in the JV Group. The amount of bargain purchase gain would change depending on the fair values of the identifiable net assets of the JV Group and the Group's previously held 50% equity interest in the JV Group determined at the date of Completion.

	HK$'000
Fair value of the Group's previously held 50% equity interest in the JV Group	250,000
Less: Carrying amount of the Group's 50% equity interest in the JV Group	—
Fair value gain arising the remeasurement of the previously held interest	250,000
Fair value of net assets acquired:	
— Net assets value of the JV Group	(6,372)
— Fair value adjustment on properties under development	528,002
— Effect of deferred tax liabilities estimated at Hong Kong Profits Tax of 16.5%	(87,120)
— Assignment of shareholder's loan	111,499
	546,009
Less: Consideration transferred	(250,000)
Less: Fair value of previously held interests of 50% in the JV Group	(250,000)
Bargain purchase gain arising on acquisition	46,009

5. The Unaudited Pro Forma Financial Information does not take account of any trading results or other transactions of the Group subsequent to 31 March 2012 and of the JV Group subsequent to 30 June 2012. In particular, no adjustments have been made to reflect the possible effects of (i) the disposal of a property by an associate of the Group on 8 May 2012; and (ii) the purchase of a property under the provisional sale and purchase agreement by the Group on 4 September 2012.

B. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the Company's reporting accountants, HLB Hodgson Impey Cheng Limited, Chartered Accountants, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited
Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF NATIONAL ELECTRONICS HOLDINGS LIMITED

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of National Electronics Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), and Tania Investments Holdings Limited (the "JV Co") and its subsidiaries (hereinafter collectively referred to as the "Enlarged Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed acquisition of 50% equity interest of the JV Co might have affected the financial information presented, for inclusion in Appendix V to the circular of the Company dated 13 September 2012 (the "Circular"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Section A of Appendix V to the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Enlarged Group as at 31 March 2012 or any future date.

Opinion

In our opinion:

a. the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

b. such basis is consistent with the accounting policies of the Group; and

c. the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

HLB Hodgson Impey Cheng Limited
Chartered Accountants
Certified Public Accountants
Hong Kong, 13 September 2012
Hui Chun Keung, David
Practising Certificate Number: P05447

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) on an Enlarged Group basis which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") to be notified to the Company and the Stock Exchange were as follows:

(i) Ordinary shares of HK$0.10 each

Name of Director	Capacity	Personal interests	Corporate interests	Other interests	Total interests	Percentage of the issued share capital of the Company
Mr. Lee Yuen Ching, Jimmy	Chairman	—	—	258,137,835 *(note a)*	258,137,835	26.399%
Mr. Lee Bon Chi, Loewe	Managing Director	15,000,000	—	258,137,835 *(note a)*	273,137,835	27.933%
Mr. Lee Yuen Kui, James	Managing Director	5,940	—	244,602,979 *(note b)*	244,608,919	25.015%
Mr. Lee Yuen Cheor, Edward	Director	—	—	244,602,979 *(note b)*	244,602,979	25.015%
Mr. Wai Kwong Yuen, Ricky	Director	—	37,267,767 *(note d)*	—	37,267,767	3.811%
Dr. Samson Sun, M.B.E., J.P.	Director	—	5,288,968 *(note e)*	—	5,288,968	0.541%

(ii) Share options

Name of Director	Capacity	Total interests	Percentage of the issued share capital of the Company
Mr. Lee Bon Chi, Loewe	Managing Director (Beneficial owner)	15,200,000	1.554%
Mr. Chan Chak Cheung, William	Independent Non-executive Director (Beneficial owner)	300,000	0.031%
Mr. Chan Kwok Wai	Independent Non-executive Director (Beneficial owner)	300,000	0.031%

Notes:

(a) The 258,137,835 shares are part of the property of a discretionary trust of which Mr. Lee Yuen Ching, Jimmy and his family members including Mr. Lee Bon Chi, Loewe are named beneficiaries.

(b) The 244,602,979 shares are part of the property of a discretionary trust of which each of Messrs. Lee Yuen Kui, James and Lee Yuen Cheor, Edward are named beneficiaries.

(c) The 5,288,968 shares are held by a company controlled by Dr. Samson Sun, M.B.E., J.P.

(d) The 37,267,767 shares are held by two companies controlled by Mr. Wai Kwong Yuen, Ricky.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interests and short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation(s) (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, none of the Directors had any interest, either direct or indirect, in any assets which have been, since 31 March 2012 (the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement which is significant in relation to the business of the Enlarged Group.

Share options

The Company's share option scheme (the "Scheme")was adopted pursuant to a resolution passed on 20 August 2008 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 19 August 2018. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

As at the Latest Practicable Date, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 15,800,000, representing 1.62% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in timewithout prior approval from the Company's shareholders. Options granted to independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by Shareholders.

Consideration at HK$1 is payable on the grant of an option. Options may be exercised at any time from the date of grant of the share option to the tenth anniversary of the date of grant. The exercise price is determined by the Directors, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

The following table disclosed movements in the Company's share options during the year ended 31 March 2012:

Name of Director	Date of grant	Exercise period	Exercise price per share *HK$*	Balance at 1 April 2011	Granted during the year	Exercised during the year	Forfeited during the year	Expired during the year	Balance at 31 March 2012
Mr. Lee Bon Chi, Loewe	18.3.2010	18.3.2010 — 17.3.2018	0.542	9,200,000	—	—	—	—	9,200,000
	23.3.2011	23.3.2011 — 22.3.2018	0.760	6,000,000	—	—	—	—	6,000,000
Dr. Samson Sun, M.B.E., J.P.*	23.3.2011	23.3.2011 — 22.3.2018	0.760	300,000	—	—	—	—	300,000
Mr. Chan Chak Cheung, William	23.3.2011	23.3.2011 — 22.3.2018	0.760	300,000	—	—	—	—	300,000
Mr. Chan Kwok Wai	23.3.2011	23.3.2011 — 22.3.2018	0.760	300,000	—	—	—	—	300,000

* Dr. Samson Sun, M.B.E., J.P. exercised his share options to subscribe for 300,000 shares of the Company on 23 July 2012.

The closing price of the Company's shares immediately before 18 March 2010, the date of grant of the options, was HK$0.540 and before 23 March 2011, the date of grant of the options, was HK$0.760.

(b) Interests of Shareholders

As at the Latest Practicable Date, so far as it is known to the Directors and the chief executives of the Company, no person (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group which will not expire or may not be terminated by the Company within one year without payment of compensation (other than statutory compensation).

4. LITIGATION

As at the Latest Practicable Date, there was no litigation or claims of material importance known to the Directors pending or threatened against any member of the Enlarged Group.

5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or any of their associates (as such term is defined in the Listing Rules) had an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Enlarged Group.

6. EXPERT AND CONSENT

The following is the qualification of the experts who have been named in this circular or have given opinions, letter or advices contained in this circular:

(a) Name	(b) Qualification
DTZ Debenham Tie Leung Limited	Professional Surveyors and Valuers
HLB Hodgson Impey Cheng Limited	Chartered Accountants Certified Public Accountants

DTZ Debenham Tie Leung Limited ("DTZ") and HLB Hodgson Impey Cheng Limited ("HLB") do not have any shareholding in any member of the Enlarged Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group. DTZ and HLB have given and have not withdrawn their written consents to the issue of this circular with the inclusion herein of their reports and/or references to their names in the form and context in which they are included.

As at the Latest Practicable Date, DTZ and HLB did not have any direct or indirect interests in any assets which have been, since 31 March 2012 (the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of the Enlarged Group within the two years immediately preceding the date of this circular and are or may be material:

(a) a disposal agreement entered into on 27 April 2011 by Champian Limited, a wholly-owned subsidiary of the Company, with Easy Jet Corporation Limited in relation to the sale of a property located at 22nd Floor (including the roof thereof) of Century Tower II and Car Parking Space No. 9 on Level 1, Century Tower, Nos. 1 and 1A, Tregunter Path, Hong Kong at a consideration of HK$128,000,000;

(b) a disposal agreement entered into on 30 March 2011 by Spring Orchard Limited, a wholly-owned subsidiary of the Company, with GCPF Cayman Holding 9 Corp. in relation to the sale of a development project to be erected on No. 21 Whitfield Road, Hong Kong at a consideration of HK$72,600,000;

(c) a disposal agreement entered into on 3 June 2011 by Verde Group Limited, a wholly-owned subsidiary of the Company, with GCPF Cayman Holding 10 Corp. in relation to the sale of a development project to be erected on No. 89 Jervois Street, Hong Kong at a consideration of HK $110,960,000;

(d) a disposal agreement entered into on 3 June 2011 by Seafield Capital Limited, a wholly-owned subsidiary of the Company, with GCPF Cayman Holding 11 Corp. in relation to the sale of a development project to be erected on Nos. 99, 101 and 103 Bonham Strand, Hong Kong and No.127 Wing Lok Street, Hong Kong at a consideration of HK$140,160,000;

(e) an acquisition agreement entered into on 11 November 2011 by National Hotel Holdings Limited, a wholly-owned subsidiary of the Company, with CPI Asia National 1 Limited, in relation to the purchase of shares representing the remaining 80% of the issued capital of Roebuck Investments Limited not owned by National Hotel Holdings Limited and the benefit of shareholder loan owed by the Group to the seller for a consideration of HK$139,684,116;

(f) a disposal agreement entered into on 23 December 2011 by CPI Asia National 2 Limited and National Hotel Holdings Limited, a wholly-owned subsidiary of the Company, with Capitalkey Limited and CHI Management Limited, in relation to the sale of shares in the capital of Roebuck II Investments Limited at a total consideration of approximately HK$318,000,000 (subject to adjustment);

(g) a disposal agreement entered into on 8 May 2012 by Century Land Limited, which the Company owns 20% of its entire issued share capital, with an independent party not connected with the Company in relation to the disposal of the land and building situated on No. 50 Connaught Road Central, Hong Kong for a consideration of HK$4.88 billion;

(h) an acquisition agreement entered into on 4 September 2012 by Samford Limited, a wholly-owned subsidiary of the Company, with Supreme Class Limited, in relation to the purchase of House No. C36 Regalia Bay, No. 88 Wong Ma Kok Road, Hong Kong (including two car parking spaces) at a consideration of HK$80,000,000; and

(i) the Sale and Purchase Agreement.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Company's principal place of business at Suite 3201, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong during normal business on any weekday (except public holidays) from the date of this circular up to and including 27 September 2012:

(a) the memorandum of association and Bye-laws of the Company, the JV Co and the Project Company;

(b) the annual reports of the Company of each of the two financial years immediately preceding the issue of this circular;

(c) the letter and valuation certificate referred to in Appendix II to this circular;

(d) the accountants' report on the JV Group referred to in Appendix III to this circular;

(e) the report from Hodgson Impey Cheng Limited on the unaudited pro forma financial information of the Enlarged Group referred to in Appendix V to this circular;

(f) the material contracts referred to in this appendix; and

(g) this circular.

9. MISCELLANEOUS

(a) The qualified accountant and company secretary of the Company is Mr. Wong Kam Kee, Andy, who is an associate member of the Institute of Chartered Accountants in England and Wales, a fellow member of the Hong Kong Institute of Certified Public Accountants and an associate member of the Institute of Chartered Secretaries and Administrators in the United Kingdom. Mr. Wong holds an Executive Master Degree of Business Administration from Chinese University of Hong Kong and a Master of Science Degree in Financial Management from the University of London. Mr. Wong was an audit executive of an international accounting firm and held senior finance positions in several listed public companies in Hong Kong.

(b) The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. The principal place of business of the Company is at Suite 3201, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong.

(c) The Hong Kong branch share registrar and transfer office of the Company is Tricor Standard Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.

(d) The English text of this circular shall prevail over the Chinese text in case of inconsistency.