

NATIONAL ELECTRONICS HOLDINGS LIMITED

(INCORPORATED IN BERMUDA WITH LIMITED LIABILITY)



2001 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, 2001 was HK\$4,705,000.

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, 2001 and the unaudited condensed consolidated balance sheet of the Group as of 30th September, 2001.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September 2001

		Six months ended 30 September	
		2001	2000
		(unaudited)	(unaudited)
	<i>Notes</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Turnover	2	532,923	769,612
Cost of sales		(479,380)	(722,651)
Gross profit		53,543	46,961
Other revenue		3,213	2,754
Distribution costs		(2,895)	(2,721)
Administrative expenses		(37,443)	(29,252)
Other operating expenses		(1,887)	–
Profit from operations	3	14,531	17,742
Finance costs	4	(7,782)	(10,711)
Profit before tax	2	6,749	7,031
Taxation	5	(2,044)	(772)
Profit attributable to shareholders		4,705	6,259
Earnings per share	6	0.40 cents	0.53 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th September 2001

	Notes	30/9/01 (unaudited) HK\$'000	31/3/01 (audited) HK\$'000
NON-CURRENT ASSETS			
Investment properties		170,800	170,800
Property, plant and equipment		120,577	121,902
Development costs		211	601
Properties under development		76,384	76,317
Interests in jointly controlled entities		16,742	31,718
Investments in unlisted securities	7	239	239
Other non-current assets		18,904	18,904
		<u>403,857</u>	<u>420,481</u>
CURRENT ASSETS			
Inventories		157,315	113,608
Stock of unsold property		44,826	44,826
Bills receivable		7,554	3,682
Trade receivables, deposits and prepayments	8	117,693	53,943
Tax prepayments		32	4,506
Pledged deposit		15,024	–
Bank balances and cash		88,783	162,712
		<u>431,227</u>	<u>383,277</u>
CURRENT LIABILITIES			
Trade payables and accrued expenses	9	195,933	181,050
Obligations under finance leases		5,994	4,863
Bank borrowings	10	123,665	93,964
Taxation		11,153	10,019
		<u>336,745</u>	<u>289,896</u>
NET CURRENT ASSETS		<u>94,482</u>	<u>93,381</u>
		<u>498,339</u>	<u>513,862</u>
CAPITAL AND RESERVES			
Share capital	11	116,765	117,089
Reserves		233,906	235,233
		<u>350,671</u>	<u>352,322</u>
NON-CURRENT LIABILITIES			
Obligations under finance leases		4,035	5,571
Bank borrowings	10	143,171	155,047
Deferred tax		462	922
		<u>147,668</u>	<u>161,540</u>
		<u>498,339</u>	<u>513,862</u>

CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the six months ended 30th September 2001

	Six months ended 30th September	
	2001	2000
	(unaudited)	(unaudited)
Note	HK\$'000	HK\$'000
Exchange (loss)/gain arising on translation of overseas operations not recognized in the income statement	(189)	415
Net profit for the period	4,705	6,259
Total recognized gains	<u>4,516</u>	<u>6,674</u>
Prior period adjustment: – adjustment against the retained earnings at 1st April 2001	1	<u>5,843</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30th September 2001*

	Six months ended 30th September	
	2001	2000
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	(70,339)	172,101
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Dividends paid	(5,820)	–
Interest received	2,247	2,294
Interest paid	(8,781)	(17,266)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	(12,354)	(14,972)
TAXATION		
Tax paid	(4,065)	(359)
Tax refunded	–	436
TAX (PAID)/REFUNDED	(4,065)	77
INVESTING ACTIVITIES		
Repayment from jointly controlled entities	14,976	–
Proceeds on disposal of other non-current assets	–	1,096
Additions to properties under development	(67)	(91,853)
Purchase of property, plant and equipment	(3,983)	(6,839)
Increase in pledged deposit	(15,024)	–
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(4,098)	(97,596)
NET CASH (OUTFLOW)/INFLOW BEFORE FINANCING	(90,856)	59,610
FINANCING ACTIVITIES		
Net bank borrowings/(repayment)	43,809	(56,687)
(Repayment)/new obligations under finance leases	(405)	4,750
Repurchases of own shares	(492)	(931)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	42,912	(52,868)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(47,944)	6,742
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	112,212	6,835
CASH AND CASH EQUIVALENTS AT END OF PERIOD	64,268	13,577

Notes:

(1) Principal Accounting Policies and Basis of Preparation

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants (“HKSA”), and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies adopted for the preparation of the interim financial report are consistent with those adopted by the Group in the audited financial statements for the year ended 31st March, 2001 except the Group has adopted SSAP 9 (revised) “Events after the balance sheet date” issued by the HKSA in the preparation of the interim accounts and applies them retrospectively so that the comparatives presented have been restated to conform with the changes in accounting policies. In addition, the Group has taken advantage of the transitional provisions in SSAP 30 “Business combination” and not to restate goodwill on acquisitions that has been previously charged or credited to capital reserves.

The effect of adopting SSAP 9 (revised): Events after the balance sheet date is set out below:

In accordance with the revised SSAP 9, the Group no longer recognizes dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. The proposed final dividend for the year ended 31st March, 2001 of HK\$5,842,990 was reclassified from current liabilities to dividend reserve which forms part of the shareholders’ funds.

(2) Segmental Information

The Group’s turnover and profit before taxation analysed by principal activity and geographical segment, are as follows:

	Turnover		Profit before tax	
	Six months ended 30 September 2001	Six months ended 30 September 2000	Six months ended 30 September 2001	Six months ended 30 September 2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activity:				
Manufacturing of watches and electronic products	193,540	135,046	23,538	11,805
Trading of watch movements and watch parts	190,498	235,810	(6,424)	1,296
Property development and investment	3,734	398,756	(9,920)	(6,070)
Listed securities investment	145,151	–	(445)	–
	<u>532,923</u>	<u>769,612</u>	<u>6,749</u>	<u>7,031</u>
By geographical segment:				
Hong Kong	292,519	642,471	(9,373)	(7,102)
North America	182,038	79,914	11,942	10,575
Europe	46,855	39,709	3,059	2,895
Others	11,511	7,518	1,121	663
	<u>532,923</u>	<u>769,612</u>	<u>6,749</u>	<u>7,031</u>

(3) **Profit before tax**

	Six months ended 30 September	
	2001	2000
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Profit before tax has been arrived at after charging:		
Loss on disposal of fixed assets	–	901
Amortization of intangible assets	390	195
Depreciation:		
Owned fixed assets	7,637	6,261
Assets held under finance leases	1,769	1,984
	<u> </u>	<u> </u>

(4) **Finance costs**

	Six months ended 30 September	
	2001	2000
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Interest on borrowings:		
Bank borrowings	8,470	16,545
Obligations under finance leases	311	721
	<u> </u>	<u> </u>
Total borrowing costs	8,781	17,266
Less: Amount capitalized to property development projects	(999)	(6,555)
	<u> </u>	<u> </u>
	<u>7,782</u>	<u>10,711</u>

(5) **Taxation**

	Six months ended 30 September	
	2001	2000
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
The Company and subsidiaries		
Hong Kong profits tax	1,699	478
Overseas tax	345	294
	<u> </u>	<u> </u>
	<u>2,044</u>	<u>772</u>

Hong Kong profits tax has been provided for at 16% (2000 – 16%) on the estimated assessable profit for the six months ended 30th September, 2001 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.

(6) **Earnings Per Share**

Earnings per share for the six months ended 30th September, 2001 is based on the profit attributable to shareholders of HK\$4,705,000 (2000 – HK\$6,259,000) and on the weighted average number of 1,169,075,392 shares (2000 – 1,177,863,928 shares) in issue during the six months ended 30th September, 2001.

(7) Investments in Unlisted Securities

	30/9/01 <i>HK\$ '000</i>	31/3/01 <i>HK\$ '000</i>
Unlisted investments, at fair value	239	239

(8) Trade receivables, deposits and prepayments

	30/9/01 <i>HK\$ '000</i>	31/3/01 <i>HK\$ '000</i>
Trade receivables (net of provisions for bad and doubtful debts) with aging analysis:		
Within 30 days	32,154	23,070
31 to 90 days	33,243	15,388
91 to 180 days	12,316	4,466
Over 180 days	5,136	2,410
	<u>82,849</u>	<u>45,334</u>
Deposits and prepayments	34,844	8,609
	<u>117,693</u>	<u>53,943</u>

The Group has a defined credit policy. The general credit term ranged from 30 days to 180 days.

(9) Trade payables and Accrued expenses

	30/9/01 <i>HK\$ '000</i>	31/3/01 <i>HK\$ '000</i>
Trade payables with aging analysis		
Within 30 days	54,891	61,661
31 to 90 days	43,994	33,352
91 to 180 days	24,458	25,961
Over 180 days	–	–
	<u>123,343</u>	<u>120,974</u>
Accrued expenses	72,590	60,076
	<u>195,933</u>	<u>181,050</u>

(10) Banking Borrowings

	30/9/01 <i>HK\$ '000</i>	31/3/01 <i>HK\$ '000</i>
Secured bank loan	183,234	218,583
Unsecured bank loan	83,602	30,427
	<u>266,836</u>	<u>249,010</u>
Less: Amounts due within one year shown under current liabilities	<u>123,665</u>	<u>93,963</u>
Amounts due after one year	<u>143,171</u>	<u>155,047</u>

(11) Share Capital

	Number of shares	Share Capital HK\$
Ordinary share of HK\$0.1 each		
Authorised:		
At 1st April, 2001 and 30th September, 2001	<u>1,500,000,000</u>	<u>150,000,000</u>
Issued and fully paid:		
At 1st April, 2001	1,170,895,928	117,089,593
Cancelled on repurchase of shares	<u>(3,242,000)</u>	<u>(324,200)</u>
At 30th September, 2001	<u>1,167,653,928</u>	<u>116,765,393</u>

(12) Commitments

	30/9/01 HK\$ '000	31/3/01 HK\$ '000
Contingent liabilities:		
Guarantee for banking facilities granted to jointly controlled entities	184,500	184,500
Other guarantees	<u>181</u>	<u>181</u>
	<u>184,681</u>	<u>184,681</u>
Commitments contracted for but not provided:		
Property development expenditure	58,535	–
Acquisition of property, plant and equipment	–	338
Expenditure of leasehold improvements	<u>–</u>	<u>488</u>
	<u>58,535</u>	<u>826</u>

(13) Post Balance Sheet Events

Subsequent to the interim reporting date, the Group completed its agreement to purchase the development projects in Toronto, at total consideration of C\$15,270,000. These properties are held for residential properties development purposes.

(14) Comparative Figures

Certain comparative figures have been reclassified to conform with the current presentation as required under SSAPI (revised) "Preparation of financial statements".

INTERIM DIVIDEND

The Directors do not propose to declare any interim dividend during the period under review (2000 – Nil).

BUSINESS REVIEW

Despite the weakness of the global economy since the beginning of 2001, the Group's LCD watch division managed to achieve satisfactory performance both in turnover and in operating profit during the period under review. The Group's quartz analogue division maintained steady performance.

Nevertheless, due to severe competition in watch movement business, turnover of this division declined and the Group recorded a loss in that business in the period under review.

PROSPECTS

As a result of the September 11, 2001 event in New York, worldwide demand for consumer goods in general has declined and Hong Kong's export business has been affected. The Group also anticipates adverse impact on its manufacturing division for the second half of this financial year. As a result, the Group has taken steps to reduce operating expenses and production costs in our PRC plants.

The Group is hopeful that the downturn of the U.S. economy is relatively short-term and that recovery will start from the middle of 2002.

The acquisition of the development site in Toronto was completed on 23rd October 2001 at the consideration of C\$15,270,000. The Group plans to erect on this site a luxurious residential apartment building with approximately 80 residential units. In view of the excellent location of the site in Downtown Toronto, the Group will aim at the top end of the market and expects a satisfactory return on this investment.

As far as the Hong Kong luxurious residential properties are concerned, the Group remains optimistic and continues to look for new development sites.

DIRECTORS' INTERESTS

As at 30th September, 2001, the interests of the Directors, chief executives and their associates in the share capital of the Company as recorded in the register maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance were as follows: -

Name	Capacity	Shares of HK\$0.10 each		
		Personal Interests	Corporate Interests	Other Interests
JIMMY LEE YUEN CHING	Chairman & Managing Director	–	–	253,106,873* ¹
JAMES LEE YUEN KUI	Director	5,940	–	252,102,979* ²
PETER LEE YUEN WONG	Director	–	–	252,102,979* ²
EDWARD LEE YUEN CHEOR	Director	–	–	252,102,979* ²
TOMMY TAM HOK LAM	Director	2,999,700	–	–
DR. ALEX WU SHU CHIH C.B.E., L.L.D., J.P.	Director	1,000,065	–	–
DR. SAMSON SUN, M.B.E., J.P.	Director	–	4,988,968* ³	–

NOTES:

1. 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.
2. The 252,102,979 shares are part of the property of a discretionary trust of which each of Messrs. James Lee Yuen Kui and Peter Lee Yuen Wong, Edward Lee Yuen Cheor are named beneficiaries.
3. These shares are owned by a company which is owned and controlled by Dr. Samson Sun.

Saved as disclosed herein, none of the directors or the chief executive or their respectively associates had any beneficial or non-beneficial interests in the share capital of the Company. Furthermore, none of them, or their spouses, or children under the age of 18 were granted any rights or options to subscribe for shares or debt securities of the Company.

SUBSTANTIAL SHAREHOLDERS

As at 30th September, 2001 and other than as referred to in the "Directors' Interests" section above, the Directors were not aware of any person who held or were beneficially interested in ten per cent. or more of the issued share capital of the Company.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30th September, 2001 the Company purchased a total of 3,242,000 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 2001	280,000	0.130	0.126	36,198
May 2001	550,000	0.154	0.126	79,981
June 2001	1,468,000	0.168	0.152	234,461
July 2001	440,000	0.160	0.159	70,632
August 2001	220,000	0.166	0.159	35,928
September 2001	284,000	0.145	0.100	35,050
	<u>3,242,000</u>			<u>492,250</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.

AUDIT COMMITTEE

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 and has endorsed the Group's internal audit report. The Audit Committee has also reviewed the Group's unaudited interim financial statements for the six months ended 30th September 2001 and the Committee has compiled the necessary requirements of The Stock Exchange of Hong Kong Limited pursuant to the duties of the Audit Committee.

CODE OF BEST PRACTICE

None of the Directors are aware of any information that would reasonably indicate that the Company is not, or was not during the six months ended 30th September, 2001, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Lee Yuen Ching, Jimmy
Chairman

Hong Kong, 14th December, 2001