

NATIONAL ELECTRONICS HOLDINGS LIMITED

(INCORPORATED IN BERMUDA WITH LIMITED LIABILITY)



INTERIM REPORT 2006

2006 INTERIM REPORT

The Board of Directors announces that the unaudited condensed consolidated profit after taxation for National Electronics Holdings Limited (the “Company”) and its subsidiaries (the “Group”) for the six months ended 30th September, 2006 was HK\$80,930,000.

The following is a summary of the unaudited condensed consolidated results, statement of recognized gains and losses, and cash flow statement of the Group for the six months ended 30th September, 2006 and the unaudited condensed consolidated balance sheet of the Group as of 30th September, 2006.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September 2006

		Six months ended 30th September	
		2006	2005
		(unaudited)	(unaudited)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	565,002	544,028
Cost of sales		(501,375)	(486,946)
Gross profit		63,627	57,082
Other income		10,200	5,603
Distribution costs		(5,535)	(3,257)
Administrative expenses		(39,807)	(28,207)
Finance costs	4	(9,572)	(5,219)
Share of results of associates		(37)	—
Gain on disposal of subsidiaries		64,595	—
Profit before taxation	5	83,471	26,002
Income tax expenses	6	(2,541)	(1,765)
Profit for the period		80,930	24,237
Earnings per share – Basic	7	7.59 cents	2.23 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th September 2006

		30th September, 2006 (unaudited) HK\$ '000	31st March, 2006 (audited) HK\$ '000
	Notes		
NON-CURRENT ASSETS			
Investment properties		306,616	166,000
Property, plant and equipment		63,828	68,951
Prepaid lease payments		42,099	42,412
Deposits held in trust for sale of property under development		32,645	69,659
Interests in associates		32	32
Available-for-sale investments		15,620	13,615
		<hr/> 460,840	<hr/> 360,669
CURRENT ASSETS			
Inventories		158,026	185,317
Prepaid lease payments		625	625
Investments held for trading		3,929	3,828
Inventory of unsold properties		100,966	126,282
Properties under development		677,132	635,084
Bills receivable	8	12,000	10,423
Trade receivables, deposits and prepayments	8	111,364	123,365
Amount due from an associate		1,818	1,144
Tax recoverable		1,069	767
Bank balances and cash		195,105	119,157
		<hr/> 1,262,034	<hr/> 1,205,992
CURRENT LIABILITIES			
Trade payables and accrued expenses	9	101,062	147,901
Bills payables	9	77,053	75,905
Amount due to associates		4,848	17
Amount due to a related party		5,033	7,556
Taxation payable		2,121	1
Derivative financial instruments		1,735	1,320
Obligations under finance leases		2,779	2,883
Bank overdrafts		265	263
Bank borrowings	10	583,400	217,020
		<hr/> 778,296	<hr/> 452,866
NET CURRENT ASSETS		<hr/> 483,738	<hr/> 753,126
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 944,578	<hr/> 1,113,795
CAPITAL AND RESERVES			
Share capital	11	105,282	107,590
Reserves		375,718	318,148
		<hr/> 481,000	<hr/> 425,738
NON-CURRENT LIABILITIES			
Provision for long service payment		4,362	4,362
Obligations under finance leases		3,499	4,790
Bank borrowings	10	298,725	546,381
Deposits received from sale of properties under development		155,689	131,131
Deferred taxation		1,303	1,393
		<hr/> 463,578	<hr/> 688,057
		<hr/> 944,578	<hr/> 1,113,795

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September 2006

	Six months ended 30th September	
	2006	2005
	(unaudited)	(unaudited)
	HK\$ '000	HK\$ '000
Total equity at the beginning of the period	425,738	374,410
Repurchase of shares	(7,286)	(4,114)
Exchange loss arising on translation of overseas operations not recognized in the income statement	(2,415)	(1,335)
Dividend paid	(15,967)	(5,428)
Net profit for the period	80,930	24,237
Total equity at the end of period	<u>481,000</u>	<u>387,770</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September 2006

	Six months ended 30th September 2006 (unaudited) HK\$'000	2005 (unaudited) HK\$'000
OPERATING ACTIVITIES		
Cash generated from operations	143,565	18,819
Income taxes paid	(812)	(275)
NET CASH GENERATED FROM OPERATING ACTIVITIES	<u>142,753</u>	<u>18,544</u>
INVESTING ACTIVITIES		
Additions to investment properties	(140,616)	—
Additions to properties under development	(30,267)	(96,057)
Dividends paid	(15,967)	(5,428)
Purchase of property, plant and equipment	(3,014)	(9,625)
Purchase of available-for-sale investments	(2,005)	—
Cash inflow arising from disposal of subsidiaries	31,964	—
Increase in pledged deposit	—	(12,480)
Interest received	2,771	241
NET CASH USED IN INVESTING ACTIVITIES	<u>(157,134)</u>	<u>(123,349)</u>
FINANCING ACTIVITIES		
New bank borrowings	118,726	146,588
New obligations (repayment) under finance leases	(1,395)	3,015
Increase in amount due to associates	4,157	—
Decrease in amount due to a related party	(2,523)	—
Repurchases of own shares	(7,286)	(4,114)
Interest paid	(21,353)	(11,871)
NET CASH FROM FINANCING ACTIVITIES	<u>90,326</u>	<u>133,618</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	75,945	28,813
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>118,895</u>	<u>28,941</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>194,840</u></u>	<u><u>57,754</u></u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	195,105	57,754
Bank overdraft	(265)	—
	<u><u>194,840</u></u>	<u><u>57,754</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2006

(1) BASIS OF PREPARATION

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

(2) PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the preparation of this condensed consolidated interim financial information are consistent with those used in the annual financial statements for the year ended 31st March 2006, except that the Group adopted all the new standards, amendments to standards and interpretations (new/revised HKFRSs) which are effective for accounting periods commencing on 1st April 2006. The adoption of these new/revised HKFRSs did not have material financial impact to the result of the Group.

(3) SEGMENT INFORMATION

The following is an analysis of the Group’s revenue and operating profit by principal activity and geographical market for the six months ended 30th September, 2006 and 2005:

Business Segments

2006

	Manufacture, assembly and sale of electronic watches HK\$'000	Trading of watch movements and watch parts HK\$'000	Property development and investment HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE					
External sales	188,595	332,828	43,579	—	565,002
Inter-segment sales	—	2,070	—	(2,070)	—
Total revenue	<u>188,595</u>	<u>334,898</u>	<u>43,579</u>	<u>(2,070)</u>	<u>565,002</u>
SEGMENT RESULT	<u>790</u>	<u>10,064</u>	<u>74,906</u>		85,760
Interest income					2,771
Unallocated other income (corporate expenses)					4,549
Finance costs					(9,572)
Share of results of associates			(37)		(37)
Profit before taxation					83,471
Income tax expenses					(2,541)
Profit for the period					<u>80,930</u>

2005

	Manufacture, assembly and sale of electronic watches <i>HK\$'000</i>	Trading of watch movements and watch parts <i>HK\$'000</i>	Property development and investment <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE					
External sales	236,931	304,034	3,063	—	544,028
Inter-segment sales	—	7,740	—	(7,740)	—
	<u>236,931</u>	<u>311,774</u>	<u>3,063</u>	<u>(7,740)</u>	<u>544,028</u>
Total revenue	<u>236,931</u>	<u>311,774</u>	<u>3,063</u>	<u>(7,740)</u>	<u>544,028</u>
SEGMENT RESULT	<u>26,685</u>	<u>2,912</u>	<u>1,870</u>		31,467
Interest income					241
Unallocated other income (corporate expenses)					(487)
Finance costs					(5,219)
Share of results of associates			—		—
			<u>—</u>		<u>—</u>
Profit before taxation					26,002
Income tax expenses					(1,765)
					<u>24,237</u>
Profit for the period					<u>24,237</u>

Geographical Segments

	Sales revenue by geographical market	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Hong Kong and other regions in the People's Republic of China	380,953	308,110
North America	112,290	126,120
Europe	70,845	107,684
Others	914	2,114
	<u>565,002</u>	<u>544,028</u>

(4) FINANCE COSTS

	Six months ended 30th September	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on borrowings:		
Bank borrowings	21,135	11,680
Obligations under finance leases	218	191
	<hr/>	<hr/>
Total borrowing costs	21,353	11,871
Less: Amount capitalized to property development projects	(11,781)	(6,652)
	<hr/>	<hr/>
	<u>9,572</u>	<u>5,219</u>

(5) PROFIT BEFORE TAXATION

	Six months ended 30th September	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit from operations has been arrived at after charging:		
Amortization of land lease payments	313	—
Depreciation:		
Owned fixed assets	6,869	5,403
Assets held under finance leases	1,377	926
	<hr/>	<hr/>

(6) TAXATION

	Six months ended 30th September	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current profits tax		
Hong Kong	1,901	1,762
Overseas tax	—	3
	<hr/>	<hr/>
	1,901	1,765
Deferred taxation	640	—
	<hr/>	<hr/>
	<u>2,541</u>	<u>1,765</u>

Hong Kong profits tax has been provided for at 17.5% (2005 – 17.5%) on the estimated assessable profit for the six months ended 30th September, 2006 for each of the companies comprising the Group in Hong Kong. Profits tax for the profits of foreign subsidiaries of the Group has been provided for in accordance with the relevant local laws.

(7) EARNINGS PER SHARE

Earnings per share for the six months ended 30th September, 2006 is based on the profit attributable to shareholders of HK\$80,930,000 (2005 – HK\$24,237,000) and on the weighted average number of 1,066,604,748 shares (2005 – 1,088,958,256 shares) in issue during the six months ended 30th September, 2006.

(8) BILLS RECEIVABLES, TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS

An aged analysis of trade receivables at the balance sheet date is as follows:

	At 30th September, 2006 <i>HK\$ '000</i>	At 31st March, 2006 <i>HK\$ '000</i>
Within 30 days	50,838	44,844
31 to 90 days	27,805	34,365
91 to 180 days	648	7,109
Over 180 days	8,496	12,834
	<hr/>	<hr/>
	87,787	99,152
	<hr/> <hr/>	<hr/> <hr/>

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

(9) BILLS PAYABLES, TRADE PAYABLES AND ACCRUED EXPENSES

At the balance sheet date, the balance included bills and trade payables of HK\$120,065,000 (31st March, 2006: HK\$138,180,000) with aged analysis as follows:

	At 30th September, 2006 <i>HK\$ '000</i>	At 31st March, 2006 <i>HK\$ '000</i>
Within 30 days	81,855	77,013
31 to 90 days	30,632	27,460
91 to 180 days	7,569	33,562
Over 180 days	9	145
	<hr/>	<hr/>
	120,065	138,180
	<hr/> <hr/>	<hr/> <hr/>

(10) BANK BORROWINGS

	At 30th September, 2006 <i>HK\$'000</i>	At 31st March, 2006 <i>HK\$'000</i>
Secured bank loan	767,344	649,692
Unsecured bank loan	115,046	113,972
	<u>882,390</u>	<u>763,664</u>
Less: Amount due within one year shown under current liabilities	(583,665)	(217,283)
Amount due after one year	<u><u>298,725</u></u>	<u><u>546,381</u></u>

(11) SHARE CAPITAL

	Number of shares	Share Capital <i>HK\$</i>
Ordinary shares of HK\$0.1 each		
Authorised:		
At 1st April, 2006 and 30th September, 2006	<u>1,500,000,000</u>	<u>150,000,000</u>
Issued and fully paid:		
At 1st April, 2006	1,075,903,928	107,590,393
Cancelled on repurchase of shares	(23,088,000)	(2,308,800)
At 30th September, 2006	<u><u>1,052,815,928</u></u>	<u><u>105,281,593</u></u>

(12) CONTINGENT LIABILITIES AND COMMITMENTS

	At 30th September, 2006 <i>HK\$'000</i>	At 31st March, 2006 <i>HK\$'000</i>
Contingent liabilities:		
Other guarantees	<u>247</u>	<u>247</u>

INTERIM DIVIDEND

The Directors resolved to declare an interim dividend of 0.5 HK cent (2005 – Nil).

BUSINESS REVIEW

The Group's turnover for the six months ended 30th September 2006 was HK\$565,002,000 which was increased by 3.8% over the same period last year.

Net profit for the six months ended 30th September 2006 was HK\$80,930,000 which was 334% of the same period last year.

During the period under review, the high oil prices has adversely affected the USA and European demand for the Group's multi-function LCD sport watches. The profit margin of such products also declined due to the rise of raw material cost.

However, the analogue watch component business sustained increased growth as the main markets for such products such as China and India are still booming.

During the period under review, the Group had successfully disposed 80% of the interest in its subsidiary, which held the site at 202-206 Queen's Road Central, Hong Kong with satisfactory profit. The Group also disposed two commercial units in Lippo Centre, Queensway, Hong Kong with satisfactory capital gain.

PROSPECTS

To reduce direct labor cost, the Group plans to relocate part of its manufacturing plant away from Shenzhen, and it is considering the city of Nanning in Guangxi Province.

The Group's "One St. Thomas" residential project in Toronto, Canada is expected to have its first occupancy of the sold units in Spring 2007.

The Group has obtained the occupation permit in September 2006 for the luxury boutique hotel at 202-206 Queen's Road Central, Hong Kong which will commence operation in early 2007.

The foundation work of the Group's hotel project at 137-138 Connaught Road West, Hong Kong is well underway and we expect the superstructure work to commence in the summer of 2007.

The Group has made a planning application for change of use – from the existing residential use to hotel – for its investment property "Elegant Court" at 21 Whitfield Road, Causeway Bay, Hong Kong and the reply from the relevant authority is positive. The Group intends to demolish the existing building and redevelop the subject property into a new boutique hotel.

The Group intends to continue its strategy of expanding its land bank for development as well as investment properties at desirable location in Hong Kong and possibly in China.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital structure

As at 30th September, 2006, the shareholders' funds of the Group totalled HK\$481 million and total bank borrowings was HK\$882 million and the maturity profile of the Group's bank borrowings falling due within one year was 66% and more than one year was 34%.

Liquidity and financial resources

Total bank balance was HK\$195 million.

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

Gearing Ratio

The Group's gearing ratio at 30th September, 2006 was 0.62 which is calculated based on the Group's long-term bank borrowings of HK\$298 million and shareholders' funds of HK\$481 million.

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

Cashflow from Operating/Investing Activities

During the financial period under review, the Group's net cash inflow generated from operating activities of HK\$143 million (2005: HK\$19 million) and increased the net cash used in investing activities to HK\$157 million (2005: HK\$123 million).

Treasury policy

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

All borrowings are denominated in Hong Kong dollars, Japanese Yen, United States dollars or Canadian dollars and bear interest at floating rates. Foreign currency exposure is monitored closely by the management and hedged by forward foreign currency contracts and foreign currency borrowings to the extent desirable.

Pledge of assets

Certain properties of the Group having a carrying value of HK\$1,128 million as at 30th September, 2006 were pledged to secure banking facilities of the Group.

Employees and remuneration policies

The Group employs approximately 4,219 employees in Hong Kong, in other parts of the People's Republic of China ("PRC") and overseas. Remuneration is determined by reference to market terms and the qualifications and experience of the staff concerned. Salaries are reviewed annually with discretionary bonuses being paid depending on individual performance.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th September, 2006, the interests of the Directors, chief executives and their associates in the shares and debentures of the Company and its associated Corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (“SFO”), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by the Directors of listed Companies were as follows: –

Name	Capacity	Shares of HK\$0.10 each				Percentage of the issued share capital of the Company
		Personal Interests	Corporate Interests	Other Interests	Total Interests	
JIMMY LEE YUEN CHING	Chairman	–	–	253,106,873 (note a)	253,106,873	24.041%
JAMES LEE YUEN KUI	Managing Director	5,940	–	252,102,979 (note b)	252,108,919	23.946%
PETER LEE YUEN WONG	Director	–	–	252,102,979 (note b)	252,102,979	23.946%
EDWARD LEE YUEN CHEOR	Director	–	–	252,102,979 (note b)	252,102,979	23.946%
RICKY WAI KWONG YUEN	Director	–	37,267,767 (note c)	–	37,267,767	3.540%
DR SAMSON SUN, M.B.E., J.P.	Director	–	4,988,968 (note d)	–	4,988,968	0.474%

NOTES:

- The 253,106,873 shares are part of the property of a discretionary trust of which Mr. Jimmy Lee Yuen Ching and his family members are named beneficiaries.
- The 252,102,979 shares are part of the property of a discretionary trust of which each of Messrs. James Lee Yuen Kui, Peter Lee Yuen Wong and Edward Lee Yuen Cheor are named beneficiaries.
- The 37,267,767 shares are held by two companies controlled by Mr. Ricky Wai Kwong Yuen.
- These shares are owned by a company which is owned and controlled by Dr. Samson Sun, M.B.E., J.P.

Saved as disclosed above, at 30th September, 2006, none of the directors or chief executive or any of their associates had any interests, or short positions in any shares, underlying shares or debentures of the Company or its associated Corporations as defined in the SFO.

SUBSTANTIAL SHAREHOLDERS

Other than as referred to in the “Directors’ Interests in Shares, Underlying Shares and Debentures” section above, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO discloses no other person as having a notifiable interests or short position in the issued share capital of the Company as at 30th September, 2006.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30th September, 2006 the Company purchased a total of 23,088,000 shares of HK\$0.10 each of the Company on The Stock Exchange of Hong Kong Limited, all of which shares were cancelled. Particulars of the shares repurchased are as follows:

Trading Month/Year	Number of shares repurchased	Price per share		Total Cost (Including expenses) HK\$
		Highest price paid HK\$	Lowest price paid HK\$	
April 2006	2,474,000	0.285	0.245	655,058
May 2006	2,284,000	0.320	0.280	681,933
June 2006	2,410,000	0.340	0.330	808,098
July 2006	4,240,000	0.335	0.330	1,423,705
August 2006	7,630,000	0.325	0.310	2,426,621
September 2006	4,050,000	0.325	0.315	1,290,824
	<u>23,088,000</u>			<u>7,286,239</u>

The Directors considered that the aforesaid shares were trading at a discount to the net asset value per share and the repurchase would result in an increase of the net asset value per share then in issue.

Save as disclosed herein, neither the Company nor its subsidiaries have purchased, sold or redeemed any of the Company’s shares during the period.

CORPORATE GOVERNANCE

The Company is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Company emphasize a quality board, sound internal control, and transparency and accountability to all shareholders. The Company has applied the principles and complied with all code provisions and, where applicable, the recommended best practices of the Code on CG Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the six months ended 30th September, 2006.

AUDIT COMMITTEE

The Company established an audit committee and formulated its written terms of reference in accordance with the provisions set out in the Code on Corporate Governance Practices (“Code on CG Practices”). The Committee members comprise Dr. Samson

Sun, M.B.E., J.P., Mr. Chan Chak Cheung, William and Mr. Chan Kwok Wai as Independent Non-Executive Directors. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The interim results for the six months ended 30th September, 2006, which have not been audited, have been reviewed by the Audit Committee.

REMUNERATION COMMITTEE

The Board has established a remuneration committee with specific written terms of reference and its responsibility is for making recommendations to the Board on the Company's policy and structure of remuneration of the Directors and senior management and to review and approve performance based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

The Remuneration Committee consists of 5 members of three Independent Non-Executive Directors and two Executive Directors of the Board.

MODEL CODE

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

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 2nd January, 2007 to 4th January, 2007 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, should be lodged with the Company's Share Registrars in Hong Kong, Standard Registrars Limited, Level 25, Three Pacific Place, 1 Queen's Road East, Hong Kong not later than 4:00 p.m. on 29th December, 2006.

PUBLICATION OF RESULTS ANNOUNCEMENT ON THE COMPANY'S WEBSITE AND THE STOCK EXCHANGE'S WEBSITE

All the information required by paragraph 46 of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange will be published on the HKEx website (<http://www.hkex.com.hk>) and on the Company's website (<http://www.irasia.com/listco/hk/national/index.htm>) in due course.

By order of the Board
Lee Yuen Ching, Jimmy
Chairman

Hong Kong, 14th December, 2006

As at the date of this report, the Board of the Company comprises Mr. Lee Yuen Ching, Jimmy, Mr. Lee Yuen Kui, James, Mr. Lee Yuen Wong, Peter, Mr. Lee Yuen Cheor, Edward and Mr. Wai Kwong Yuen, Ricky as Executive Directors and Dr. Samson Sun, M.B.E., J.P., Mr. Chan Chak Cheung, William and Mr. Chan Kwok Wai as Independent Non-executive Directors and Ms. Lee Yuen Yu, Dorathy as Non-executive Director.