

NATIONAL ELECTRONICS HOLDINGS LIMITED
(INCORPORATED IN BERMUDA WITH LIMITED LIABILITY)



Interim Report 2002

2002 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, 2002 was HK\$4,253,000.

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, 2002 and the unaudited condensed consolidated balance sheet of the Group as of 30th September, 2002.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September 2002

	Notes	Six months ended 30th September	
		2002 (unaudited) HK\$'000	2001 (unaudited) HK\$'000
Turnover	2	331,820	532,923
Cost of sales		(294,348)	(479,380)
Gross profit		37,472	53,543
Other revenue		1,387	3,213
Distribution costs		(2,821)	(2,895)
Administrative expenses		(26,242)	(37,443)
Other operating expenses		(910)	(1,887)
Profit from operations	3	8,886	14,531
Finance costs	4	(4,136)	(7,782)
Share of results of jointly controlled entities		40	–
Profit before taxation		4,790	6,749
Taxation	5	(537)	(2,044)
Net profit for the period	2	4,253	4,705
Earnings per share	6	0.37 cents	0.40 cents

CONDENSED CONSOLIDATED BALANCE SHEET*At 30th September 2002*

		30/9/02 (unaudited) <i>HK\$'000</i>	31/3/02 (audited) <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Investment properties		185,000	185,000
Property, plant and equipment		111,270	112,936
Properties under development		164,043	156,588
Development costs		650	800
Interests in jointly controlled entities		3,339	3,299
Other non-current assets		17,746	17,731
Pledged deposits		–	5,798
		<u>482,048</u>	<u>482,152</u>
CURRENT ASSETS			
Inventories		92,563	123,453
Bills receivable		16,488	5,221
Trade receivables, deposits and prepayments	7	73,585	40,093
Taxation recoverable		126	1,009
Pledged deposits		15,000	9,202
Bank balances and cash		38,401	53,253
		<u>236,163</u>	<u>232,231</u>
CURRENT LIABILITIES			
Trade payables and accrued expenses	8	107,591	115,820
Obligations under finance leases		5,519	5,725
Bank borrowings	9	95,244	76,872
Taxation payable		288	640
		<u>208,642</u>	<u>199,057</u>
NET CURRENT ASSETS		<u>27,521</u>	<u>33,174</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>509,569</u>	<u>515,326</u>
CAPITAL AND RESERVES			
Share capital	10	115,894	116,439
Reserves		187,869	183,942
		<u>303,763</u>	<u>300,381</u>
NON-CURRENT LIABILITIES			
Obligations under finance leases		2,708	2,510
Bank borrowings	9	202,198	211,535
Deferred taxation		900	900
		<u>205,806</u>	<u>214,945</u>
		<u>509,569</u>	<u>515,326</u>

CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the six months ended 30th September 2002

	Six months ended 30th September	
	2002 (unaudited) HK\$'000	2001 (unaudited) HK\$'000
Exchange loss arising on translation of overseas operations not recognized in the income statement	(313)	(189)
Net profit for the period	4,253	4,705
Total recognized gains	<u>3,940</u>	<u>4,516</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September 2002

	Six months ended 30th September	
	2002 (unaudited) HK\$'000	2001 (unaudited) HK\$'000 (Restated)
OPERATING ACTIVITIES		
Cash used in operations	(3,873)	(70,339)
Income taxes paid	(7)	(4,065)
Interest paid	(6,045)	(8,781)
Interest received	346	2,247
NET CASH USED IN OPERATING ACTIVITIES	<u>(9,579)</u>	<u>(80,938)</u>
INVESTING ACTIVITIES		
Repayment from jointly controlled entities	–	14,976
Additions to other non-current assets	(15)	–
Additions to properties under development	(5,546)	(67)
Purchase of property, plant and equipment	(5,038)	(3,983)
Increase in pledged deposit	–	(15,024)
NET CASH USED IN INVESTING ACTIVITIES	<u>(10,599)</u>	<u>(4,098)</u>
FINANCING ACTIVITIES		
Dividends paid	–	(5,820)
Net bank borrowings	7,330	67,749
Repayment under finance leases	(3,171)	(405)
Repurchases of own shares	(557)	(492)
NET CASH FROM FINANCING ACTIVITIES	<u>3,602</u>	<u>61,032</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(16,576)</u>	<u>(24,004)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>53,253</u>	<u>112,212</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>36,677</u>	<u>88,208</u>

Notes:

(1) Principal Accounting Policies and Basis of Preparation

The condensed financial statements have been prepared in accordance with the 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, 2002.

In addition, the Group has adopted for the first time a number of new and revised SSAP issued by HKSA as follows:

SSAP 1 (Revised)	Presentation of financial statements
SSAP 11 (Revised)	Foreign currency translation
SSAP 15 (Revised)	Cash flow statements
SSAP 34	Employee benefits

(2) 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, 2002 and 2001 respectively:

Business Segment Information

2002

	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>	Securities investment <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE						
External sales	137,707	190,123	3,990	–	–	331,820
Inter-segment sales	–	2,750	–	–	(2,750)	–
Total revenue	<u>137,707</u>	<u>192,873</u>	<u>3,990</u>	<u>–</u>	<u>(2,750)</u>	<u>331,820</u>
SEGMENT RESULT	<u>7,975</u>	<u>2,439</u>	<u>(718)</u>	<u>–</u>		9,696
Interest income						346
Unallocated corporate expenses						(1,156)
Profit from operations						8,886
Finance costs						(4,136)
Share of results of jointly controlled entities						40
Profit before taxation						4,790
Taxation						(537)
Net profit for the period						<u>4,253</u>

2001

	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>	Securities investment <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE						
External sales	193,539	190,499	3,734	145,151	–	532,923
Inter-segment sales	–	3,067	–	–	(3,067)	–
Total revenue	<u>193,539</u>	<u>193,566</u>	<u>3,734</u>	<u>145,151</u>	<u>(3,067)</u>	<u>532,923</u>
SEGMENT RESULT						
	<u>26,226</u>	<u>(6,399)</u>	<u>(5,850)</u>	<u>(627)</u>		13,350
Interest income						2,247
Unallocated corporate expenses						(1,066)
Profit from operations						14,531
Finance costs						(7,782)
Share of results of jointly controlled entities						–
Profit before taxation						6,749
Taxation						(2,044)
Net profit for the period						<u>4,705</u>

Segment Information By Geographical Market

	Revenue by geographical market		Contribution to profit(loss) from operations	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Hong Kong	206,371	292,519	4,251	(3,044)
North America	84,004	182,038	3,970	13,104
Europe	32,165	46,855	243	3,279
Others	9,280	11,511	422	1,192
	<u>331,820</u>	<u>532,923</u>	<u>8,886</u>	<u>14,531</u>

(3) Profit from operations

	Six months ended 30th September	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Profit from operations has been arrived at after charging:		
Amortization of intangible assets	150	390
Depreciation:		
Owned fixed assets	7,706	7,637
Assets held under finance leases	2,161	1,769
	<u>7,867</u>	<u>9,806</u>

(4) Finance costs

	Six months ended 30th September	
	2002	2001
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Interest on borrowings:		
Bank borrowings	5,844	8,470
Obligations under finance leases	201	311
	<hr/>	<hr/>
Total borrowing costs	6,045	8,781
Less: Amount capitalized to property development projects	(1,909)	(999)
	<hr/>	<hr/>
	<u>4,136</u>	<u>7,782</u>

(5) Taxation

	Six months ended 30th September	
	2002	2001
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
The Company and subsidiaries		
Hong Kong profits tax	535	1,699
Overseas tax	2	345
	<hr/>	<hr/>
	<u>537</u>	<u>2,044</u>

Hong Kong profits tax has been provided for at 16% (2001 — 16%) on the estimated assessable profit for the six months ended 30th September, 2002 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, 2002 is based on the profit attributable to shareholders of HK\$4,253,000 (2001 – HK\$4,705,000) and on the weighted average number of 1,162,780,726 shares (2001 – 1,169,075,392 shares) in issue during the six months ended 30th September, 2002.

(7) Trade receivables, deposits and prepayments

	30/9/02	31/3/02
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Trade receivables (net of provisions for bad and doubtful debts) with aging analysis:		
Within 30 days	32,971	13,828
31 to 90 days	7,587	9,622
91 to 180 days	7,454	1,896
Over 180 days	31	2,079
	<hr/>	<hr/>
	48,043	27,425
Deposits and prepayments	25,542	12,668
	<hr/>	<hr/>
	<u>73,585</u>	<u>40,093</u>

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

(8) Trade payables and Accrued Expenses

	30/9/02 <i>HK\$ '000</i>	31/3/02 <i>HK\$ '000</i>
Trade payables with aging analysis:		
Within 30 days	34,421	44,704
31 to 90 days	16,640	14,123
91 to 180 days	15,952	12,525
Over 180 days	–	1
	<hr/>	<hr/>
	67,013	71,353
Accrued expenses	40,578	44,467
	<hr/>	<hr/>
	<u>107,591</u>	<u>115,820</u>

(9) Banking Borrowings

	30/9/02 <i>HK\$ '000</i>	31/3/02 <i>HK\$ '000</i>
Secured bank loan	219,517	227,469
Unsecured bank loan	77,925	60,938
	<hr/>	<hr/>
	297,442	288,407
Less: Amount due within one year shown under current liabilities	<hr/>	<hr/>
	(95,244)	(76,872)
Amount due after one year	<hr/>	<hr/>
	<u>202,198</u>	<u>211,535</u>

(10) Share Capital

	Number of shares	Share Capital <i>HK\$</i>
Ordinary shares of HK\$0.1 each		
Authorised:		
At 1st April, 2002 and 30th September, 2002	<u>1,500,000,000</u>	<u>150,000,000</u>
Issued and fully paid:		
At 1st April, 2002	1,164,393,928	116,439,393
Cancelled on repurchase of shares	(5,448,000)	(544,800)
	<hr/>	<hr/>
At 30th September, 2002	<u>1,158,945,928</u>	<u>115,894,593</u>

(11) Contingent Liabilities

	30/9/02 <i>HK\$ '000</i>	31/3/02 <i>HK\$ '000</i>
Guarantees for banking facilities granted to jointly controlled entities	231,000,000	231,000,000
Other guarantees	227,000	162,270
	<u>231,227,000</u>	<u>231,162,270</u>

(12) Comparative Figures

Certain comparative figures have been reclassified to conform with the current presentation as required under SSAP 1 (Revised) "Presentation of financial statements".

INTERIM DIVIDEND

The Directors do not propose to declare any interim dividend during the period under review (2001 – Nil).

FINANCIAL ASSISTANCE AND GUARANTEE TO AFFILIATED COMPANIES DURING THIS FINANCIAL INTERIM PERIOD

This section is made under the general obligation imposed by paragraph 2 of the Listing Agreement and supplemented by Practice Note 19 set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

New Height Developments Limited ("New Height"), is a joint venture company in which the Company has 50% interest. Parklane Limited and Phoenix Limited are subsidiaries of New Height.

The amount of financial assistance given to, committed capital injection to, and guarantees given for facilities granted to affiliated companies by the Company for the current financial interim period is as follows: –

	<i>Notes</i>	Parklane Ltd. <i>HK\$</i>	Phoenix Ltd. <i>HK\$</i>	New Height <i>HK\$</i>
Shareholder's loan advanced	(1)	<u>–</u>	<u>–</u>	<u>21,616,594</u>
Committed joint venture capital injection	(2)	<u>–</u>	<u>–</u>	<u>500,000</u>
Total banking facilities granted to affiliates for which the Company is guarantor	(3)	<u>90,065,176</u>	<u>36,736,322</u>	<u>–</u>

The aggregate of all the above amounts due from and the guarantees given to secure obligations of the affiliated companies amounts to approximately HK\$148,918,092 as at 30th September, 2002, which represents approximately 49% of the consolidated net assets of the Group, as set out in the Interim Report for the period.

Note (1) The shareholder's loan advanced from the Company to New Height is interest free and unsecured.

Note (2) The source of funding for the committed capital injection of HK\$500,000 is funded from the Company's internal resources.

Note (3) The affiliated companies have utilised approximately HK\$92,726,492 of these banking facilities in the current financial interim period.

Pursuant to paragraph 3.10 of PN 19, a summary of the combined financial position of the Company's affiliated companies as at 30th September, 2002 prepared based on the unaudited financial statements of individual affiliated companies is as follows:

	Attributable interest (50%) to the Group <i>HK\$'000</i>
Property under development	202,762
Net current liabilities	(5,003)
Long-term bank borrowings	(98,462)
Shareholders' loan	(99,515)
	<hr/>
Net liabilities	<u>(218)</u>

BUSINESS REVIEW

For the period under review, the turnover derived from the income from the export of the Group's watches to the U.S.A. decreased when compared with the corresponding period in 2001. The decline was mainly due to our customers' concern over the uncertainty of the U.S. economy and the profit from the sales of the Group's watch products was also affected.

The turnover derived from the trading of watch movements remained stable and during the period under review, the performance of such division of the Company had improved and recorded an operating profit when compared with the operating loss in the same period last year.

PROSPECTS

The Group has further consolidated its watch parts manufacturing facility by renting new factory space adjacent to its existing factory in China and the remaining machineries and equipment of the Hong Kong plastic injection factory have been entirely relocated to this new facility during the period under review. The Group continues to take further cost reduction steps to achieve higher efficiency.

Although the outlook for the global economy in the year 2003 is uncertain, the demand for the Group's LCD watches remains stable and the Group anticipates further improvement in its analogue watch movement sales.

The Group has completed the show house for its joint venture project with AIG at 110 Repulse Bay Road and has appointed a marketing agent to direct its launch.

The progress for the other joint venture project with AIG at 56 Peak Road is satisfactory and the Group expects to launch this project in Spring 2003.

The rezoning process for the Group's luxurious residential project in Toronto, Canada is promising and the Group anticipates to start pre-sale of this project in Autumn 2003.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's gearing ratio at 30th September, 2002 was approximately 0.67 which is calculated based on the Group's long-term borrowings of HK\$204,906,000 and shareholders' funds of HK\$303,763,000.

As at 31st March, 2002, the Group's gearing ratio was approximately 0.71 which is calculated based on the Group's long-term borrowings of HK\$214,045,000 and shareholders' funds of HK\$300,381,000.

As compared with the balance as at 31st March, 2002, there was improvement in the Group's gearings.

As the Group's earnings and borrowings are primarily denominated in United States dollars, Hong Kong dollars and Japanese Yen, the fluctuation of the foreign currency, in particular, the Japanese Yen, will have a significant impact on the earnings of the Group.

DIRECTORS' INTERESTS

As at 30th September, 2002, 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 ("SDI 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, Peter Lee Yuen Wong and Edward Lee Yuen Cheor are named beneficiaries.
3. The 4,988,968 shares are held by a company controlled by Dr. Samson Sun, M.B.E., J.P.

Save as disclosed herein, no director or chief executive or any of their associates had any interest in the issued share capital of the Company or its associated corporations as defined in the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

As at 30th September, 2002 and other than as referred to in the “Directors’ Interests” section above, the Directors were not aware of any persons 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, 2002, the Company purchased a total of 5,448,000 shares of HK\$0.10 each of the Company on The Stock Exchange of Hong Kong Limited, all of which 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 2002	60,000	0.106	0.106	6,471
May 2002	152,000	0.110	0.106	16,922
July 2002	1,460,000	0.102	0.102	149,712
August 2002	3,776,000	0.102	0.100	384,290
	<u>5,448,000</u>			<u>557,395</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, including the review of the Group's unaudited interim financial statements for the six months ended 30th September, 2002.

CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not during the six months ended 30th September, 2002, 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.

On behalf of the Board
Lee Yuen Ching, Jimmy
Chairman

Hong Kong, 18th December, 2002