

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

INTERIM REPORT 2009

2009 INTERIM REPORT

The board (“Board”) of directors (“Directors”) of National Electronics Holdings Limited (“Company”) would like to present the interim results of the Company and its subsidiaries (together, “Group”) for the six months ended 30 September 2009.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2009

		Six months ended 30 September	
		2009	2008
		(unaudited)	(unaudited)
	Notes	HK\$'000	HK\$'000
Revenue	3	529,396	1,747,918
Cost of sales		(462,245)	(1,561,432)
Gross profit		67,151	186,486
Other income	4	35,868	8,747
Increase in fair value of investment properties	9	30,535	47,166
Loss on disposal of investment properties		(1,694)	—
Distribution costs		(3,654)	(4,368)
Administrative expenses		(45,764)	(45,700)
Finance costs	5	(11,284)	(7,187)
Share of results of associates		348	591
Profit before taxation	6	71,506	185,735
Income tax expenses	7	(8,757)	(46,642)
Profit for the period		62,749	139,093
Other comprehensive income			
Exchange differences arising on translation of foreign operations		5,615	1,901
Reserve realised on disposal of available-for-sale investments		(290)	(150)
Total other comprehensive income		5,325	1,751
Total comprehensive income for the period		68,074	140,844
Dividend:			
2009 final dividend paid of 1.5 HK cents (2008: 2.0 HK cents) per ordinary share		14,589	19,847
Earnings per share – Basic and diluted	8	6.45 cents	14.01 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*At 30 September 2009*

		30 September 2009 (unaudited) <i>HK\$'000</i>	31 March 2009 (audited) <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Investment properties	9	822,955	1,045,505
Property, plant and equipment		109,609	118,267
Prepaid lease payments		231,363	252,233
Interest in a jointly controlled entity		1	—
Interests in associates		54,076	53,729
Available-for-sale investments		15,080	16,000
		<hr/>	<hr/>
		1,233,084	1,485,734
CURRENT ASSETS			
Inventories		93,077	98,947
Prepaid lease payments		3,990	4,291
Investment held for trading		4,333	4,071
Inventory of unsold properties		157,149	170,767
Bills receivables	10	11,000	9,000
Trade receivables, deposits and prepayments	10	85,478	61,212
Amount due from a jointly controlled entity		12,000	—
Amounts due from associates		143,489	142,049
Tax recoverable		1,203	1,127
Bank balances and cash		248,115	139,549
		<hr/>	<hr/>
		759,834	631,013

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)**At 30 September 2009*

		30 September 2009 (unaudited) HK\$'000	31 March 2009 (audited) HK\$'000
	<i>Notes</i>		
CURRENT LIABILITIES			
Trade payables and accrued expenses	11	88,056	109,188
Bills payables	11	86,707	37,733
Tax liabilities		20,379	16,674
Derivative financial instruments		8,205	5,695
Obligations under finance leases		3,616	3,495
Bank loans		487,774	444,465
		<hr/>	<hr/>
		694,737	617,250
		<hr/>	<hr/>
NET CURRENT ASSETS		65,097	13,763
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,298,181	1,499,497
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CAPITAL AND RESERVES			
Share capital		97,213	97,260
Reserves		679,455	626,107
		<hr/>	<hr/>
TOTAL EQUITY		776,668	723,367
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Provision for long service payments		3,571	3,571
Derivative financial instruments		7,855	11,347
Obligations under finance leases		3,228	3,493
Bank loans		468,538	726,883
Deferred tax liabilities		38,321	30,836
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		521,513	776,130
		<hr/>	<hr/>
		1,298,181	1,499,497
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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2009

	Share capital	Share premium	Exchange reserve	Investment revaluation reserve	Contributed surplus	Capital redemption reserve	Retained profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April 2008	99,852	22,786	(9,729)	12,037	66,142	29,469	448,040	668,597
Profit for the period	—	—	—	—	—	—	139,093	139,093
Other comprehensive income								
Exchange differences								
arising on translation								
of foreign operations	—	—	1,901	—	—	—	—	1,901
Reserve realised on								
disposal of available-								
for-sale investments	—	—	—	(150)	—	—	—	(150)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total other comprehensive income	—	—	1,901	(150)	—	—	—	1,751
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive income								
for the period	—	—	1,901	(150)	—	—	139,093	140,844
Dividend paid	—	—	—	—	—	—	(19,847)	(19,847)
Repurchase of own shares	(1,068)	—	—	—	—	1,068	(5,236)	(5,236)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2008	98,784	22,786	(7,828)	11,887	66,142	30,537	562,050	784,358
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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*

For the six months ended 30 September 2009

	Share capital	Share premium	Exchange reserve	Investment revaluation reserve	Contributed surplus	Capital redemption reserve	Retained profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April 2009	97,260	22,786	(22,044)	4,937	66,142	32,061	522,225	723,367
Profit for the period	—	—	—	—	—	—	62,749	62,749
Other comprehensive income								
Exchange differences arising on translation of foreign operations	—	—	5,615	—	—	—	—	5,615
Reserve realised on disposal of available- for-sale investments	—	—	—	(290)	—	—	—	(290)
Total other comprehensive income	—	—	5,615	(290)	—	—	—	5,325
Total comprehensive income for the period	—	—	5,615	(290)	—	—	62,749	68,074
Dividend paid	—	—	—	—	—	—	(14,589)	(14,589)
Repurchase of own shares	(47)	—	—	—	—	47	(184)	(184)
At 30 September 2009	97,213	22,786	(16,429)	4,647	66,142	32,108	570,201	776,668

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS*For the six months ended 30 September 2009*

	Six months ended 30 September	
	2009	2008
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash generated from operating activities	14,090	720,115
Net cash generated from (used in) investing activities	329,180	(52,175)
Net cash used in financing activities	(244,812)	(547,476)
Net increase in cash and cash equivalents	98,458	120,464
Cash and cash equivalents at 1 April	139,549	91,950
Effect of foreign exchange rate changes	10,108	(42)
Cash and cash equivalents at 30 September	<u>248,115</u>	<u>212,372</u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	<u>248,115</u>	<u>212,372</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2009

(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 (“Listing Rules”) and with the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

(2) PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the preparation of this interim condensed consolidated financial statements are consistent with those used in the Group’s annual financial statements for the year ended 31 March 2009, except that the Group has adopted all the new or revised standards, amendments or interpretations (“new HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year commencing on 1 April 2009. The adoption of these new HKFRSs did not have material impact on the results and financial position of the Group.

The following revised standards, new interpretations, and amendments to standards and interpretations are mandatory for the year ending 31 March 2010. The Group has adopted these revised standards, new interpretations, and amendments to standards and interpretations where considered appropriate and relevant to its operations.

- HKFRS 1 (Amendment), “First-time adoption of Hong Kong Financial Reporting Standards”
- HKFRS 2 (Amendment), “Share-based payment – vesting conditions and cancellation”
- HKFRS 7 (Amendment), “Financial instruments: Disclosures”, amendment on improving disclosures about financial instruments issued in March 2009
- HKFRS 8 (Amendment), “Operating segments”
- HKAS 1 (Revised), “Presentation of financial statements”
- HKAS 23 (Revised), “Borrowing costs”

(2) **PRINCIPAL ACCOUNTING POLICIES** *(continued)*

- HKAS 32 (Amendment), “Financial instruments: Presentation”
- HK(IFRIC)-Int 2 (Amendment), “Members’ shares in co-operative entities and similar instruments”
- HK(IFRIC)-Int 13, “Customer loyalty programmes”
- HK(IFRIC)-Int 15, “Agreements for the construction of real estate”
- HK(IFRIC)-Int 16, “Hedges of a net investment in a foreign operation”

The adoption of HKAS 1 (Revised) requires “non-owner changes in equity” to be presented separately from “owner changes in equity”. Management has decided to present one statement, a consolidated statement of comprehensive income.

The following revised standards, new interpretations, and amendments to standards and interpretations have been issued but are not effective for the year ending 31 March 2010 and have not been early adopted:

- HKFRS 1 (Revised), “First-time adoption of Hong Kong Financial Reporting Standards”, effective for annual periods beginning on or after 1 July 2009
- HKFRS 2 (Amendment), “Share-based payment”, effective for annual periods beginning on or after 1 July 2009
- HKFRS 3 (Revised), “Business combinations”, effective for annual periods beginning on or after 1 July 2009
- HKFRS 8 (Amendment), “Operating segments”, effective for annual periods beginning on or after 1 January 2010
- HKAS 1 (Amendment), “Presentation of financial statements”, effective for annual periods beginning on or after 1 January 2010
- HKAS 7 (Amendment), “Cash flow statements”, effective for annual periods beginning on or after 1 January 2010
- HKAS 17 (Amendment), “Leases”, effective for annual periods beginning on or after 1 January 2010
- HKAS 18 (Amendment), “Revenue”, effective for annual periods beginning on or after 1 January 2010

(2) PRINCIPAL ACCOUNTING POLICIES *(continued)*

- HKAS 27 (Revised), “Consolidated and separate financial statements”, effective for annual periods beginning on or after 1 July 2009
- HKAS 36 (Amendment), “Impairment of assets”, effective for annual periods beginning on or after 1 January 2010
- HKAS 38 (Amendment), “Intangible assets”, effective for annual periods beginning on or after 1 January 2010
- HKAS 39 (Amendment), “Financial instruments: Recognition and measurement”, amendment on eligible hedged items, effective for annual periods beginning on or after 1 July 2009
- HKAS 39 (Amendment), “Financial instruments: Recognition and measurement”, amendment on embedded derivatives, apply retrospectively for annual periods ending on or after 30 June 2009
- HK(IFRIC)-Int 9 (Amendment), “Reassessment of embedded derivatives”, apply retrospectively for annual periods ending on or after 30 June 2009
- HK(IFRIC)-Int 16, “Hedges of a net investment in a foreign operation”, effective for annual periods beginning on or after 1 July 2009
- HK(IFRIC)-Int 17, “Distributions of non-cash assets to owners”, effective for annual periods beginning on or after 1 July 2009
- HK(IFRIC)-Int 18, “Transfers of assets from customers”, effective for annual periods beginning on or after 1 July 2009

The Group is in the process of making an assessment of the impact of adoption of the Improvements to HKFRSs, published in October 2008 (effective for annual periods beginning on or after 1 July 2009) and Improvements to HKFRSs 2009, published in May 2009 (effective for annual periods beginning on or after 1 January 2010). So far, it has concluded that both do not have material impact on the Group’s financial statements.

(3) SEGMENT INFORMATION

The following is an analysis of the Group's revenue and result by principal activities and geographical segments for the six months ended 30 September 2009 and 2008:

Business segments

2009

	Manufacture of watches <i>HK\$'000</i>	Trading of watch movements <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE						
External sales	101,546	374,165	22,791	30,894	—	529,396
Inter-segment sales	—	1,250	—	—	(1,250)	—
Total revenue	<u>101,546</u>	<u>375,415</u>	<u>22,791</u>	<u>30,894</u>	<u>(1,250)</u>	<u>529,396</u>

Inter-segment sales are charged at cost.

RESULT

Segment result	<u>3,870</u>	<u>10,294</u>	<u>1,593</u>	<u>36,822</u>	<u>—</u>	52,579
Interest income						182
Unallocated net other income						34,531
Unallocated other expenses						(4,850)
Finance costs						(11,284)
Share of results of associates	—	—	—	348	—	<u>348</u>
Profit before taxation						71,506
Income tax expenses						<u>(8,757)</u>
Profit for the period						<u>62,749</u>

(3) SEGMENT INFORMATION *(continued)***2008**

	Manufacture of watches <i>HK\$'000</i>	Trading of watch movements <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE						
External sales	140,541	439,657	1,165,603	2,117	—	1,747,918
Inter-segment sales	—	582	—	—	(582)	—
Total revenue	<u>140,541</u>	<u>440,239</u>	<u>1,165,603</u>	<u>2,117</u>	<u>(582)</u>	<u>1,747,918</u>

Inter-segment sales are charged at cost.

RESULT						
Segment result	<u>5,828</u>	<u>12,429</u>	<u>127,399</u>	<u>45,118</u>	<u>—</u>	190,774
Interest income						589
Unallocated net other income						11,267
Unallocated other expenses						(10,299)
Finance costs						(7,187)
Share of results of associates	—	—	—	591	—	591
Profit before taxation						185,735
Income tax expenses						<u>(46,642)</u>
Profit for the period						<u>139,093</u>

(3) **SEGMENT INFORMATION** *(continued)*

Geographical segments

The Group's operations are mainly located in Hong Kong and other regions in the People's Republic of China (the "PRC"), North America and Europe.

The following table provides an analysis of the Group's sales by geographical markets, irrespective of the origin of the goods/services:

	Sales revenue by geographical markets	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong and the PRC	381,742	445,954
North America	71,079	1,229,149
Europe	69,086	64,848
Others	7,489	7,967
	<u>529,396</u>	<u>1,747,918</u>

(4) **OTHER INCOME**

	Six months ended 30 September	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank interest income	182	589
Gain/(loss) on disposal of property, plant and equipment	21,036	(92)
Management fee income received from associates	513	1,149
Net foreign exchange gain	12,422	5,746
Sundry income	1,715	1,355
	<u>35,868</u>	<u>8,747</u>

(5) FINANCE COSTS

	Six months ended 30 September	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
Bank loans and overdrafts		
– wholly repayable within five years	12,399	13,944
– not wholly repayable within five years	2,292	5,068
Obligations under finance leases	168	232
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Total borrowing costs	14,859	19,244
Less: Amount capitalised to property under development for sale	—	(3,147)
Less: Amount capitalised to investment properties	(3,575)	(8,910)
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	11,284	7,187
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Borrowing costs capitalised during the period ended 30 September 2008 were calculated by applying a capitalisation rate of 6% per annum to expenditure on property under development for sale.

(6) PROFIT BEFORE TAXATION

	Six months ended 30 September	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	11,807	9,062
Less: Amount capitalised to property under development for sale	—	(51)
	<u>11,807</u>	<u>9,011</u>
Staff costs including directors' emoluments	42,985	43,334
Less : Amount capitalised to investment properties	(8,949)	(7,407)
	<u>34,036</u>	<u>35,927</u>
Amortisation of prepaid lease payments	2,105	2,244
Cost of inventories recognised as an expense	461,470	1,555,394
Loss on fair value changes of derivative financial instruments	—	3,069
Loss on fair value changes of investment held for trading	154	—
Minimum lease payments for operating leases in respect of land and buildings	4,402	1,947
and after crediting:		
Net foreign exchange gain	12,422	5,746
Fair value gain from equity on disposal of available-for-sale investments	38	490
Gain on fair value changes of derivative financial instruments	967	—
Gain on fair value changes of investment held for trading	—	125
Gross rental income from investment properties	1,230	2,376
Less: Outgoings	(92)	(420)
Net rental income from investment properties	<u>1,138</u>	<u>1,956</u>
Minimum lease payments for operating leases in respect of staff quarters amounting to HK\$201,322 (2008: HK\$737,308) are included in staff costs.		

(7) INCOME TAX EXPENSES

	Six months ended 30 September	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax		
Hong Kong profits tax	1,132	13
Other jurisdictions	140	37,864
Deferred tax	7,485	8,765
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Taxation attributable to the Company and its subsidiaries	8,757	46,642
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Hong Kong profits tax has been provided for at 16.5% (2008: 16.5%) on the estimated assessable profit for the six months ended 30 September 2009.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

(8) EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to shareholders of HK\$62,749,154 (2008: HK\$139,093,803) and on the weighted average number of 972,494,485 ordinary shares (2008: 993,111,338 ordinary shares) in issue during the six months ended 30 September 2009.

(9) INVESTMENT PROPERTIES

HK\$'000

FAIR VALUE

At 1 April 2008	880,020
Additions	73,684
Increase in fair value recognised in the consolidated statement of comprehensive income	62,973
Transfer from property under development for sale	36,359
Exchange realignment	(7,531)
	<hr/>
At 31 March 2009	1,045,505
Additions	23,452
Increase in fair value recognised in the consolidated statement of comprehensive income	30,535
Disposals	(296,202)
Transfer from property, plant and equipment	4,680
Exchange realignment	14,985
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At 30 September 2009	822,955
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All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The fair value of the Group's investment properties situated in Hong Kong and Canada at 30 September 2009 and 31 March 2009 have been arrived at on the basis of a valuation carried out on that date by DTZ Debenham Tie Leung Limited and DTZ Barnicke, respectively, independent qualified professional valuers not connected with the Group. DTZ Debenham Tie Leung Limited is a member of the Hong Kong Institute of Surveyors, DTZ Barnicke is a member of the Toronto Real Estate Board Commercial Division and they have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to Valuation Standards on Properties of the Hong Kong Institute of Surveyors and those of the Toronto Real Estate Board Commercial Division, was arrived at by reference to market evidence of recent transaction prices for similar properties in the same locations and conditions.

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

Bills receivables with full recourse of HK\$11,000,000 (31 March 2009: HK\$9,000,000) are aged within 30 days.

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

Included in trade receivables, deposits and prepayments are trade receivables net of allowance for doubtful debts of HK\$46,846,858 (31 March 2009: HK\$35,144,489) with an aged analysis as follows:

	At 30 September 2009	At 31 March 2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	39,277	29,992
31 to 90 days	4,404	3,486
91 to 180 days	3,163	1,662
Over 180 days	3	5
	<u>46,847</u>	<u>35,145</u>

(11) BILLS PAYABLES, TRADE PAYABLES AND ACCRUED EXPENSES

Included in bills payables, trade payables and accrued expenses are trade payables of HK\$118,534,158 (31 March 2009: HK\$59,539,237) with an aged analysis as follows:

	At 30 September 2009	At 31 March 2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	104,117	35,281
31 to 90 days	7,929	18,505
91 to 180 days	2,014	1,398
Over 180 days	4,474	4,355
	<u>118,534</u>	<u>59,539</u>

(12) CONTINGENT LIABILITIES AND COMMITMENTS

	At 30 September 2009	At 31 March 2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contingent liabilities:		
Other guarantees	247	247
	<u> </u>	<u> </u>
Capital commitments:		
Contracted for but not provided:		
Construction of properties	85,386	38,061
	<u> </u>	<u> </u>

(13) SIGNIFICANT RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the financial statements, the Group and the Company had entered into the following significant related party transactions:

- (1) Transaction with associates

	Six months ended 30 September	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Nature of transaction		
Management fee income received by the Group	513	1,149
	<u> </u>	<u> </u>

- (2) The Group's balances with related parties are set out in the condensed consolidated statement of financial position.
- (3) Directors' remuneration of HK\$8,155,915 (2008: HK\$4,374,777) has been paid during the six months ended 30 September 2009.
- (4) The Company provided a corporate guarantee of banking facilities to its subsidiaries to the extent of approximately HK\$1,284,000,000 at 30 September 2009 (31 March 2009: HK\$1,397,000,000).

(14) POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Group had the following material events:

- (1) an acquisition agreement entered into on 5 October 2009 by Terence Limited, a wholly owned subsidiary of the Company, with Everlink Limited in relation to the acquisition of a property located at House 15 including its House Unit, External Walls, Staircase to Basement Floor, Staircase at Main Roof, Main Roof and Upper Roof, Garden and Open Space, Planter and Car Parking Spaces Nos. 15A and 15B on the Basement Floor, No. 1 Shouson Hill Road East, Hong Kong at a consideration of HK\$94,500,000; and
- (2) a shareholders' agreement entered into on 5 November 2009 by Tania Investments Limited, a wholly owned subsidiary of the Company, with GCPF Cayman Holding 6 Corp., pursuant to which an equally owned joint venture company will develop a property located at No. 45 Tai Tam Road, Hong Kong and each of the shareholders will provide aggregate shareholders loan of up to HK\$100,000,000 to the joint venture company.

INTERIM DIVIDEND

The Directors resolved to declare an interim dividend of 0.5 HK cent per share (2008: 0.5 HK cent per share).

BUSINESS REVIEW

The Group's turnover for the six months ended 30 September 2009 was HK\$529,395,933 as compared with HK\$1,747,917,527 over the same period last year which included substantial sales revenue due to the final completion of sales of approximately 90 percent of the residential condominium units of our One St. Thomas project in Toronto, Canada. The turnover for the same period in 2007 was HK\$570,707,000.

Net profit for the six months ended 30 September 2009 was HK\$62,749,154 as compared with HK\$139,093,803 over the same period last year which included significant contribution from the Group's One St. Thomas project in Toronto, Canada, representing a decrease of 55%.

During the period under review, the Group disposed of the following properties:-

1. 29 High Point Road, Toronto, Canada;
2. Nos. 459 – 461 Lockhart Road, Causeway Bay, Hong Kong;
3. House No. 1, Abergeldie, 52 Plantation Road, Hong Kong; and
4. 13th Floor, 17th Floor and Car Parking Space No. 16 on Ground Floor, Shing Dao Industrial Building, No. 232 Aberdeen Main Road, Hong Kong.

During the same period, the profit margin of the Group's watch manufacturing division and the watch component trading division decreased slightly due to reduced demand and higher costs as a result of the global economic downturn and the weakness of US and HK Dollar.

PROSPECTS

Although the Group is seeing signs of improvement in the world market as the demand for its products has increased satisfactorily in the month of October and November 2009, it will take another few months to confirm the trend of recovery.

Le Rivage, the Group's second boutique hotel Joint Venture project with Citi Property Investors at No. 137-138 Connaught Road West, Hong Kong started its operation in October this year.

The superstructure work of the Group's third Joint Venture project with Citi Property Investors at Nos. 50 to 59 Connaught Road Central, Hong Kong for the development of a Grade A office building has commenced and the project is expected to be completed by mid 2011.

The pile cap for superstructure work of the Group's boutique hotel projects at 21 Whitfield Road, Causeway Bay, Hong Kong as well as Nos. 99, 101 & 103 Bonham Strand and No. 127 Wing Lok Street, Hong Kong are in progress, and the Group targets to complete the buildings in the second half of 2010.

The superstructure work of the Group's boutique hotel project at No. 87 and 89, Jervois Street, Hong Kong has commenced and the Group expects the completion of the building by third quarter of 2010.

The excavation and piling work on No. 194 - 196 Queen's Road Central, Hong Kong has commenced and the Group aims to complete this new boutique hotel by early 2012.

In addition to the above projects, the Group has entered into:

- (a) an acquisition agreement on 5 October 2009 in relation to an acquisition of a property located at House 15 and Car Parking Spaces Nos. 15A and 15B on the Basement Floor, No. 1 Shouson Hill Road East, Hong Kong for investment purposes as per our announcement on 6 October 2009; and
- (b) a shareholders' agreement on 5 November 2009 with a real estate fund managed by J.P. Morgan Asset Management – Global Real Assets for the purpose of developing a residential project at No. 45 Tai Tam Road, Hong Kong as per our announcement dated 5 November 2009.

Finally, your attention is drawn that the Group's business and results are subject to risks and uncertainties including but not limited to fluctuations in foreign currencies, interest rates and property markets as well as economic conditions and they may cause the Group's business, financial position, results and prospects to differ from expected or historical results.

FINANCIAL REVIEW

Liquidity and financial resources

As at 30 September 2009, the Group's total borrowings were HK\$956 million, representing a decrease of HK\$215 million from 31 March 2009. The maturity profile spreads over a period of 30 years, with HK\$488 million repayable within one year, HK\$319 million within two to five years and HK\$149 million beyond five years.

As at 30 September 2009, the Group's gearing ratio was 0.60 (31 March 2009: 1.00) which is calculated based on the Group's long-term bank borrowings of approximately HK\$469 million and shareholders' funds of approximately HK\$777 million.

As at 30 September 2009, the Group's total bank balances and cash was approximately HK\$248 million (31 March 2009: HK\$140 million).

Similar to last period, the Group has maintained a reasonable level of cash resources and stand-by credit facilities to provide adequate liquid funds to finance its commitments and working capital requirements.

Treasury Policies

As at 30 September 2009, 72% of the Group's borrowings was in HK\$, 8% in US\$, 9% in JPY and 11% in CAD.

As at 30 September 2009, 43% of the Group's bank balances and cash was in HK\$, 29% in US\$, 12% in CAD and 16% in others.

All the Group's borrowings are variable-rate borrowings. The Group will carefully monitor its foreign exchange and interest rate exposures and utilise financial instruments such as forward contracts and interest rate swaps as necessary.

Future plans for material investments

The Group currently has no other plans for material investments. All investments, if any, will be funded by bank borrowings and the internal resources of the Group.

Charges on assets

As at 30 September 2009, certain properties of the Group of approximately HK\$1,194 million (31 March 2009: HK\$1,480 million) were pledged to secure banking facilities for the Group.

Employees

As at 30 September 2009, the Group employed approximately 1,800 employees in Hong Kong, the PRC and other overseas countries. The staff costs for the period including director's emoluments amounted to HK\$43 million (2008: HK\$43 million). Remuneration is determined by reference to market terms as well as the qualifications and experiences of the staff concerned. Salaries are reviewed annually and discretionary bonuses may be paid depending on individual performance and the profitability of the Group.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 30 September 2009, 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 of director	Capacity	Shares of HK\$0.10 each				Percentage of the issued share capital of the Company
		Personal interests	Corporate interests	Other interests	Total interests	
Mr. Jimmy Lee Yuen Ching	Chairman	—	—	245,606,873 <i>(note a)</i>	245,606,873	25.265%
Mr. Loewe Lee Bon Chi	Director	15,000,000	—	245,606,873 <i>(note a)</i>	260,606,873	26.808%
Mr. James Lee Yuen Kui	Managing Director	5,940	—	244,602,979 <i>(note b)</i>	244,608,919	25.162%
Mr. Edward Lee Yuen Cheor	Director	—	—	244,602,979 <i>(note b)</i>	244,602,979	25.162%
Mr. Ricky Wai Kwong Yuen	Director	—	37,267,767 <i>(note d)</i>	—	37,267,767	3.834%
Dr. Samson Sun, M.B.E., J.P.	Director	—	4,988,968 <i>(note c)</i>	—	4,988,968	0.513%

Notes:

- The 245,606,873 shares are part of the property of a discretionary trust of which Mr. Jimmy Lee Yuen Ching and his family members including Mr. Loewe Lee Bon Chi are named beneficiaries.
- The 244,602,979 shares are part of the property of a discretionary trust of which each of Messrs. James Lee Yuen Kui and Edward Lee Yuen Cheor are named beneficiaries.
- The 4,988,968 shares are held by a company controlled by Dr. Samson Sun, M.B.E., J.P.
- The 37,267,767 shares are held by two companies controlled by Mr. Ricky Wai Kwong Yuen.

Saved as disclosed above, at 30 September 2009, none of the director 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 the interests of certain directors disclosed under the heading “Directors’ Interests in Shares, Underlying Shares and Debentures” 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 interest or short position in the issued share capital of the Company as at 30 September 2009.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 September 2009 the Company repurchased a total of 472,000 shares of HK\$0.10 each of the Company on The Stock Exchange of Hong Kong Limited, all of which shares were cancelled upon repurchase. Particulars of the shares repurchased are as follows:

Month of repurchase	Number of ordinary shares of HK\$0.1 each	Price per share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
May 2009	16,000	0.320	0.300	5,226
August 2009	456,000	0.395	0.385	179,052
	<u>472,000</u>			<u>184,278</u>

CORPORATE GOVERNANCE

The Company has complied throughout the six months ended 30 September 2009 with the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

AUDIT COMMITTEE

The Company has established an Audit Committee and its members comprise Dr. Samson Sun, M.B.E., J.P., Mr. Chan Chak Cheung, William and Mr. Chan Kwok Wai who are all independent non-executive directors. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters. The interim results for the six months ended 30 September 2009, which have not been audited, have been reviewed by the Audit Committee.

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.

By order of the Board
Lee Yuen Ching, Jimmy
Chairman

Hong Kong, 8 December 2009

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 Bon Chi, Loewe, Mr. Lee Yuen Cheor, Edward and Mr. Wai Kwong Yuen, Ricky as Executive Directors, 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 a Non-executive Director.