

NATIONAL ELECTRONICS HOLDINGS LIMITED

Stock Code: 213

INTERIM REPORT 2014

2014 INTERIM REPORT

The Board (the “Board”) of Directors (the “Directors”) of National Electronics Holdings Limited (“the Company”) would like to present the interim results of the Company and its subsidiaries (together, “the Group”) for the six months ended 30 September 2014.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2014

		Six months ended 30 September	
		2014	2013
		(unaudited)	(unaudited)
	Notes	HK\$'000	HK\$'000
Revenue	3	836,368	583,097
Cost of sales		<u>(686,580)</u>	<u>(491,262)</u>
Gross profit		149,788	91,835
Other income	4	21,630	3,312
Other (losses)/gains	5	(3,162)	4,787
Increase in fair value of investment properties	11	16,305	55,656
Distribution costs		(4,094)	(4,687)
Administrative expenses		(72,822)	(102,332)
Finance costs	6	(28,234)	(13,392)
Share of results of associates		<u>2,321</u>	<u>37,784</u>
Profit before taxation	7	81,732	72,963
Income tax expense	8	<u>(406)</u>	<u>(1,838)</u>
Profit for the period		<u>81,326</u>	<u>71,125</u>
Earnings per share	9		
Basic		<u>8.67 HK cents</u>	<u>7.34 HK cents</u>
Diluted		<u>8.62 HK cents</u>	<u>7.29 HK cents</u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2014

	Six months ended 30 September	
	2014	2013
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Profit for the period	81,326	71,125
Other comprehensive (expense)/income		
<i>Items that may be subsequently reclassified to profit or loss</i>		
Exchange differences arising		
on translation of foreign operations	(898)	5,412
Fair value loss on hedging instruments in cash flow hedges	—	(2,636)
Other comprehensive (expense)/income for the period	(898)	2,776
Total comprehensive income for the period	80,428	73,901

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*At 30 September 2014*

		30 September 2014 (unaudited) HK\$'000	31 March 2014 (audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Investment properties	11	2,184,919	887,577
Property, plant and equipment		561,425	567,996
Prepaid lease payments		12,836	14,032
Goodwill		1,270	678
Interests in associates		185,309	284,408
Interests in joint ventures		—	—
Available-for-sale investments		22,250	22,250
Deferred tax assets		7,388	7,115
		<hr/>	<hr/>
		2,975,397	1,784,056
CURRENT ASSETS			
Inventories		149,007	129,415
Prepaid lease payments		326	326
Investment held for trading		6,919	4,300
Inventory of unsold properties		6,893	6,937
Properties under development for sale		1,154,152	1,256,446
Bills receivables	12	1,199	1,289
Trade receivables, deposits and prepayments	12	501,257	155,149
Amounts due from associates		16,139	18,149
Amounts due from joint ventures		21,350	21,350
Tax recoverable		946	946
Bank balances and cash		501,318	646,094
		<hr/>	<hr/>
		2,359,506	2,240,401

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)**At 30 September 2014*

		30 September 2014 (unaudited) HK\$'000	31 March 2014 (audited) HK\$'000
	<i>Notes</i>		
CURRENT LIABILITIES			
Trade payables, customers' deposits and accrued expenses	13	148,426	147,235
Bills payables	13	116,758	95,026
Amount due to an associate		46,816	46,816
Tax payable		5,192	4,692
Derivative financial instruments		1,344	1,179
Obligations under finance leases		5,933	6,041
Bank loans		801,877	450,939
		<u>1,126,346</u>	<u>751,928</u>
NET CURRENT ASSETS		<u>1,233,160</u>	<u>1,488,473</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>4,208,557</u>	<u>3,272,529</u>
CAPITAL AND RESERVES			
Share capital	14	93,671	94,041
Reserves		1,669,708	1,634,403
TOTAL EQUITY		<u>1,763,379</u>	<u>1,728,444</u>
NON-CURRENT LIABILITIES			
Provision for long service payments		5,870	5,870
Obligations under finance leases		30,370	33,296
Bank loans		2,332,429	1,428,316
Deferred tax liabilities		76,509	76,603
		<u>2,445,178</u>	<u>1,544,085</u>
		<u>4,208,557</u>	<u>3,272,529</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2014

	Share capital <i>HKS '000</i>	Share premium <i>HKS '000</i>	Exchange reserve <i>HKS '000</i>	Hedging reserve <i>HKS '000</i>	Revaluation reserve <i>HKS '000</i>	Share options reserve <i>HKS '000</i>	Contributed surplus <i>HKS '000</i>	Capital redemption reserve <i>HKS '000</i>	Retained profits <i>HKS '000</i>	Total <i>HKS '000</i>
At 1 April 2013 (audited)	97,656	33,178	(8,312)	2,636	46,657	2,833	66,142	33,175	1,315,799	1,589,764
Profit for the period	—	—	—	—	—	—	—	—	71,125	71,125
Other comprehensive income/ (expense) for the period	—	—	5,412	(2,636)	—	—	—	—	—	2,776
Total comprehensive income/ (expense) for the period	—	—	5,412	(2,636)	—	—	—	—	71,125	73,901
Dividends recognised as distribution	—	—	—	—	—	—	—	—	(52,817)	(52,817)
Repurchase of own shares	(1,837)	—	—	—	—	—	—	1,837	(18,667)	(18,667)
At 30 September 2013	<u>95,819</u>	<u>33,178</u>	<u>(2,900)</u>	<u>—</u>	<u>46,657</u>	<u>2,833</u>	<u>66,142</u>	<u>35,012</u>	<u>1,315,440</u>	<u>1,592,181</u>
At 1 April 2014 (audited)	94,041	33,178	(4,944)	—	47,677	2,833	66,142	36,791	1,452,726	1,728,444
Profit for the period	—	—	—	—	—	—	—	—	81,326	81,326
Other comprehensive expense for the period	—	—	(898)	—	—	—	—	—	—	(898)
Total comprehensive (expense)/ income for the period	—	—	(898)	—	—	—	—	—	81,326	80,428
Exercise of share options	30	265	—	—	—	(67)	—	—	—	228
Dividends recognised as distribution	—	—	—	—	—	—	—	—	(42,175)	(42,175)
Repurchase of own shares	(400)	—	—	—	—	—	—	400	(3,546)	(3,546)
At 30 September 2014	<u>93,671</u>	<u>33,443</u>	<u>(5,842)</u>	<u>—</u>	<u>47,677</u>	<u>2,766</u>	<u>66,142</u>	<u>37,191</u>	<u>1,488,331</u>	<u>1,763,379</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2014

	Six months ended 30 September	
	2014 (unaudited) HK\$'000	2013 (unaudited) HK\$'000
Net cash generated from operating activities	36,265	25,349
Net cash used in investing activities	(1,098,953)	(166,988)
Net cash generated from financing activities	918,186	108,977
Net decrease in cash and cash equivalents	(144,502)	(32,662)
Cash and cash equivalents at 1 April	646,094	615,705
Effect of foreign exchange rate changes	(274)	(258)
Cash and cash equivalents at 30 September	501,318	582,785
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	501,318	582,785

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2014

(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 properties and financial instruments, which are measured at fair values.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2014 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2014.

In the current interim period, the Group has applied, for the first time, a new interpretation and certain amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are mandatorily effective for the current interim period.

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

(3) SEGMENT INFORMATION

The following is an analysis of the Group's revenue and result by reportable and operating segment:

Six months ended 30 September 2014

	Manufacture of watches and trading of watch movements <i>HK\$'000</i>	Property development and investment <i>HK\$'000</i>	Hotel operation <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE				
External sales	<u>623,633</u>	<u>190,868</u>	<u>21,867</u>	<u>836,368</u>
RESULT				
Segment result	<u>22,890</u>	<u>50,485</u>	<u>14,613</u>	87,988
Bank interest income				1,909
Unallocated other income				18,927
Unallocated other expenses				(1,179)
Finance costs				(28,234)
Share of results of associates				<u>2,321</u>
Profit before taxation				81,732
Income tax expense				<u>(406)</u>
Profit for the period				<u>81,326</u>

(3) SEGMENT INFORMATION (continued)

Six months ended 30 September 2013

	Manufacture of watches and trading of watch movements <i>HK\$'000</i>	Property development and investment <i>HK\$'000</i>	Hotel operation <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE				
External sales	<u>572,125</u>	<u>276</u>	<u>10,696</u>	<u>583,097</u>
RESULT				
Segment result	<u>20,791</u>	<u>49,747</u>	<u>8,536</u>	79,074
Bank interest income				1,848
Unallocated other income				407
Unallocated other expenses				(32,758)
Finance costs				(13,392)
Share of results of associates				<u>37,784</u>
Profit before taxation				72,963
Income tax expense				<u>(1,838)</u>
Profit for the period				<u>71,125</u>

Segment result represents the profit earned by/loss from each segment without allocation of central administration costs, share of results of associates, other income and finance costs. This is the measure reported to the Board for the purpose of resource allocation and performance assessment.

(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 is an analysis of the Group's revenue from external customers based on geographical location of the customers:

	Six months ended 30 September	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong and the PRC	562,230	478,220
North America	243,128	26,737
Europe	17,747	54,245
Others	13,263	23,895
	<u>836,368</u>	<u>583,097</u>

(4) **OTHER INCOME**

	Six months ended 30 September	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank interest income	1,909	1,848
Interest income from held-to-maturity investments	—	98
Interest income from associates	—	336
Royalties income	12,618	—
Agency fee income	6,309	—
Sundry income	794	1,030
	<u>21,630</u>	<u>3,312</u>

(5) OTHER (LOSSES)/GAINS

	Six months ended 30 September	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss)/gain on fair value changes of derivative financial instruments	(118)	4,710
Net foreign exchange (loss)/gain	(3,044)	77
	<u>(3,162)</u>	<u>4,787</u>

(6) FINANCE COSTS

	Six months ended 30 September	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
Bank loans and overdrafts		
– wholly repayable within five years	17,320	15,861
– not wholly repayable within five years	20,236	5,729
Obligations under finance leases	780	478
Total borrowing costs	<u>38,336</u>	<u>22,068</u>
Less: Amounts capitalised to investment properties and properties under development for sale	<u>(10,102)</u>	<u>(8,676)</u>
	<u>28,234</u>	<u>13,392</u>

(7) PROFIT BEFORE TAXATION

	Six months ended 30 September	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	16,471	19,424
Staff costs including directors' emoluments	58,573	58,476
Amortisation of prepaid lease payments	166	166
Cost of inventories recognised as an expense	617,776	416,671
Minimum lease payments for operating leases in respect of land and buildings	4,513	3,816
and after crediting:		
Gross rental income	22,868	9,221
Less: Outgoings	(6,233)	(2,219)
Net rental income	<u>16,635</u>	<u>7,002</u>

Minimum lease payments for operating leases in respect of staff quarters amounting to approximately HK\$3,861,000 (six months ended 30 September 2013: HK\$2,993,000) are included in staff costs.

(8) INCOME TAX EXPENSE

	Six months ended 30 September	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax – Hong Kong Profits Tax	500	2,028
Deferred tax – current year	(94)	(190)
	<u>406</u>	<u>1,838</u>

Hong Kong Profits Tax has been provided for at 16.5% (six months ended 30 September 2013: 16.5%) on the estimated assessable profits for the six months ended 30 September 2014.

(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	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share	81,326	71,125
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	937,981,582	969,481,582
Effect of dilutive potential ordinary shares – Share options	5,193,894	6,109,042
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>943,175,476</u>	<u>975,590,624</u>

(10) DIVIDENDS

	Six months ended 30 September	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividends recognised as distribution during the period:		
2014 final dividend of 3.5 HK cents (2013: 3.5 HK cents) per share and a special cash dividend of 1.0 HK cent (2013: 2.0 HK cents) per share	<u>42,175</u>	<u>52,817</u>

Subsequent to the end of the reporting period, the Directors proposed an interim dividend of 0.5 HK cent per share (2013: 0.5 HK cent per share) be paid to the shareholders of the Company whose names appear in the Register of Members on 17 December 2014.

(11) INVESTMENT PROPERTIES

HK\$'000

FAIR VALUE

At 1 April 2013	645,000
Additions	46,775
Increase in fair value recognised in profit or loss	194,936
Exchange realignment	866
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At 31 March 2014	887,577
Additions	646,730
Acquired on acquisition of subsidiaries	635,000
Increase in fair value recognised in profit or loss	16,305
Exchange realignment	(693)
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At 30 September 2014	<u><u>2,184,919</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 values of the investment properties located in Hong Kong at 30 September 2014 have been arrived at on the basis of a valuation carried out on that date by DTZ Debenham Tie Leung Limited, an independent qualified professional valuer not connected with the Group.

The fair value of the investment property located in Canada at 30 September 2014 has been arrived at on the basis of a valuation carried out on that date by CBRE Limited, an independent qualified professional valuer not connected with the Group.

The fair value of the investment property located in the PRC at 30 September 2014 has been arrived at on the basis of a valuation carried out on that date by Knight Frank Petty Limited, an independent qualified professional valuer not connected with the Group.

The fair values of the completed investment properties located in Hong Kong and Canada were determined based on market comparison approach, where the values are assessed by reference to the comparable properties in close proximity and adjusted for differences in key attributes such as property size and location.

The fair value of the investment property under construction located in the PRC was determined by using depreciated replacement cost approach, which is based on an estimate of the market value for the existing use of the land plus the current gross replacement cost of improvements less allowances for physical deterioration and all relevant forms of obsolescence and optimisation.

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

Bills receivables with full recourse of approximately HK\$1,199,000 (31 March 2014: HK\$1,289,000) are aged within 30 days.

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

Included in trade receivables, deposits and prepayments are trade receivables net of allowance for doubtful debts of approximately HK\$198,390,000 (31 March 2014: HK\$76,878,000) with an aged analysis as follows:

	At 30 September 2014 HK\$'000	At 31 March 2014 HK\$'000
Within 30 days	171,048	58,108
31 to 90 days	6,650	10,100
91 to 180 days	8,632	5,582
Over 180 days	12,060	3,088
	<u>198,390</u>	<u>76,878</u>

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

Included in bills payables, trade payables, customers' deposits and accrued expenses are trade and bills payables of approximately HK\$146,128,000 (31 March 2014: HK\$115,830,000) with an aged analysis as follows:

	At 30 September 2014 HK\$'000	At 31 March 2014 HK\$'000
Within 30 days	91,421	76,084
31 to 90 days	46,789	31,312
91 to 180 days	4,813	4,219
Over 180 days	3,105	4,215
	<u>146,128</u>	<u>115,830</u>

(14) SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.1 each		
Authorised:		
At 1 April 2013, 31 March 2014 and 30 September 2014	1,500,000,000	150,000
Issued and fully paid:		
At 1 April 2013	976,562,511	97,656
Cancelled on repurchase of shares	(36,156,000)	(3,615)
At 31 March 2014	940,406,511	94,041
Exercise of share options	300,000	30
Cancelled on repurchase of shares	(4,000,000)	(400)
At 30 September 2014	936,706,511	93,671

(15) SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option 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.

The table below discloses movement of the Company's share options held by the Company's directors:

	Number of share options
Outstanding at 1 April 2014	15,800,000
Exercised during the period	(300,000)
Outstanding at 30 September 2014	15,500,000

The closing price of the Company's shares immediately before the date on which the options were exercised was HK\$1.01.

(16) ACQUISITION OF SUBSIDIARIES

On 28 April 2014, Seafield Capital Limited (“Seafield”), a wholly owned subsidiary of the Company, entered into the agreement with GCPF Cayman Holding 11 Corp. for the acquisition of the 73% of the entire issued share capital of Ally Vantage Limited (“Ally Vantage”) (the “Sale Shares”). The transaction was completed on 17 June 2014 and the consideration for the acquisition of the Sale Shares paid by Seafield is approximately HK\$258,647,000.

Consideration transferred

	<i>HK\$'000</i>
Cash	258,647

Acquisition-related costs amounting to approximately HK\$798,000 have been excluded from the consideration transferred and are recognised directly as expenses when they are incurred.

Assets and liabilities recognised at the date of acquisition are as follows:

	<i>HK\$'000</i>
Inventories properties	635,000
Plant and equipment	170
Deferred tax assets	797
Accounts receivable	194
Deposits and prepayments	808
Bank balances	18,241
Receipt in advance	(942)
Tenancy deposits	(1,245)
Accruals	(10,398)
Amount due to a related company	(500)
Bank loans	(288,406)
	<u>353,719</u>

The accounts receivable acquired with a fair value of approximately HK\$194,000 at the date of the acquisition had gross contractual amounts of HK\$194,000, representing the best estimate at acquisition date of the contractual cash flows expected to be collected.

(16) ACQUISITION OF SUBSIDIARIES *(continued)*

Goodwill arising on acquisition:

	<i>HK\$' 000</i>
Consideration transferred	258,647
Plus: fair value of previously held interests of 27% in Ally Vantage	95,664
Less: net assets acquired	<u>(353,719)</u>
Goodwill arising on acquisition	<u><u>592</u></u>

Net cash outflow arising on acquisition:

	<i>HK\$' 000</i>
Consideration paid in cash	258,647
Less: cash and cash equivalent balances acquired	<u>(18,241)</u>
	<u><u>240,406</u></u>

Impact of acquisition on the results of the Group

Included in the profit for the interim period is approximately HK\$1,373,000 attributable to Ally Vantage and its subsidiaries. Revenue for the interim period includes approximately HK\$10,850,000 is attributable to Ally Vantage and its subsidiaries.

Had the acquisition of Ally Vantage been effected at the beginning of the interim period, the total amount of revenue of the Group for the six months ended 30 September 2014 would have been approximately HK\$844,343,000, and the amount of the profit for the interim period would have been approximately HK\$84,199,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the interim period, nor is it intended to be a projection of future results.

(17) FINANCIAL GUARANTEE CONTRACTS

	At 30 September 2014 <i>HK\$'000</i>	At 31 March 2014 <i>HK\$'000</i>
Guarantees given to banks in respect of banking facilities to associates	18,000	99,460
Other guarantees	<u>621</u>	<u>621</u>
	<u>18,621</u>	<u>100,081</u>

The fair values of the financial guarantees at initial recognition are not significant and therefore the directors are of the opinion that no provision for financial guarantees should be made.

(18) CAPITAL COMMITMENTS

	At 30 September 2014 <i>HK\$'000</i>	At 31 March 2014 <i>HK\$'000</i>
Contracted for but not provided:		
Construction of properties	25,982	33,087
Acquisition of property, plant and equipment	<u>616</u>	<u>2,011</u>
	<u>26,598</u>	<u>35,098</u>

(19) RELATED PARTY TRANSACTIONS

- (1) Transactions with associates

Nature of transaction	Six months ended 30 September	
	2014	2013
	HK\$'000	HK\$'000
Property management fee received by the Group	1,454	1,751
Interest income received by the Group	—	336
	<u> </u>	<u> </u>

- (2) The Group's balances with related parties are set out in the condensed consolidated statement of financial position.
- (3) Financial guarantees given to banks by the Group in respect of banking facilities to associates are set out in note 17.
- (4) The remuneration of directors relating to short-term benefits, post-employment benefits and share-based payments during the period was approximately HK\$13,220,000 (six months ended 30 September 2013: HK\$12,738,000).

(20) FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used), as well as the level of fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(20) FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Financial assets/liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	30/09/2014 HK\$'000	31/03/2014 HK\$'000		
Listed equity securities classified as investment held for trading	3,103	409	Level 1	Quoted bid prices in an active market
Listed debt securities classified as investment held for trading	3,816	3,891	Level 1	Quoted bid prices in an active market
Club debenture classified as available-for-sale investment	22,250	22,250	Level 2	Market prices in secondary markets
Foreign currency forward contract	Liabilities -1,344	Liabilities -1,179	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.

There were no transfers between Level 1 and 2 or transfers into or out of Level 3 during the current period.

(20) FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(continued)*

Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis

The Directors estimate the fair value of its financial assets and financial liabilities measured at amortised cost using the discounted cash flow analysis.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

(21) EVENTS AFTER THE END OF THE REPORTING PERIOD

(a) Acquisition of subsidiaries

On 28 April 2014, Verde Group Limited (“Verde Group”), a wholly owned subsidiary of the Company, entered into the agreement with GCPF Cayman Holding 10 Corp. (“GCPF”) for the acquisition of the 73% of the entire issued share capital of Smart Plus Group Limited (“Smart Plus”) (the “Sale Shares”) and shareholder’s loan due by Smart Plus to GCPF, amounting to approximately HK\$9,699,000 (the “Assigned Shareholder’s Loan”). The transaction was completed on 9 October 2014 and the consideration for the acquisition of the Sale Shares and the Assigned Shareholder’s Loan paid by Verde Group is approximately HK\$219,348,000.

Consideration transferred

	<i>HK\$' 000</i>
Cash	219,348
Less: Assignment of shareholder’s loan	(9,699)
	<hr/>
	209,649
	<hr/> <hr/>

Acquisition-related costs amounting to approximately HK\$798,000 have been excluded from the consideration transferred and are recognised directly as expenses when they are incurred.

(21) EVENTS AFTER THE END OF THE REPORTING PERIOD *(continued)*

(a) Acquisition of subsidiaries *(continued)*

Assets and liabilities to be recognised at the date of acquisition:

	<i>HK\$' 000</i>
Inventories properties	510,000
Plant and equipment	28
Deferred tax assets	692
Accounts receivable	177
Deposits and prepayments	691
Bank balances	24,095
Receipt in advance	(811)
Tenancy deposits	(2,546)
Accruals	(1,199)
Amount due to a shareholder	(9,699)
Amount due to a related company	(3,587)
Bank loans	(225,939)
	<hr/>
	291,902
	<hr/> <hr/>

The accounts receivable acquired with a fair value of approximately HK\$177,000 at the date of the acquisition had gross contractual amounts of HK\$177,000, representing the best estimate at acquisition date of the contractual cash flows expected to be collected.

Bargain purchase gain arising on acquisition:

	<i>HK\$' 000</i>
Consideration transferred	209,649
Plus: fair value of previously held interests of 27% in Smart Plus	77,541
Less: net assets acquired	(291,902)
	<hr/>
Bargain purchase gain arising on acquisition	(4,712)
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(21) EVENTS AFTER THE END OF THE REPORTING PERIOD *(continued)*

(a) Acquisition of subsidiaries *(continued)*

Net cash outflow arising on acquisition:

	<i>HK\$'000</i>
Consideration paid in cash	219,348
Less: assignment of shareholder's loan	(9,699)
Less: cash and cash equivalent balances acquired	(24,095)
	<hr/>
	185,554
	<hr/> <hr/>

(b) Disposal of an associate

On 26 November 2014, Spring Orchard Limited (“Spring Orchard”), a wholly-owned subsidiary of the Company, entered into a provisional agreement with an independent third party for the disposal of 39.5% equity interests in Mercato Group Limited (“Mercato”) (the “Sale Shares”) and the assignment of the benefit of the loan owing by Mercato to Spring Orchard as at the completion of the disposal (the “Sale Loan”). The consideration for the disposal of the Sale Shares and the assignment of the benefit of the Sale Loan to be received by Spring Orchard is 39.5% of the purchase price which shall be HK\$395,000,000 less the mortgage loan owing by a wholly-owned subsidiary of Mercato to a bank and subject to adjustments.

INTERIM DIVIDEND

The Directors resolved to declare an interim dividend of 0.5 HK cent per share (2013: 0.5 HK cent per share).

BUSINESS REVIEW

The Group's turnover for the six months ended 30 September 2014 was approximately HK\$836,368,000 as compared with HK\$583,097,000 over the same period last year. Net profit for the six months ended 30 September 2014 was approximately HK\$81,326,000 as compared with approximately HK\$71,125,000 over the same period in 2013.

During the period under review, the turnover of the Group's watch manufacturing and watch component trading division increased slightly as compared with last year. The division's profit margin was improved due to the depreciation of the Japanese Yen in the recent months.

During the same period, 99 Bonham, the boutique apartment hotel located at Nos. 99, 101 and 103 Bonham Strand and No. 127 Wing Lok Street, Hong Kong became a wholly-owned property of the Group through the repurchase of the outstanding 73% of shareholding in an associate with a real estate fund managed by J.P. Morgan Asset Management. Furthermore, our Hotel business recorded steady occupancy rates and maintained its operating profit margin.

In respect of the property development and investment business, the Group has enhanced its property portfolio by completing its acquisition of a whole city block in downtown Toronto located at 88 Queen Street East, Toronto, Ontario, Canada on 7 July 2014. The Group is planning for a phased mixed use development scheme for the property.

Also in this period, the Group disposed of its development site located at 3972 Highway 7 East, City of Markham, Ontario, Canada and the result was satisfactory.

PROSPECTS

With the sales of our Group's new Fitness wrist bands and the introduction of our smart watches in the 4th Quarter of this financial year, the Group anticipates the performance of the Group's watch manufacturing and watch component trading division will improve.

Earlier this year, the Group also entered into an agreement to repurchase the outstanding 73% shareholding in another associate with a real estate fund managed by J.P. Morgan Asset Management. The transaction was completed on 9 October 2014, and as a result, The Jervois, a boutique hotel apartment located at No. 89 Jervois Street, Hong Kong, became a wholly-owned property of the Group.

PROSPECTS *(continued)*

The Group's other wholly-owned boutique hotel development located at No. 196 Queen's Road Central, Hong Kong was completed and the marketing campaign will be launched by the end of 2014.

The formation work of the Group's wholly-owned luxury residential development at 45 Tai Tam Road was completed and the superstructure work is being tendered.

The Group remains optimistic about the medium and long-term real estate market in Hong Kong and other selected world class cities, and will continue to look for attractive acquisition opportunities.

FINANCIAL REVIEW

Liquidity and financial resources

At 30 September 2014, the Group's total borrowings were approximately HK\$3,134 million. The maturity profile spreads over a period of 25 years, with approximately HK\$802 million repayable within one year, approximately HK\$1,962 million within two to five years and approximately HK\$370 million beyond five years.

At 30 September 2014, the Group's gearing ratio was 1.32 (31 March 2014: 0.83) which is calculated based on the Group's long-term bank borrowings of approximately HK\$2,332 million and shareholders' funds of approximately HK\$1,763 million.

At 30 September 2014, the Group's total bank balances and cash was approximately HK\$501 million (31 March 2014: HK\$646 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.

FINANCIAL REVIEW *(continued)*

Treasury Policies

At 30 September 2014, 76% of the Group's borrowings was in HK\$, 16% in CAD, 4% in US\$ and 4% in JPY.

At 30 September 2014, 74% of the Group's bank balances and cash was in HK\$, 13% in CAD, 6% in US\$, 6% in JPY and 1% in others.

All of 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

At 30 September 2014, certain properties of the Group of approximately HK\$3,740 million (31 March 2014: HK\$2,548 million) were pledged to secure banking facilities for the Group.

Employees

At 30 September 2014, the Group employed approximately 1,100 employees in Hong Kong, the PRC and other overseas countries. The staff costs for the period including directors' emoluments amounted to approximately HK\$59 million (six months ended 30 September 2013: HK\$58 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 2014, 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	—	—	250,637,835 <i>(note a)</i>	250,637,835	26.757%
Mr. Loewe Lee Bon Chi	Managing Director	30,000,000	—	250,637,835 <i>(note a)</i>	280,637,835	29.960%
Mr. James Lee Yuen Kui	Managing Director	5,940	—	237,102,979 <i>(note b)</i>	237,108,919	25.313%
Mr. Edward Lee Yuen Cheor	Director	—	—	237,102,979 <i>(note b)</i>	237,102,979	25.312%
Mr. Ricky Wai Kwong Yuen	Director	—	37,267,767 <i>(note c)</i>	—	37,267,767	3.979%
Dr. Samson Sun, M.B.E., J.P.	Director	—	5,288,968 <i>(note d)</i>	—	5,288,968	0.565%
Mr. William Chan Chak Cheung	Director	300,000	—	—	300,000	0.032%

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

(continued)

(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
Mr. Chan Kwok Wai	Independent Non-executive Director (Beneficial owner)	300,000	300,000

Notes:

- (a) The 250,637,835 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 237,102,979 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 is named beneficiary.
- (c) The 37,267,767 shares are held by two companies controlled by Mr. Ricky Wai Kwong Yuen.
- (d) The 5,288,968 shares are held by a company controlled by Dr. Samson Sun, M.B.E., J.P.

Saved as disclosed above, as at 30 September 2014, 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.

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.

Share options (continued)

At 30 September 2014, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 15,500,000 (30 September 2013: 15,800,000), representing 1.65% (30 September 2013: 1.65%) 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 not be less than 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 1.4.2014	Granted during the period	Exercised during the period	Forfeited during the period	Expired during the period	Balance at 30.9.2014
Mr. Loewe Lee Bon Chi	18.3.2010	18.3.2010-17.03.2018	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
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 of the options, was HK\$0.760.

The weighted average closing price of the Company's share immediately before 7 August 2014, the date on which the option in respect of 300,000 shares of the Company was exercised, was HK\$1.01.

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 2014.

PURCHASE, SALE OR REDEMPTION OF SHARES

Save for the Company’s purchases of its own shares on the Stock Exchange as disclosed below, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s securities during the six months ended 30 September 2014.

Month of repurchase	Number of ordinary shares of HK\$0.1 each	Price per share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
May 2014	3,420,000	0.88	0.86	2,980,434
July 2014	64,000	0.91	0.91	58,449
September 2014	516,000	0.98	0.98	507,491
	<u>4,000,000</u>			<u>3,546,374</u>

CORPORATE GOVERNANCE

The Company had complied throughout the six months ended 30 September 2014 with the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except for the CG Code A.4.1 and A.4.2.

Pursuant to the CG Code A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. The Non-executive Directors of the Company were not appointed for a specific term, but are subject to retirement by rotation and re-election at the Company’s Annual General Meetings in accordance with the Company’s Bye-law 99. The Company considers that sufficient measures have been taken to ensure that the Company’s corporate governance practices are no less exacting than those in the CG Code A.4.1.

CORPORATE GOVERNANCE *(continued)*

Pursuant to the CG Code A.4.2, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. In the opinion of the Board, the Chairman and Managing Director play a pivotal role in charting of corporate strategies and direction of the Group and should not be subject to retirement by rotation in consideration of the stability and continuity development of the Group. As such, the Board believes that exempting the Chairman and Managing Director from retiring from office by rotation at Annual General Meeting in accordance with the Bye-law 99 of the Company is in the best interest of the Group.

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 2014, which have not been audited, have been reviewed by the Audit Committee.

MODEL CODE

The Company has adopted a code of conduct regarding the Directors' securities transactions ("Model Code") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers 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 had complied with the required standard set out in the Model Code.

By Order of the Board
LEE YUEN CHING JIMMY
Chairman

Hong Kong, 27 November 2014

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.