

NATIONAL ELECTRONICS HOLDINGS LIMITED

(INCORPORATED IN BERMUDA WITH LIMITED LIABILITY)



INTERIM REPORT 2004

2004 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, 2004 was HK\$20,033,000.

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, 2004 and the unaudited condensed consolidated balance sheet of the Group as of 30th September, 2004.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September 2004

		Six months ended 30th September	
		2004	2003
		(unaudited)	(unaudited)
	Notes	HK\$'000	HK\$'000
Turnover	2	518,992	438,235
Cost of sales		(462,981)	(397,525)
Gross profit		56,011	40,710
Other (expense) revenue		(1,358)	7,648
Distribution costs		(3,601)	(3,862)
Administrative expenses		(26,795)	(27,644)
Other operating expenses		–	(1,404)
Profit from operations	3	24,257	15,448
Finance costs	4	(4,628)	(2,888)
Share of result of an associate		1,319	–
Share of results of jointly controlled entities		(15)	(3,957)
Profit before taxation		20,933	8,603
Taxation	5	(900)	(354)
Net profit for the period	2	20,033	8,249
Earnings per share	6	1.80 cents	0.71 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th September 2004

	Notes	30/9/04 (unaudited) HK\$ '000	31/3/04 (audited) HK\$ '000
NON-CURRENT ASSETS			
Investment properties		84,000	84,000
Property, plant and equipment		95,950	87,826
Properties under development		323,210	286,454
Development costs		–	134
Interest in an associate		(258)	2,880
Interests in jointly controlled entities		496	511
Other non-current assets		18,548	18,231
		<u>521,946</u>	<u>480,036</u>
CURRENT ASSETS			
Inventories		147,800	134,076
Investments in unlisted securities		4,090	4,090
Inventory of unsold properties		117,697	117,368
Bills receivable		5,960	582
Trade receivables, deposits and prepayments	7	118,878	101,074
Amount due from a jointly controlled entity		–	23,187
Taxation recoverable		27	928
Pledged deposits		37,292	16,161
Bank balances and cash		59,592	31,391
		<u>491,336</u>	<u>428,857</u>
CURRENT LIABILITIES			
Trade payables and accrued expenses	8	179,936	147,788
Obligations under finance leases		5,004	1,937
Bank borrowings	9	179,296	192,442
Amount due to a jointly controlled entity		–	803
Deposits received from sale of properties		31,123	15,477
		<u>395,359</u>	<u>358,447</u>
NET CURRENT ASSETS		<u>95,977</u>	<u>70,410</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>617,923</u>	<u>550,446</u>
CAPITAL AND RESERVES			
Share capital	10	110,473	112,616
Reserves		230,255	220,013
		<u>340,728</u>	<u>332,629</u>
NON-CURRENT LIABILITIES			
Provision for long service payment		4,046	4,046
Obligations under finance leases		5,352	2,025
Bank borrowings	9	266,760	210,709
Deferred taxation		1,037	1,037
		<u>277,195</u>	<u>217,817</u>
		<u>617,923</u>	<u>550,446</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September 2004

	Six months ended 30th September	
	2004	2003
	(unaudited)	(unaudited)
	HK\$ '000	HK\$ '000
Total equity at the beginning of the period	332,629	291,772
Repurchase of shares	(5,427)	(1,420)
Exchange loss arising on translation of overseas operations not recognized in the income statement	(983)	(2,262)
Dividend paid	(5,524)	–
Net profit for the period	20,033	8,249
Total equity at the end of period	<u>340,728</u>	<u>296,339</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30th September 2004*

	Six months ended 30th September	
	2004	2003
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
OPERATING ACTIVITIES		
Cash generated from operations	35,861	15,015
Income taxes refund	–	656
	<hr/>	<hr/>
NET CASH GENERATED FROM OPERATING ACTIVITIES	35,861	15,671
	<hr/>	<hr/>
INVESTING ACTIVITIES		
Additions to other non-current assets	(317)	(163)
Additions to properties under development	(34,025)	(45,168)
Repayment from a jointly controlled entity	22,384	–
Advance from an associate	3,138	–
Dividends paid	(5,524)	–
Purchase of property, plant and equipment	(8,124)	(6,874)
Increase in pledged deposit	(21,131)	(6,396)
Interest received	182	112
	<hr/>	<hr/>
NET CASH USED IN INVESTING ACTIVITIES	(43,417)	(58,489)
	<hr/>	<hr/>
FINANCING ACTIVITIES		
New bank borrowings	42,141	11,292
New obligations (repayment) under finance leases	6,394	(445)
Repurchases of own shares	(5,427)	(819)
Interest paid	(7,359)	(5,331)
	<hr/>	<hr/>
NET CASH FROM FINANCING ACTIVITIES	35,749	4,697
	<hr/>	<hr/>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	28,193	(38,121)
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	30,636	78,057
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	58,829	39,936
	<hr/> <hr/>	<hr/> <hr/>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	59,592	39,936
Bank overdraft	(763)	–
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	58,829	39,936
	<hr/> <hr/>	<hr/> <hr/>

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 Institute of Certified Public Accountants (“HKICPA”), 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 are consistent with those followed in the preparation of the Group’s annual audited financial statements for the year ended 31st March, 2004.

(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 2004 and 2003:

Business Segment Information

2004

	Manufacture, assembly and sale of electronic watches <i>HK\$’000</i>	Trading of watch movements <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	166,121	349,887	2,984	–	518,992
Inter-segment sales	–	2,324	–	(2,324)	–
Total revenue	<u>166,121</u>	<u>352,211</u>	<u>2,984</u>	<u>(2,324)</u>	<u>518,992</u>
SEGMENT RESULT	<u>18,589</u>	<u>5,550</u>	<u>484</u>		24,623
Interest income					182
Unallocated corporate expenses					(548)
Profit from operations					24,257
Finance costs					(4,628)
Share of result of an associate			1,319		1,319
Share of results of jointly controlled entities			(15)		(15)
Profit before taxation					20,933
Taxation					(900)
Net profit for the period					<u>20,033</u>

2003

	Manufacture, assembly and sale of electronic watches	Trading of watch movements	Property development and investment	Eliminations	Consolidated
	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<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 result of an associate			–		–
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>

Segment Information By Geographical Market

	Revenue by geographical market		Contribution to profit from operations	
	2004	2003	2004	2003
	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Hong Kong	364,898	317,389	7,884	10,722
North America	69,146	51,013	6,506	1,905
Europe	84,187	66,045	9,779	2,566
Others	761	3,788	88	255
	<u>518,992</u>	<u>438,235</u>	<u>24,257</u>	<u>15,448</u>

(3) Profit from operations

	Six months ended 30th September	
	2004	2003
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Profit from operations has been arrived at after charging:		
Amortization of intangible assets	134	451
Depreciation:		
Owned fixed assets	8,927	7,372
Assets held under finance leases	1,204	2,215
	<u> </u>	<u> </u>

(4) Finance costs

	Six months ended 30th September	
	2004	2003
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Interest on borrowings:		
Bank borrowings	7,279	5,173
Obligations under finance leases	80	158
	<u> </u>	<u> </u>
Total borrowing costs	7,359	5,331
Less: Amount capitalized to property development projects	(2,731)	(2,443)
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>

(5) Taxation

	Six months ended 30th September	
	2004	2003
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
The Company and subsidiaries		
Hong Kong profits tax	900	354
Overseas tax	–	–
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>

Hong Kong profits tax has been provided for at 17.5% (2003 – 17.5%) on the estimated assessable profit for the six months ended 30th September, 2004 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, 2004 is based on the profit attributable to shareholders of HK\$20,033,000 (2003 – HK\$8,249,000) and on the weighted average number of 1,110,195,349 shares (2003 – 1,155,010,332 shares) in issue during the six months ended 30th September, 2004.

(7) Trade receivables, deposits and prepayments

	30/9/04 <i>HK\$ '000</i>	31/3/04 <i>HK\$ '000</i>
Trade receivables (net of provisions for bad and doubtful debts) with aging analysis:		
Within 30 days	51,299	35,474
31 to 90 days	32,022	11,871
91 to 180 days	3,348	6,737
Over 180 days	7,008	9,238
	<hr/>	<hr/>
	93,677	63,320
Deposits and prepayments	25,201	37,754
	<hr/>	<hr/>
	118,878	101,074
	<hr/> <hr/>	<hr/> <hr/>

(8) Trade payables and Accrued Expenses

	30/9/04 <i>HK\$ '000</i>	31/3/04 <i>HK\$ '000</i>
Trade payables with aging analysis:		
Within 30 days	74,019	66,737
31 to 90 days	43,296	25,670
91 to 180 days	22,735	12,489
	<hr/>	<hr/>
	140,050	104,896
Accrued expenses	39,886	42,892
	<hr/>	<hr/>
	179,936	147,788
	<hr/> <hr/>	<hr/> <hr/>

(9) Bank Borrowings

	30/9/04 <i>HK\$ '000</i>	31/3/04 <i>HK\$ '000</i>
Secured bank loan	282,151	230,160
Unsecured bank loan	163,905	172,991
	<hr/>	<hr/>
	446,056	403,151
Less: Amount due within one year shown under current liabilities	(179,296)	(192,442)
	<hr/>	<hr/>
Amount due after one year	266,760	210,709
	<hr/> <hr/>	<hr/> <hr/>

(10) Share Capital

	Number of shares	Share Capital <i>HK\$</i>
Ordinary shares of HK\$0.1 each		
Authorised:		
At 1st April, 2004 and 30th September, 2004	<u>1,500,000,000</u>	<u>150,000,000</u>
Issued and fully paid:		
At 1st April, 2004	1,126,161,928	112,616,193
Cancelled on repurchase of shares	<u>(21,434,000)</u>	<u>(2,143,400)</u>
At 30th September, 2004	<u>1,104,727,928</u>	<u>110,472,793</u>

(11) Contingent Liabilities and Commitments

	30/9/04 <i>HK\$ '000</i>	31/3/04 <i>HK\$ '000</i>
Contingent liabilities		
Guarantees for banking facilities granted to jointly controlled entities	<u>—</u>	<u>231,000</u>

INTERIM DIVIDEND

The Directors do not propose to declare any interim dividend during the period under review (2003 – Nil).

BUSINESS REVIEW

The Group's turnover for the six months ended 30th September 2004 was HK\$518,992,000 up by 18.42% over the last corresponding period.

Net profit for the six months ended 30th September 2004 was HK\$20,033,000 which represents a 142.85% increase over the last corresponding period.

After the amalgamation of the Group's quartz analogue watch division with the Group's LCD division in the beginning of 2004, the profit margin of quartz analogue watch sales has improved due to savings on operating expenses.

During the period under review, the Group's LCD watch business continued to grow and both turnover and profit has increased.

The results of the Group's watch components business is also satisfactory.

PROSPECTS

Although the outlook of the US economy seems good, the Group is concerned with the serious fluctuations in the currency market. The Group is considering measures to minimize possible adverse effects due to such fluctuations on our manufacturing and trading business.

The marketing campaign for the Group's "One St. Thomas" residential project in Toronto, Canada is progressing well and currently over 50 per cent of the units have been pre-sold.

Locally, construction of the Group's deluxe boutique hotel in 202-206 Queen's Road Central, Hong Kong has commenced and will be completed by Spring 2006.

Due to the rapid recovery of the Hong Kong property market, the Group is earnestly looking for new development sites as well as investment opportunities in the luxurious residential and high-end commercial sector.

The Company is currently considering methods to strengthen and expand its capital base. However, there are no fixed plans to do so and no agreement has yet been entered into by the Company in relation to this. Further announcements will be issued by the Company as and when appropriate.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital structure

As at 30th September 2004, the shareholders' funds of the Group totalled HK\$341 million and total bank borrowings was HK\$446 million and the maturity profile of the Group's bank borrowings falling due within one year was 40% and more than one year was 60%.

Liquidity and financial resources

Total bank balances and pledged deposit were HK\$97 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, 2004 was 0.80 which is calculated based on the Group's long-term borrowings of HK\$272 million and shareholders' funds of HK\$341 million.

As at 31st March, 2004, the Group's gearing ratio was 0.68 which is calculated based on the Group's long-term borrowings of HK\$199 million and shareholders' funds of HK\$291 million.

Cashflow from Operating/Investing Activities

During the financial period under review, the Group's net cash inflow generated from operating activities of HK\$36 million (2003: HK\$16 million) and increased the net cash used in investing activities to HK\$43 million (2003: HK\$58 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 interests 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\$572 million as at 30th September, 2004 were pledged to secure banking facilities of the Group.

Employees and remuneration policies

The Group employs approximately 2,975 employees in Hong Kong, in other parts of the People's Republic of China 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, 2004, the interests of the Directors, chief executives and their associates in the shares, underlying shares and debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of Part XV 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: –

Long positions in shares of the Company

Number of Shares of HK\$0.10 each held

Name	Capacity	Personal Interests	Corporate Interests	Other Interests	Total Interests	Percentage of the issued share capital of the Company
JIMMY LEE YUEN CHING	Chairman & Managing Director	–	–	253,106,873 <i>(note a)</i>	253,106,873	22.911%
JAMES LEE YUEN KUI	Director	5,940	–	252,102,979 <i>(note b)</i>	252,108,919	22.821%
PETER LEE YUEN WONG	Director	–	–	252,102,979 <i>(note b)</i>	252,102,979	22.820%
EDWARD LEE YUEN CHEOR	Director	–	–	252,102,979 <i>(note b)</i>	252,102,979	22.820%
TOMMY TAM HOK LAM	Director	2,999,700	–	–	2,999,700	0.272%
DR ALEX WU SHU CHIH C.B.E., L.L.D., J.P.	Director	1,000,065	–	–	1,000,065	0.091%
DR SAMSON SUN, M.B.E., J.P.	Director	–	4,988,968 <i>(note c)</i>	–	4,988,968	0.452%

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.
- 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 2004, 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.

INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF SUBSTANTIAL SHAREHOLDERS AND OTHER SHAREHOLDERS

As at 30th September, 2004, so far as was known to the Directors or chief executive of the Company, no persons (other than the Directors or chief executive of the Company) had interests 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 SFO.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30th September, 2004, the Company purchased a total of 21,434,000 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 2004	10,082,000	0.255	0.250	2,581,625
May 2004	7,326,000	0.255	0.220	1,827,975
June 2004	4,026,000	0.250	0.247	1,017,491
	<u>21,434,000</u>			<u>5,427,091</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 for disclosed herein, neither the Company nor its subsidiaries have purchased, sold or redeemed any of the Company's shares during the period.

SHARE OPTION SCHEME

The Company has not adopted any share option scheme during the period and there was no outstanding options at the beginning and at the end of the financial period.

AUDIT COMMITTEE

The Company established an audit committee in accordance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listed Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Committee members

comprises Dr. Wu Shu Chih, Alex, C.B.E., L.L.D., J.P., Dr. Samson Sun, M.B.E., J.P. and Mr. Chan Chak Cheung, William 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, 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, 2004, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

COMPLIANCE WITH CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions (the "Code"). Having made specific enquiry of all directors of the Company, the directors of the Company have complied with the required standard as set out in the Code throughout the six months ended 30th September, 2004.

On behalf of the Board
Lee Yuen Ching, Jimmy
Chairman

Hong Kong, 9th December, 2004