

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



2003 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, 2003 was HK\$8,249,000.

The following is a summary of the unaudited condensed consolidated results, statement of changes in equity, cash flow statement of the Group for the six months ended 30th September, 2003 and the unaudited condensed consolidated balance sheet of the Group as of 30th September, 2003.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September 2003

	NOTES	Six months ended 30th September	
		2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000
Turnover	2	438,235	331,820
Cost of sales		(397,525)	(294,348)
Gross profit		40,710	37,472
Other revenue		7,648	1,387
Distribution costs		(3,862)	(2,821)
Administrative expenses		(27,644)	(26,242)
Other operating expenses		(1,404)	(910)
Profit from operations	3	15,448	8,886
Finance costs	4	(2,888)	(4,136)
Share of results of jointly controlled entities		(3,957)	40
Profit before taxation		8,603	4,790
Taxation	5	(354)	(537)
Net profit for the period	2	8,249	4,253
Earnings per share	6	0.71 cents	0.37 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th September 2003

	<i>Notes</i>	30/9/03 (unaudited) HK\$ '000	31/3/03 (audited) HK\$ '000
NON-CURRENT ASSETS			
Investment properties		110,500	110,500
Property, plant and equipment		109,272	111,985
Properties under development		236,184	191,016
Development costs		940	1,391
Interests in jointly controlled entities		(13,547)	(9,589)
Other non-current assets		17,988	17,825
		<hr/>	<hr/>
		461,337	423,128
CURRENT ASSETS			
Inventories		125,767	114,954
Investments in unlisted securities		4,090	4,090
Inventory of unsold properties		52,500	52,500
Bills receivable		16,744	9,017
Trade receivables, deposits and prepayments	7	104,531	65,177
Amount due from a jointly controlled entity		21,617	21,617
Taxation recoverable		–	1,197
Pledged deposits		11,856	5,460
Bank balances and cash		39,936	78,057
		<hr/>	<hr/>
		377,041	352,069
CURRENT LIABILITIES			
Trade payables and accrued expenses	8	174,720	127,332
Obligations under finance leases		2,366	3,306
Bank borrowings	9	155,420	145,753
Taxation payable		467	88
		<hr/>	<hr/>
		332,973	276,479
NET CURRENT ASSETS			
		<hr/>	<hr/>
		44,068	75,590
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<hr/>	<hr/>
		505,405	498,718
CAPITAL AND RESERVES			
Share capital	10	114,826	115,645
Reserves		181,513	176,127
		<hr/>	<hr/>
		296,339	291,772
NON-CURRENT LIABILITIES			
Provision for long service payment		6,544	6,544
Obligations under finance leases		2,162	1,667
Bank borrowings	9	199,323	197,698
Deferred taxation		1,037	1,037
		<hr/>	<hr/>
		209,066	206,946
		<hr/>	<hr/>
		505,405	498,718
		<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30th September 2003*

	Six months ended 30th September	
	2003	2002
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total equity at the beginning of the period	176,127	183,942
Repurchase of shares	(601)	(13)
Exchange loss arising on translation of overseas operations not recognized in the income statement	(2,262)	(313)
Net profit for the period	8,249	4,253
Total equity at the end of period	<u>181,513</u>	<u>187,869</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September 2003

	Six months ended 30th September	
	2003	2002
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
OPERATING ACTIVITIES		
Cash generated from (used in) operations	15,015	(3,856)
Income taxes refund (paid)	656	(7)
NET CASH USED IN OPERATING ACTIVITIES	15,671	(3,863)
INVESTING ACTIVITIES		
Additions to other non-current assets	(163)	(15)
Additions to properties under development	(45,168)	(5,546)
Purchase of property, plant and equipment	(6,874)	(8,201)
Increase in pledged deposit	(6,396)	–
Interest received	112	346
NET CASH USED IN INVESTING ACTIVITIES	(58,489)	(13,416)
FINANCING ACTIVITIES		
New bank borrowings	11,292	7,312
Repayment under finance leases	(445)	(7)
Repurchases of own shares	(819)	(557)
Interest paid	(5,331)	(6,045)
NET CASH FROM FINANCING ACTIVITIES	4,697	703
NET DECREASE IN CASH AND CASH EQUIVALENTS	(38,121)	(16,576)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	78,057	53,253
CASH AND CASH EQUIVALENTS AT END OF PERIOD	39,936	36,677
Bank balances and cash	39,936	36,677

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.

In the current period, the Group has adopted, for the first time, SSAP 12 (Revised) “Income taxes” (“SSAP 12 (Revised)”). The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred taxation. In the previous years, partial provision was made for deferred taxation using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred taxation is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has had no significant effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment is required.

Other than as described above, the accounting policies adopted are consistent with those followed in the preparation of the Group’s annual audited financial statements for the year ended 31st March, 2003.

(2) Segmental 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 2003 and 2002:

Business Segment Information

2003

	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	141,932	291,791	4,512	–	438,235
Inter-segment sales	–	1,552	–	(1,552)	–
Total revenue	<u>141,932</u>	<u>293,343</u>	<u>4,512</u>	<u>(1,552)</u>	<u>438,235</u>
SEGMENT RESULT	<u>5,824</u>	<u>6,063</u>	<u>3,449</u>		15,336
Interest income					112
Unallocated corporate expenses					–
Profit from operations					15,448
Finance costs					(2,888)
Share of results of jointly controlled entities			(3,957)		(3,957)
Profit before taxation					8,603
Taxation					(354)
Net profit for the period					<u>8,249</u>

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>	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>(2,750)</u>	<u>331,820</u>
SEGMENT RESULT	<u>7,975</u>	<u>2,439</u>	<u>(718)</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		40
Profit before taxation					4,790
Taxation					(537)
Net profit for the period					<u>4,253</u>

Segment Information By Geographical Market

	Revenue by geographical market		Contribution to profit from operations	
	2003 <i>HK\$ '000</i>	2002 <i>HK\$ '000</i>	2003 <i>HK\$ '000</i>	2002 <i>HK\$ '000</i>
Hong Kong	317,389	206,371	10,722	4,251
North America	51,013	84,004	1,905	3,970
Europe	66,045	32,165	2,566	243
Others	3,788	9,280	255	422
	<u>438,235</u>	<u>331,820</u>	<u>15,448</u>	<u>8,886</u>

(3) Profit from operations

	Six months ended 30th September	
	2003 <i>HK\$ '000</i>	2002 <i>HK\$ '000</i>
Profit from operations has been arrived at after charging:		
Amortization of intangible assets	451	150
Depreciation:		
Owned fixed assets	7,372	7,706
Assets held under finance leases	2,215	2,161
	<u>10,038</u>	<u>10,017</u>

(4) Finance costs

	Six months ended 30th September	
	2003	2002
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Interest on borrowings:		
Bank borrowings	5,173	5,844
Obligations under finance leases	158	201
	<hr/>	<hr/>
Total borrowing costs	5,331	6,045
Less: Amount capitalized to property development projects	(2,443)	(1,909)
	<hr/>	<hr/>
	2,888	4,136
	<hr/> <hr/>	<hr/> <hr/>

(5) Taxation

	Six months ended 30th September	
	2003	2002
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
The Company and subsidiaries		
Hong Kong profits tax	354	535
Overseas tax	—	2
	<hr/>	<hr/>
	354	537
	<hr/> <hr/>	<hr/> <hr/>

Hong Kong profits tax has been provided for at 17.5% (2002 — 16%) on the estimated assessable profit for the six months ended 30th September, 2003 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, 2003 is based on the profit attributable to shareholders of HK\$8,249,000 (2002 – HK\$4,253,000) and on the weighted average number of 1,155,010,332 shares (2002 – 1,162,780,726 shares) in issue during the six months ended 30th September, 2003.

(7) Trade receivables, deposits and prepayments

	30/9/03	31/3/03
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Trade receivables (net of provisions for bad and doubtful debts) with aging analysis:		
Within 30 days	40,937	28,460
31 to 90 days	19,008	9,391
91 to 180 days	16,806	3,843
Over 180 days	5	8,418
	<hr/>	<hr/>
	76,756	50,112
Deposits and prepayments	27,775	15,065
	<hr/>	<hr/>
	104,531	65,177
	<hr/> <hr/>	<hr/> <hr/>

(8) Trade payables and accrued expenses

	30/9/03 <i>HK\$ '000</i>	31/3/03 <i>HK\$ '000</i>
Trade payables with aging analysis:		
Within 30 days	60,796	54,920
31 to 90 days	59,970	20,624
91 to 180 days	20,390	19,255
Over 180 days	42	26
	<hr/>	<hr/>
Accrued expenses	141,198 33,522	94,825 32,507
	<hr/>	<hr/>
	<u>174,720</u>	<u>127,332</u>

(9) Banking Borrowings

	30/9/03 <i>HK\$ '000</i>	31/3/03 <i>HK\$ '000</i>
Secured bank loan	218,373	215,328
Unsecured bank loan	136,370	128,123
	<hr/>	<hr/>
	354,743	343,451
Less: Amount due within one year shown under current liabilities	<hr/> (155,420)	<hr/> (145,753)
	<hr/>	<hr/>
Amount due after one year	<u>199,323</u>	<u>197,698</u>

(10) Share Capital

	Number of shares	Share Capital <i>HK\$</i>
Ordinary shares of HK\$0.1 each		
Authorised:		
At 1st April, 2003 and 30th September, 2003	1,500,000,000	150,000,000
	<hr/>	<hr/>
Issued and fully paid:		
At 1st April, 2003	1,156,447,928	115,644,793
Cancelled on repurchase of shares	(8,188,000)	(818,800)
	<hr/>	<hr/>
At 30th September, 2003	<u>1,148,259,928</u>	<u>114,825,993</u>

(11) Contingent Liabilities and Commitments

	30/9/03 <i>HK\$ '000</i>	31/3/03 <i>HK\$ '000</i>
Contingent liabilities		
Guarantees for banking facilities granted to jointly controlled entities	<hr/> 231,000	<hr/> 231,000
	<hr/>	<hr/>

INTERIM DIVIDEND

The Directors do not propose to declare any interim dividend during the period under review (2002 – 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>70,736,205</u>	<u>36,736,322</u>	<u>–</u>

The aggregate of all the above amounts due from and guarantees given to secure obligations of the affiliated companies amounts to approximately HK\$129,589,000 as at 30th September, 2003, which represents approximately 44% 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 repaid approximately HK\$84 million 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, 2003 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	193,574
Net current assets	194
Bank borrowings	(72,731)
Shareholders' loan	(119,197)
	<hr/>
Net assets	<u>1,840</u>

BUSINESS REVIEW

The Group's turnover for the six months ended 30th September 2003 was HK\$438,235,000, up by 32% over the corresponding period in the previous year.

Net profit for the six months ended 30th September 2003 was HK\$8.2 million which represents a 94% increase over the same period in 2002.

The turnover from the LCD watch division in the USA declined due to the impact of the war in Iraq and weakened consumer spendings in the USA. Nevertheless, the Group was able to increase its export volume to Europe as the strength in Euro had benefited the buyers.

The quartz analogue division's turnover was not satisfactory. Due to its continuous negative operating results for the past few years, the Group has decided to merge production facilities of the quartz analogue division with the LCD watch division from January 2004 to achieve better efficiency.

The performance of the watch trading division was satisfactory.

PROSPECTS

With the unfavourable impact of SARS behind us, the local economy has improved substantially and orders from overseas buyers for 2004 have increased tremendously. The Group anticipates its LCD watch division to achieve satisfactory growth in the new financial year.

In the month of October 2003, the Group has entered into Sale & Purchase agreement for all three houses at 56 Peak Road, Hong Kong which is a development project jointly owned with AIG and the transactions were subsequently completed.

The Group has started new marketing campaign for the remaining three detached houses in 110 Repulse Bay Road, Hong Kong. The Group has completed the sales center for its 1 St. Thomas project in Toronto, Canada and sales campaign will be launched shortly.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital structure

As at 30th September 2003, the shareholder's funds of the Group totalled HK\$296 million, total bank borrowings was HK\$354 million and the maturity profile of the Group's bank borrowings falling due within one year was 44% and those more than one year was 56%.

Liquidity and financial resources

Total bank balance, pledged deposit and investment in unlisted securities of the Group as at 30th September, 2003 were HK\$56 million and the Group had a total of HK\$40 million credit facilities remained unutilised.

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 as at 30th September, 2003 was 0.68 which was calculated based on the Group's long-term borrowings of HK\$201 million and shareholders' funds of HK\$296 million.

As at 31st March, 2003, the Group's gearing ratio was 0.68 which was calculated based on the Group's long-term borrowings of HK\$199 million and shareholders' funds of HK\$291 million.

As compared with the balance as at 31st March, 2003, Group's gearings remained stable.

Cashflow from Operating/Investing Activities

During the financial period under review, the Group generated net cash inflow from operating activities of HK\$15.6 million (2002: net cash outflow of HK\$3.8 million) and increased the net cash used in investing activities to HK\$58 million (2002: HK\$13 million)

Treasury policy

The Group adopts a prudent treasury policy. The acquisition of properties for development is 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.

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\$462 million as at 30th September, 2003 were pledged to secure banking facilities of the Group.

Contingent liabilities and commitments

As at 30th September, 2003, the Group had contingent liabilities in respect of banking facilities granted to its jointly-controlled entities amounting to HK\$145 million which were secured by the properties under development of its jointly-controlled entities having a carrying value of HK\$399 million.

Employees and remuneration policies

The Group employs approximately 2,571 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

As at 30th September, 2003, 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 associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance) (a) as recorded in the register required to be kept under section 352 of the Securities and Futures Ordinance or (b) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listing Companies 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. These shares are owned by a company which is owned and controlled by Dr. Samson Sun, M.B.E., J.P.

Saved as disclosed herein, none of the directors or the chief executive had any interest in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance) (a) as recorded in the register required to be kept under section 352 of the Securities and Futures Ordinance or (b) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listing Companies.

SUBSTANTIAL SHAREHOLDERS

As at 30th September, 2003 and other than as referred to in the “Directors’ Interests” section above, the Directors were not aware of any persons who has interest or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30th September, 2003 the Company purchased a total of 8,188,000 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 2003	102,000	0.081	0.080	8,610
June 2003	250,000	0.080	0.080	20,126
July 2003	604,000	0.114	0.099	61,863
August 2003	2,390,000	0.182	0.113	377,945
September 2003	4,842,000	0.228	0.180	951,103
	<u>8,188,000</u>			<u>1,419,647</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 financial period under review.

AUDIT COMMITTEE

The interim results of the Group for the financial period under review had not been audited but the Audit Committee has reviewed with management the accounting principles and practices adopted by the Group. The Audit Committee has also discussed auditing, internal control and financial reporting matters, including the review of the interim financial statements which have not been audited.

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, 2003, 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, 16th December, 2003