

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



INTERIM REPORT 2011

2011 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 2011.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2011

		Six months ended 30 September	
		2011	2010
		(unaudited)	(unaudited)
	Notes	HK\$'000	HK\$'000
Revenue	3	646,547	639,756
Cost of sales		(539,706)	(574,710)
Gross profit		106,841	65,046
Other income	4	4,453	3,515
Other gains and (losses)	5	33,353	(19,555)
Increase in fair value of investment properties	11	3,062	63,641
Gain on disposal of subsidiaries	16	34,942	—
Distribution costs		(3,854)	(5,086)
Administrative expenses		(72,470)	(59,289)
Finance costs	6	(9,699)	(9,270)
Share of results of associates		66,034	47,068
Profit before taxation	7	162,662	86,070
Income tax expenses	8	(4,942)	(17,699)
Profit for the period		157,720	68,371
Earnings per share	9		
Basic		16.32 cents	7.04 cents
Diluted		16.26 cents	7.04 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2011

	Six months ended 30 September	
	2011 (unaudited) <i>HK\$'000</i>	2010 (unaudited) <i>HK\$'000</i>
Profit for the period	157,720	68,371
Other comprehensive income		
Exchange differences arising on translation of foreign operations	(442)	(273)
Property revaluation reserve	(44,519)	—
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Other comprehensive income for the period	(44,961)	(273)
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Total comprehensive income for the period	112,759	68,098
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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*At 30 September 2011*

		30 September 2011 (unaudited) <i>HK\$'000</i>	31 March 2011 (audited) <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Investment properties	11	414,418	1,201,272
Property, plant and equipment		260,739	256,731
Prepaid lease payments		13,295	14,459
Held-to-maturity investments		11,522	—
Interests in associates		499,147	340,233
Interests in jointly controlled entities		—	—
Available-for-sale investments		15,670	15,670
		<hr/>	<hr/>
		1,214,791	1,828,365
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories		170,351	146,509
Prepaid lease payments		304	328
Investment held for trading		4,108	4,108
Inventory of unsold properties		121,954	195,138
Property under development for sale		70,848	—
Bills receivables	12	1,310	7,779
Trade receivables, deposits and prepayments	12	227,735	88,181
Amounts due from associates		281,434	143,489
Amounts due from jointly controlled entities		122,000	120,387
Tax recoverable		5,086	3,764
Bank balances and cash		326,743	174,643
		<hr/>	<hr/>
		1,331,873	884,326
		<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*(continued)**At 30 September 2011*

		30 September 2011 (unaudited) HK\$'000	31 March 2011 (audited) HK\$'000
	<i>Notes</i>		
CURRENT LIABILITIES			
Trade payables, customers' deposits and accrued expenses	13	153,180	140,870
Bills payables	13	141,261	86,656
Amount due to an associate		7	7
Tax payable		3,251	1,732
Derivative financial instruments		5,903	8,293
Obligations under finance leases		2,011	2,933
Bank loans		657,454	544,568
		<hr/>	<hr/>
		963,067	785,059
		<hr/>	<hr/>
NET CURRENT ASSETS		368,806	99,267
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,583,597	1,927,632
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CAPITAL AND RESERVES			
Share capital	14	97,756	96,743
Reserves		1,208,039	1,126,810
		<hr/>	<hr/>
TOTAL EQUITY		1,305,795	1,223,553
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Provision for long service payments		4,074	4,074
Derivative financial instruments		2,952	8,178
Obligations under finance leases		1,900	2,661
Bank loans		236,929	606,421
Deferred tax liabilities		31,947	82,745
		<hr/>	<hr/>
		277,802	704,079
		<hr/>	<hr/>
		1,583,597	1,927,632
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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2011

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Revaluation reserve <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2010	97,213	22,786	(12,208)	4,617	1,365	66,142	32,108	624,308	836,331
Profit for the period	—	—	—	—	—	—	—	68,371	68,371
Other comprehensive income for the period	—	—	(273)	—	—	—	—	—	(273)
Total comprehensive income for the period	—	—	(273)	—	—	—	—	68,371	68,098
Dividend paid	—	—	—	—	—	—	—	(14,581)	(14,581)
Repurchase of own shares	(470)	—	—	—	—	—	470	(2,829)	(2,829)
At 30 September 2010	<u>96,743</u>	<u>22,786</u>	<u>(12,481)</u>	<u>4,617</u>	<u>1,365</u>	<u>66,142</u>	<u>32,578</u>	<u>675,269</u>	<u>887,019</u>
At 1 April 2011	96,743	22,786	(9,925)	126,357	2,900	66,142	32,578	885,972	1,223,553
Profit for the period	—	—	—	—	—	—	—	157,720	157,720
Other comprehensive income for the period	—	—	(442)	(44,519)	—	—	—	—	(44,961)
Total comprehensive income for the period	—	—	(442)	(44,519)	—	—	—	157,720	112,759
Release of property revaluation reserve	—	—	—	—	—	—	—	316	316
Dividend paid	1,481	10,127	—	—	—	—	—	(38,578)	(26,970)
Repurchase of own shares	(468)	—	—	—	—	—	468	(3,863)	(3,863)
At 30 September 2011	<u>97,756</u>	<u>32,913</u>	<u>(10,367)</u>	<u>81,838</u>	<u>2,900</u>	<u>66,142</u>	<u>33,046</u>	<u>1,001,567</u>	<u>1,305,795</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2011

	Six months ended 30 September	
	2011	2010
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Net cash generated from operating activities	84,437	26,850
Net cash generated from / (used in) investing activities	365,044	(101,965)
Net cash (used in) / generated from financing activities	(289,119)	108,964
Net increase in cash and cash equivalents	160,362	33,849
Cash and cash equivalents at 1 April	174,643	134,841
Effect of foreign exchange rate changes	(8,262)	(742)
Cash and cash equivalents at 30 September	326,743	167,948
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	326,743	167,948

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2011

(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 on the historical cost basis, except for certain investment properties and financial instruments, which are measured at fair values as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2011.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the HKICPA.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the new and revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

(2) PRINCIPAL ACCOUNTING POLICIES *(continued)*

The Group has not early applied new or revised standards that have been issued but not yet effective. The following new or revised standards have been issued after the date the consolidated financial statements for the year ended 31 March 2011 were authorised for issuance and are not yet effective:

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income ²
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets ³
HKAS 19 (as revised in 2011)	Employee Benefits ¹
HKAS 27 (as revised in 2011)	Separate Financial Statements ¹
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ¹
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets ⁴
HKFRS 9	Financial Instruments ¹
HKFRS 10	Consolidated Financial Statements ¹
HKFRS 11	Joint Arrangements ¹
HKFRS 12	Disclosure of Interests in Other Entities ¹
HKFRS 13	Fair Value Measurement ¹

¹ Effective for annual periods beginning on or after 1 January 2013

² Effective for annual periods beginning on or after 1 July 2012

³ Effective for annual periods beginning on or after 1 January 2012

⁴ Effective for annual periods beginning on or after 1 July 2011

The Directors anticipate that the application of the above new and revised standards and amendments will have no material impact on the results and the financial position of the Group.

(3) SEGMENT INFORMATION

The following is an analysis of the Group's revenue and result by operating segment for the six months ended 30 September 2011 and 2010:

2011

	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	114,816	529,233	—	2,498	—	646,547
Inter-segment sales	—	475	—	—	(475)	—
Total revenue	<u>114,816</u>	<u>529,708</u>	<u>—</u>	<u>2,498</u>	<u>(475)</u>	<u>646,547</u>
RESULT						
Segment result	<u>2,483</u>	<u>23,016</u>	<u>(2,222)</u>	<u>2,743</u>	<u>—</u>	<u>26,020</u>
Interest income						332
Unallocated other income						53,346
Unallocated other expenses						(8,313)
Finance costs						(9,699)
Gain on disposal of subsidiaries						34,942
Share of results of associates						66,034
Profit before taxation						162,662
Income tax expenses						(4,942)
Profit for the period						<u>157,720</u>

(3) SEGMENT INFORMATION *(continued)***2010**

	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	112,108	504,045	23,229	374	—	639,756
Inter-segment sales	—	240	—	—	(240)	—
Total revenue	<u>112,108</u>	<u>504,285</u>	<u>23,229</u>	<u>374</u>	<u>(240)</u>	<u>639,756</u>
RESULT						
Segment result	<u>5,160</u>	<u>13,210</u>	<u>(9,002)</u>	<u>56,713</u>	<u>—</u>	<u>66,081</u>
Interest income						49
Unallocated other income						2,209
Unallocated other expenses						(20,067)
Finance costs						(9,270)
Share of results of associates						47,068
Profit before taxation						86,070
Income tax expenses						(17,699)
Profit for the period						<u>68,371</u>

Segment result represents the profit earned by each segment without allocation of central administration costs, gain on disposal of subsidiaries, share of results of associates, other income and finance costs. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

Inter-segment sales are charged at cost.

(3) SEGMENT INFORMATION *(continued)*

Geographical information

The Group's main operations are 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 revenue by geographical market, irrespective of the origin of the goods/services:

	Revenue by geographical market	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong and the PRC	548,262	526,693
North America	17,407	41,944
Europe	71,526	64,317
Others	9,352	6,802
	<u>646,547</u>	<u>639,756</u>

(4) OTHER INCOME

	Six months ended 30 September	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank interest income	332	49
Management fee income received from associates	974	974
Management fee income received from a jointly controlled entity	1,136	1,196
Sundry income	2,011	1,296
	<u>4,453</u>	<u>3,515</u>

(5) OTHER GAINS AND (LOSSES)

	Six months ended 30 September	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss on fair value changes of derivative financial instruments	(1,584)	(7,821)
Net foreign exchange losses	(16,299)	(11,734)
Gain on deregistration of a subsidiary	51,236	—
	<u>33,353</u>	<u>(19,555)</u>

(6) FINANCE COSTS

	Six months ended 30 September	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
Bank loans and overdrafts		
- wholly repayable within five years	7,592	10,289
- not wholly repayable within five years	2,655	2,760
Obligations under finance leases	154	222
	<u>10,401</u>	<u>13,271</u>
Total borrowing costs	10,401	13,271
Less: Amount capitalised to investment properties	(702)	(4,001)
	<u>9,699</u>	<u>9,270</u>

(7) PROFIT BEFORE TAXATION

	Six months ended 30 September	
	2011	2010
	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging:		
Allowance for inventories	—	104
Depreciation of property, plant and equipment	13,387	14,308
Staff costs including directors' emoluments	57,699	53,666
Less : Amount capitalised to investment properties	—	(7,162)
	<u>57,699</u>	<u>46,504</u>
Amortisation of prepaid lease payments	160	153
Cost of inventories recognised as an expense	529,793	574,606
Minimum lease payments for operating leases in respect of land and buildings	2,751	3,860
and after crediting:		
Gross rental income	2,498	374
Less: Outgoings	<u>(182)</u>	<u>(95)</u>
Net rental income	<u>2,316</u>	<u>279</u>

Minimum lease payments for operating leases in respect of staff quarters amounting to HK\$2,671,000 (2010: HK\$2,503,000) are included in staff costs.

(8) INCOME TAX EXPENSES

	Six months ended 30 September	
	2011	2010
	HK\$'000	HK\$'000
Current tax		
Hong Kong profits tax	3,516	7,207
Deferred tax	1,426	10,492
	<u>4,942</u>	<u>17,699</u>

Hong Kong profits tax has been provided for at 16.5% (2010: 16.5%) on the estimated assessable profit for the six months ended 30 September 2011.

(9) EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 September	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share and diluted earnings per share	157,720	68,371
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	966,494,917	970,719,218
Effect of dilutive potential ordinary shares - Share options	3,478,816	670,407
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>969,973,733</u>	<u>971,389,625</u>

(10) DIVIDENDS

	Six months ended 30 September	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividends recognised as distribution		
2011 final dividend of 4.0 HK cents (2010: 1.5 HK cents) per ordinary share	<u>38,578</u>	<u>14,581</u>

Subsequent to the end of the reporting period, the Directors proposed an interim dividend of 0.5 HK cent per share (2010: 0.5 HK cent per share) be paid to the shareholders of the Company whose names appear in the Register of Members on 14 December 2011.

(11) INVESTMENT PROPERTIES

HK\$'000

FAIR VALUE

At 1 April 2010	881,108
Additions	152,179
Increase in fair value recognised in profit or loss	140,103
Transfer from property, plant and equipment	240,000
Disposal of subsidiaries	(212,975)
Exchange realignment	857
	<hr/>
At 31 March 2011	1,201,272
Additions	14,863
Increase in fair value recognised in profit or loss	3,062
Disposal of subsidiaries	(685,309)
Transfer to property, plant and equipment	(120,000)
Exchange realignment	530
	<hr/>
At 30 September 2011	<u><u>414,418</u></u>

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 the PRC at 30 September 2011 have been arrived at on the basis of a valuation carried out on that date by DTZ Debenham Tie Leung Limited and Knight Frank Petty Limited respectively, independent qualified professional valuers not connected with the Group. DTZ Debenham Tie Leung Limited and Knight Frank Petty Limited are members of the Hong Kong Institute of Surveyors and they have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to market evidence of recent transaction prices for similar properties in the same locations and conditions.

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

Bills receivables with full recourse of approximately HK\$1,310,000 (31 March 2011: HK\$7,779,000) 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 approximately HK\$40,638,000 (31 March 2011: HK\$30,821,000) with an aged analysis as follows:

	At 30 September 2011	At 31 March 2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	34,298	21,318
31 to 90 days	3,560	2,303
91 to 180 days	791	3,198
Over 180 days	1,989	4,002
	<u>40,638</u>	<u>30,821</u>

(13) BILLS PAYABLES, TRADE PAYABLES, CUSTOMERS' DEPOSITS AND ACCRUED EXPENSES

Included in bills payables, trade payables, customers' deposits and accrued expenses are trade payables of approximately HK\$179,847,000 (31 March 2011: HK\$116,938,000) with an aged analysis as follows:

	At 30 September 2011	At 31 March 2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	112,545	66,899
31 to 90 days	58,633	43,637
91 to 180 days	4,891	4,796
Over 180 days	3,778	1,606
	<u>179,847</u>	<u>116,938</u>

(14) SHARE CAPITAL

	Number of ordinary share	Nominal value <i>HK\$'000</i>
Ordinary shares of HK\$0.1 each		
Authorised:		
At 1 April 2010, 31 March 2011 and 30 September 2011	1,500,000,000	150,000
Issued and fully paid:		
At 1 April 2010	972,129,928	97,213
Cancelled on repurchase of shares	(4,700,000)	(470)
At 31 March 2011	967,429,928	96,743
Issue of shares	14,806,583	1,481
Cancelled on repurchase of shares	(4,676,000)	(468)
At 30 September 2011	977,560,511	97,756

(15) SHARE-BASED PAYMENT TRANSACTIONS

The Company has a share option scheme for eligible employees of the Group. Details of the share options outstanding during the current period are as follows:

	Number of share options
Outstanding at 1 April 2011 and 30 September 2011	16,100,000

The closing price of the Company's shares immediately before 18 March 2010 and 23 March 2011, the dates of grant, were HK\$0.542 and HK\$0.760 respectively.

No options were exercised during the period. Share options were granted on 18 March 2010 and 23 March 2011. The fair values of the options determined at the dates of grant using the Black-Scholes pricing model were HK\$1,365,000 and HK\$1,535,000 respectively.

(15) SHARE-BASED PAYMENT TRANSACTIONS *(continued)*

The following assumptions were used to calculate the fair value of share options:

	23 March 2011	18 March 2010
Grant date share price	HK\$0.760	HK\$0.540
Exercise price	HK\$0.760	HK\$0.542
Expected volatility	35.49%	37.53%
Expected life	7 years	8 years
Risk-free interest rate	2.314%	2.405%
Expected dividend yield	2.63%	3.70%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous seven years (18 March 2010: eight years). The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

(16) DISPOSAL OF SUBSIDIARIES

During the period, the Group disposed equity interest in its subsidiaries for a total consideration of HK\$251,120,000.

The net assets of these companies at the date of disposal was as follows:

Consideration received:	<i>HK\$'000</i>
Cash received	175,784
Deferred cash consideration	75,336
Total consideration received	<u>251,120</u>

(16) DISPOSAL OF SUBSIDIARIES *(continued)*

Analysis of assets and liabilities over which control was lost:	<i>HK\$'000</i>
Investment properties	685,309
Deposits and prepayment	373
Bank balances and cash	9,151
Amounts due to intermediate holding companies	(137,941)
Accrued expenses	(15,483)
Derivative financial instruments	(6,234)
Bank loans	(217,365)
Deferred tax liabilities	(41,752)
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	276,058
	<hr/> <hr/>
Gain on disposal of subsidiaries:	<i>HK\$'000</i>
Consideration received and receivable	251,120
Cost of disposal	(33,000)
Net assets disposed of	(276,058)
Reclassified as interests in associates at fair value	92,880
	<hr/>
	34,942
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(17) CONTINGENT LIABILITIES AND COMMITMENTS

	At 30 September 2011	At 31 March 2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contingent liabilities:		
Other guarantees	559	559
	<hr/>	<hr/>
Capital commitments:		
Contracted for but not provided:		
Construction of properties	13,992	93,171
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(18) SIGNIFICANT RELATED PARTY TRANSACTIONS

During the period, the Group had entered into the following significant related party transactions:

- (1) Transaction with associates

Nature of transaction	Six months ended 30 September	
	2011	2010
	HK\$'000	HK\$'000
Management fee income received by the Group	974	974

- (2) Transaction with a jointly controlled entity

Nature of transaction	Six months ended 30 September	
	2011	2010
	HK\$'000	HK\$'000
Management fee income received by the Group	1,136	1,196

- (3) The Group's balances with related parties are set out in the condensed consolidated statement of financial position.
- (4) The remuneration of directors relating to short-term benefits, post-employment benefits and share based payments during the period was approximately HK\$13,181,000 (2010: HK\$8,101,000).

(19) EVENT AFTER THE REPORTING PERIOD

On 11 November 2011, National Hotel Holdings Limited, a wholly owned subsidiary of the Company, entered into an agreement with CPI Asia National 1 Limited for the acquisition of 80% of the entire issued share capital ("Shares") of Roebuck Investments Limited, a company incorporated in the British Virgin Islands. The consideration for the acquisition of the Shares was approximately HK\$139,684,000.

INTERIM DIVIDEND

The Directors resolved to declare an interim dividend of 0.5 HK cent per share (2010: HK\$0.5 HK cent per share).

BUSINESS REVIEW

The Group's turnover for the six months ended 30 September 2011 was HK\$646,547,000 as compared with HK\$639,756,000 over the same period last year. Net profit for the six months ended 30 September 2011 was HK\$157,720,000 as compared with HK\$68,371,000 over the same period in 2010.

During the period under review, the profit margin of the Group's watch component trading division has increased due to the worldwide supply shortage of Japanese watch movement parts following the March 2011 earthquake in Japan. Despite the performance of the Group's watch manufacturing division was adversely affected by both this disaster as well as increased labour and material costs, the division managed to achieve profitable results.

On 7 June 2011, two wholly owned subsidiaries of a real estate fund managed by J.P. Morgan Asset Management entered into two agreements with the Group to acquire 73% interest in Smart Plus Group Limited, which indirectly owns a boutique hotel development at 87 – 89 Jervois Street, Hong Kong and Ally Vantage Limited, which indirectly owns a boutique hotel development at Nos. 99, 101 and 103 Bonham Strand and 127 Wing Lok Street, Hong Kong.

PROSPECTS

The economic and political problems within the EU have caused worldwide concern and further weakened consumer demand while the Japanese currency grew even stronger. As a result, the Group's watch manufacturing and watch component trading divisions face more challenging times ahead.

The site formation work for the Group's Joint Venture residential development project at 45 Tai Tam Road will be completed by the third quarter of 2012 and foundation work will commence afterwards.

On 11 November 2011 the Group entered into an agreement with Apollo Global Real Estate Management to acquire its 80% shareholding in Roebuck Investments Limited, which indirectly owns The Putman at 202 Queen's Road Central, Hong Kong. The transaction is expected to be completed before 31 March 2012.

The leasing programme for 50 Connaught Road Central, Hong Kong, a commercial Joint Venture development project with Apollo Global Real Estate Management enjoyed continued strong demand and success.

FINANCIAL REVIEW

Liquidity and financial resources

At 30 September 2011, the Group's total borrowings were HK\$894 million. The maturity profile spreads over a period of 27 years, with HK\$657 million repayable within one year, HK\$74 million within two to five years and HK\$163 million beyond five years.

At 30 September 2011, the Group's gearing ratio was 0.18 (31 March 2011: 0.5) which is calculated based on the Group's long-term bank borrowings of approximately HK\$237 million and shareholders' funds of approximately HK\$1,306 million.

At 30 September 2011, the Group's total bank balances and cash was approximately HK\$327 million (31 March 2011: HK\$175 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

At 30 September 2011, 64% of the Group's borrowings was in HK\$, 21% in US\$, 7% in JPY and 8% in CAD.

At 30 September 2011, 64% of the Group's bank balances and cash was in HK\$, 12% in US\$, 2% in EUR, 8% in JPY, 13% in RMB and 1% in others.

All the Group's borrowings are variable-rate borrowings. The Group will carefully monitor its foreign exchange and interest rate exposures and utilize 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

At 30 September 2011, certain properties of the Group of approximately HK\$721 million (31 March 2011: HK\$1,530 million) were pledged to secure banking facilities for the Group.

Employees

At 30 September 2011, the Group employed approximately 1,900 employees in Hong Kong, the PRC and other overseas countries. The staff costs for the period including director's emoluments amounted to HK\$58 million (2010: HK\$54 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 2011, 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:

(a) Ordinary shares of HK\$0.10 each

Name of director	Capacity	Personal interests	Corporate interests	Other interests	Total interests	Percentage of the issued share capital of the Company
Mr. Jimmy Lee Yuen Ching	Chairman	—	—	258,137,835 <i>(note a)</i>	258,137,835	26.406%
Mr. Loewe Lee Bon Chi	Managing Director	15,000,000	—	258,137,835 <i>(note a)</i>	273,137,835	27.941%
Mr. James Lee Yuen Kui	Managing Director	5,940	—	244,602,979 <i>(note b)</i>	244,608,919	25.022%
Mr. Edward Lee Yuen Cheor	Director	—	—	244,602,979 <i>(note b)</i>	244,602,979	25.022%
Mr. Ricky Wai Kwong Yuen	Director	—	37,267,767 <i>(note d)</i>	—	37,267,767	3.812%
Dr. Samson Sun, M.B.E., J.P.	Director	—	4,988,968 <i>(note c)</i>	—	4,988,968	0.510%

(b) Share options

Name of director	Capacity	Number of options held	Number of underlying shares
Mr. Loewe Lee Bon Chi	Managing Director (Beneficial owner)	15,200,000	15,200,000
Dr. Samson Sun, M.B.E., J.P.	Independent Non-executive Director (Beneficial owner)	300,000	300,000
Mr. William Chan Chak Cheung	Independent Non-executive Director (Beneficial owner)	300,000	300,000
Mr. Chan Kwok Wai	Independent Non-executive Director (Beneficial owner)	300,000	300,000

Notes:

- (a) The 258,137,835 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.
- (b) The 244,602,979 shares are part of the property of a discretionary trust of which each of Mr. James Lee Yuen Kui and Mr. Edward Lee Yuen Cheor are named beneficiaries.
- (c) The 4,988,968 shares are held by a company controlled by Dr. Samson Sun, M.B.E., J.P.
- (d) The 37,267,767 shares are held by two companies controlled by Mr. Ricky Wai Kwong Yuen.

Saved as disclosed above, at 30 September 2011, 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.

Share options

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 20 August 2008 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 19 August 2018. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

At 30 September 2011, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 16,100,000 (30 September 2010: 9,200,000), representing 1.65% (30 September 2010: 0.95%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Consideration at HK\$1 is payable on the grant of an option. Options may be exercised at any time from the date of grant of the share option to the tenth anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will be the highest of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

The following table disclosed movements in the Company’s share options during the period:

Name of director	Date of grant	Exercise period	Exercise price per share HK\$	Balance at 1.4.2011	Granted during the period	Exercised during the period	Forfeited during the period	Expired during the period	Balance at 30.9.2011
Mr. Loewe Lee Bon Chi	18.3.2010	18.3.2010-17.3.2018	0.542	9,200,000	—	—	—	—	9,200,000
	23.3.2011	23.3.2011-22.3.2018	0.760	6,000,000	—	—	—	—	6,000,000
Dr. Samson Sun, M.B.E., J.P.	23.3.2011	23.3.2011-22.3.2018	0.760	300,000	—	—	—	—	300,000
Mr. William Chan Chak Cheung	23.3.2011	23.3.2011-22.3.2018	0.760	300,000	—	—	—	—	300,000
Mr. Chan Kwok Wai	23.3.2011	23.3.2011-22.3.2018	0.760	300,000	—	—	—	—	300,000

The closing price of the Company’s share immediately before 18 March 2010, the date of grant of the options, was HK\$0.542 and before 23 March 2011, the date of grant the options, was HK\$0.760.

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 2011.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 September 2011 the Company repurchased a total of 4,676,000 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\$	
July 2011	1,098,000	0.900	0.860	971,106
August 2011	3,528,000	0.870	0.750	2,859,390
September 2011	50,000	0.650	0.650	32,636
	<u>4,676,000</u>			<u>3,863,132</u>

CORPORATE GOVERNANCE

The Company has complied throughout the six months ended 30 September 2011 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 2011, which have not been audited, have been reviewed by the Audit Committee.

MODEL CODE

The Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“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, 23 November 2011

As at the date of this report, the executive Directors are Mr. Lee Yuen Ching, Jimmy, Mr. Lee Bon Chi, Loewe, Mr. Lee Yuen Kui, James, Mr. Lee Yuen Cheor, Edward and Mr. Wai Kwong Yuen, Ricky, the non-executive Director is Ms. Lee Yuen Yu, Dorathy and the independent non-executive Directors are Dr. Samson Sun, M.B.E., J.P., Mr. Chan Chak Cheung, William and Mr. Chan Kwok Wai.