



NATIONAL ELECTRONICS HOLDINGS LIMITED

Stock Code: 213

INTERIM REPORT 2016

2016 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 2016.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2016

		Six months ended 30 September	
		2016	2015
		(unaudited)	(unaudited)
	Notes	HK\$'000	HK\$'000
Revenue	3	545,804	646,944
Cost of sales		(476,303)	(539,215)
Gross profit		69,501	107,729
Other income and gains	4	13,748	9,336
Other losses	5	(5,274)	(6,912)
Increase in fair value of investment properties	11	67,864	4,486
Distribution costs		(5,230)	(4,319)
Administrative expenses		(54,751)	(49,497)
Finance costs	6	(34,893)	(30,195)
Share of results of associates		(45)	(30)
Share of results of joint ventures		(612)	—
Profit before taxation	7	50,308	30,598
Income tax expense	8	(18)	(7)
Profit for the period		50,290	30,591
Earnings per share	9		
Basic		4.93 HK cents	2.97 HK cents
Diluted		4.90 HK cents	2.95 HK cents

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

For the six months ended 30 September 2016

	Six months ended 30 September	
	2016	2015
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period	50,290	30,591
Other comprehensive expense		
<i>Items that may be subsequently reclassified to profit or loss</i>		
Exchange differences arising on translation of foreign operations	<u>(6,214)</u>	<u>(20,995)</u>
Other comprehensive expense for the period	<u>(6,214)</u>	<u>(20,995)</u>
Total comprehensive income for the period	<u>44,076</u>	<u>9,596</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*At 30 September 2016*

		30 September 2016 (unaudited) HK\$' 000	31 March 2016 (audited) HK\$' 000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Investment properties	11	3,468,386	2,685,101
Property, plant and equipment		547,467	555,747
Prepaid lease payments		2,675	2,709
Goodwill		1,270	1,270
Interests in an associate		7,685	7,729
Interests in joint ventures		368,872	369,484
Available-for-sale investments		26,200	26,200
Held-to-maturity investments		3,172	3,172
Deferred tax assets		2,773	2,794
		<hr/>	<hr/>
		4,428,500	3,654,206
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories		150,375	185,232
Prepaid lease payments		68	68
Investments held for trading		113,935	100,168
Inventory of unsold properties		6,039	6,102
Properties under development for sale		338,919	267,095
Bills receivables	12	621	649
Trade receivables, deposits and prepayments	12	267,287	269,770
Amount due from a joint venture		35,650	29,650
Tax recoverable		92	3,768
Bank balances and cash		352,564	692,019
		<hr/>	<hr/>
		1,265,550	1,554,521
		<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*
At 30 September 2016

		30 September	31 March
		2016	2016
		(unaudited)	(audited)
	<i>Notes</i>	<i>HK\$' 000</i>	<i>HK\$' 000</i>
CURRENT LIABILITIES			
Trade payables and accrued expenses	13	154,620	157,788
Customers' deposits		184,573	122,875
Bills payables	13	93,504	142,576
Amount due to an associate		46,816	46,816
Amount due to a joint venture		—	73,583
Tax payable		2,618	2,341
Obligations under finance leases		4,120	3,996
Bank loans		641,851	639,837
		<u>1,128,102</u>	<u>1,189,812</u>
NET CURRENT ASSETS		<u>137,448</u>	<u>364,709</u>
TOTAL ASSETS LESS			
CURRENT LIABILITIES		<u>4,565,948</u>	<u>4,018,915</u>
CAPITAL AND RESERVES			
Share capital	14	101,893	101,989
Reserves		1,845,010	1,842,444
TOTAL EQUITY		<u>1,946,903</u>	<u>1,944,433</u>
NON-CURRENT LIABILITIES			
Provision for long service payments		6,894	6,894
Obligations under finance leases		22,375	24,475
Bank loans		2,570,611	2,023,943
Deferred tax liabilities		19,165	19,170
		<u>2,619,045</u>	<u>2,074,482</u>
		<u>4,565,948</u>	<u>4,018,915</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2016

	Share capital <i>HKS' 000</i>	Share premium <i>HKS' 000</i>	Exchange 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 2015 (audited)	93,557	33,443	(70,846)	47,227	2,766	66,142	37,305	1,534,013	1,743,607
Profit for the period	—	—	—	—	—	—	—	30,591	30,591
Other comprehensive expense for the period	—	—	(20,995)	—	—	—	—	—	(20,995)
Total comprehensive (expense)/income for the period	—	—	(20,995)	—	—	—	—	30,591	9,596
Dividend recognised as distribution	—	—	—	—	—	—	—	(28,037)	(28,037)
Repurchase of own shares	(247)	—	—	—	—	—	247	(2,280)	(2,280)
Issue of bonus shares	9,346	(9,346)	—	—	—	—	—	—	—
At 30 September 2015 (unaudited)	<u>102,656</u>	<u>24,097</u>	<u>(91,841)</u>	<u>47,227</u>	<u>2,766</u>	<u>66,142</u>	<u>37,552</u>	<u>1,534,287</u>	<u>1,722,886</u>
At 1 April 2016 (audited)	101,989	24,097	(76,693)	51,627	2,766	66,142	38,218	1,736,287	1,944,433
Profit for the period	—	—	—	—	—	—	—	50,290	50,290
Other comprehensive expense for the period	—	—	(6,214)	—	—	—	—	—	(6,214)
Total comprehensive (expenses)/income for the period	—	—	(6,214)	—	—	—	—	50,290	44,076
Dividend recognised as distribution	—	—	—	—	—	—	—	(40,757)	(40,757)
Repurchase of own shares	(96)	—	—	—	—	—	96	(849)	(849)
At 30 September 2016 (unaudited)	<u>101,893</u>	<u>24,097</u>	<u>(82,907)</u>	<u>51,627</u>	<u>2,766</u>	<u>66,142</u>	<u>38,314</u>	<u>1,744,971</u>	<u>1,946,903</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS*For the six months ended 30 September 2016*

	Six months ended 30 September	
	2016	2015
	(unaudited) <i>HK\$' 000</i>	(unaudited) <i>HK\$' 000</i>
Net cash generated from operating activities	45,200	37,078
Net cash used in investing activities	(625,490)	(446,557)
Net cash generated from financing activities	246,017	518,733
Net (decrease)/increase in cash and cash equivalents	(334,273)	109,254
Cash and cash equivalents at 1 April	692,019	439,995
Effect of foreign exchange rate changes	(5,182)	(1,983)
Cash and cash equivalents at 30 September	<u>352,564</u>	<u>547,266</u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	<u>352,564</u>	<u>547,266</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2016

(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 2016 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2016.

In the current interim period, the Group has applied, for the first time, 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 amendments to HKFRSs in the current interim period has had no material effect on 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 2016 (unaudited)

	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>492,862</u>	<u>9,026</u>	<u>43,916</u>	<u>545,804</u>
RESULT				
Segment result	<u>10,605</u>	<u>59,786</u>	<u>20,703</u>	91,094
Bank interest income				1,058
Unallocated other income				1,602
Unallocated other expenses				(16,618)
Bargain purchase gain arising on acquisition of a subsidiary				8,722
Finance costs				(34,893)
Share of results of associates				(45)
Share of results of joint ventures				(612)
Profit before taxation				<u>50,308</u>
Income tax expense				(18)
Profit for the period				<u>50,290</u>

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

Six months ended 30 September 2015 (unaudited)

	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>599,217</u>	<u>4,161</u>	<u>43,566</u>	<u>646,944</u>
RESULT				
Segment result	<u>21,498</u>	<u>12,047</u>	<u>26,735</u>	60,280
Bank interest income				1,706
Unallocated other income				6,074
Unallocated other expenses				(7,237)
Finance costs				(30,195)
Share of results of associates				<u>(30)</u>
Profit before taxation				30,598
Income tax expense				<u>(7)</u>
Profit for the period				<u>30,591</u>

Segment result represents the profit earned by each segment without allocation of central administration costs, bargain purchase gain arising on acquisition of a subsidiary, share of results of associates, share of results of joint ventures, other income and finance costs. This is the measure reported to the executive directors of the Company 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 customer:

	Six months ended 30 September	
	2016	2015
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong and the PRC	515,425	585,022
North America	18,186	30,233
Europe	9,145	18,789
Others	3,048	12,900
	<u>545,804</u>	<u>646,944</u>

(4) **OTHER INCOME AND GAINS**

	Six months ended 30 September	
	2016	2015
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank interest income	1,058	1,706
Interest income from held-to-maturity investments	49	224
Gain on disposal of property, plant and equipment	281	6,306
Gain on fair value changes of investments held for trading	1,544	—
Bargain purchase gain arising on acquisition of a subsidiary	8,722	—
Sundry income	2,094	1,100
	<u>13,748</u>	<u>9,336</u>

(5) OTHER LOSSES

	Six months ended 30 September	
	2016	2015
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss on fair value changes of investments held for trading	—	4,832
Loss on fair value changes of derivative financial instruments	—	36
Net foreign exchange loss	5,274	2,044
	<u>5,274</u>	<u>2,044</u>
	<u>5,274</u>	<u>6,912</u>

(6) FINANCE COSTS

	Six months ended 30 September	
	2016	2015
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
Bank loans and overdrafts	43,230	51,798
Obligations under finance leases	583	668
	<u>43,813</u>	<u>52,466</u>
Total borrowing costs	43,813	52,466
Less: Amounts capitalised to investment properties and properties under development for sale	(8,920)	(22,271)
	<u>34,893</u>	<u>30,195</u>
	<u>34,893</u>	<u>30,195</u>

(7) **PROFIT BEFORE TAXATION**

	Six months ended 30 September	
	2016	2015
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation has been arrived at after charging:		
Staff costs including directors' emoluments	45,957	59,496
Less: Amounts capitalised to investment properties and properties under development for sale	<u>(10,604)</u>	<u>(8,883)</u>
	35,353	50,613
Depreciation of property, plant and equipment	15,103	15,846
Amortisation of prepaid lease payments	151	169
Cost of inventories recognised as an expense	440,006	473,090
Minimum lease payments for operating leases in respect of land and buildings	6,187	4,890
and after crediting:		
Gross rental income	50,317	47,727
Less: Outgoings	<u>(24,249)</u>	<u>(15,465)</u>
Net rental income	<u>26,068</u>	<u>32,262</u>

Minimum lease payments for operating leases in respect of staff quarters amounting to approximately HK\$3,121,000 (six months ended 30 September 2015: HK\$4,055,000) are included in staff costs.

(8) INCOME TAX EXPENSE

	Six months ended 30 September	
	2016	2015
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Current tax		
– Hong Kong Profits Tax	—	—
– Other jurisdictions	18	17
Deferred tax		
– Current period	—	(10)
	<u>18</u>	<u>7</u>

Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 September 2015: 16.5%) on the estimated assessable profits for the six months ended 30 September 2016.

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

(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	
	2016	2015
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share	<u>50,290</u>	<u>30,591</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,019,158,077	1,028,579,944
Effect of dilutive potential ordinary shares		
– Share options	<u>6,538,960</u>	<u>7,925,744</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,025,697,037</u>	<u>1,036,505,688</u>

(9) EARNINGS PER SHARE *(continued)*

The weighted average number of ordinary shares for the purpose of basic and diluted earnings per share has been adjusted for the bonus issue on 11 September 2015.

(10) DIVIDENDS

	Six months ended 30 September	
	2016	2015
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividends recognised as distribution during the period:		
2016 final dividend of 3.0 HK cents (2015: 3.0 HK cents) per share	30,568	28,037
2016 special cash dividend of 1.0 HK cent (2015: Nil) per share	10,189	–
	<u>40,757</u>	<u>28,037</u>

Subsequent to the end of the reporting period, the Directors proposed an interim dividend of 0.5 HK cent (2015: 0.5 HK cent) per share be paid to the shareholders of the Company whose names appear in the Register of Members on 9 December 2016.

(11) INVESTMENT PROPERTIES

	<i>HK\$'000</i>
FAIR VALUE	
At 1 April 2015 (audited)	2,657,048
Additions	39,830
Increase in fair value recognised in profit or loss - unrealised	2,215
Exchange realignment	<u>(13,992)</u>
At 31 March 2016 (audited)	2,685,101
Additions	48,468
Acquisition of a subsidiary	676,000
Increase in fair value recognised in profit or loss - unrealised	67,864
Exchange realignment	<u>(9,047)</u>
At 30 September 2016 (unaudited)	<u>3,468,386</u>

(11) INVESTMENT PROPERTIES *(continued)*

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 2016 have been arrived at on the basis of a valuation carried out on that date by DTZ Cushman & Wakefield Limited and Jones Lang LaSalle Corporate Appraisal and Advisory Limited, independent qualified professional valuers not connected with the Group.

The fair value of the investment property located in Canada at 30 September 2016 has been arrived at on the basis of a valuation carried out on that date by CBRE Limited, independent qualified professional valuers not connected with the Group.

The fair value of the investment property located in the PRC at 30 September 2016 has been arrived at on the basis of a valuation carried out on that date by Knight Frank Petty Limited, independent qualified professional valuers not connected with the Group.

The fair values of the completed investment properties were determined based on market comparison approach.

The fair values of the investment properties under construction or redevelopment were determined by using depreciated replacement cost approach and residual approach.

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

Bills receivables of approximately HK\$621,000 (31 March 2016: HK\$649,000) are aged within 30 days.

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

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

Included in trade receivables, deposits and prepayments are trade receivables net of allowance for doubtful debts of approximately HK\$43,874,000 (31 March 2016: HK\$33,453,000) with an ageing analysis as follows:

	At 30 September 2016 (unaudited) HK\$'000	At 31 March 2016 (audited) HK\$'000
Within 30 days	35,225	26,685
31 to 90 days	6,639	6,023
91 to 180 days	1,305	96
Over 180 days	705	649
	<u>43,874</u>	<u>33,453</u>

(13) BILLS PAYABLES, TRADE PAYABLES AND ACCRUED EXPENSES

Included in bills payables, trade payables and accrued expenses are trade and bills payables of approximately HK\$105,891,000 (31 March 2016: HK\$161,292,000) with an ageing analysis as follows:

	At 30 September 2016 (unaudited) HK\$'000	At 31 March 2016 (audited) HK\$'000
Within 30 days	64,803	128,877
31 to 90 days	34,610	23,410
91 to 180 days	2,547	3,713
Over 180 days	3,931	5,292
	<u>105,891</u>	<u>161,292</u>

(14) SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.1 each		
Authorised:		
At 1 April 2015 (audited), 31 March 2016 (audited) and 30 September 2016 (unaudited)	<u>1,500,000,000</u>	<u>150,000</u>
Issued and fully paid:		
At 1 April 2015 (audited)	935,566,511	93,557
Issue of bonus shares	93,456,451	9,345
Cancelled on repurchase of shares	<u>(9,134,000)</u>	<u>(913)</u>
At 31 March 2016 (audited)	1,019,888,962	101,989
Cancelled on repurchase of shares	<u>(958,000)</u>	<u>(96)</u>
At 30 September 2016 (unaudited)	<u>1,018,930,962</u>	<u>101,893</u>

(15) CAPITAL COMMITMENTS

	At 30 September 2016 (unaudited) HK\$'000	At 31 March 2016 (audited) HK\$'000
Contracted for but not provided:		
Construction and acquisition of properties	<u>35,948</u>	<u>39,406</u>

(16) RELATED PARTY TRANSACTIONS

- (1) Transaction with a joint venture

Nature of transaction	Six months ended 30 September	
	2016 (unaudited) <i>HK\$'000</i>	2015 (unaudited) <i>HK\$'000</i>
Management fee income received by the Group	2,625	—

- (2) The Group's balances with related parties are as follows:

	At 30 September	At 31 March
	2016 (unaudited) <i>HK\$'000</i>	2016 (audited) <i>HK\$'000</i>
Loan to a joint venture	51,154	51,154
Advance to a joint venture	35,650	29,650
Advance from:		
– an associate	46,816	46,816
– a joint venture	—	73,583

- (3) The compensation to the key management personnel during the period was approximately HK\$12,275,000 (six months ended 30 September 2015: HK\$11,872,000).

(17) ACQUISITION OF A SUBSIDIARY

On 24 July 2016, the Group acquired the entire issued share capital of Bentley Investments Limited (“BIL”) and the benefit of the vendor's shareholder loan for a total consideration of approximately HK\$490,913,000. BIL is engaged in property investment and was acquired so as to continue the expansion of the Group's property investment business.

Consideration transferred

	<i>HK\$'000</i>
Cash	490,913

Acquisition-related costs amounting to approximately HK\$2,017,000 have been excluded from the consideration transferred and have been recognised directly as an expense in the period.

(17) ACQUISITION OF A SUBSIDIARY *(continued)*

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

	<i>HK\$' 000</i>
Investment properties	676,000
Plant and equipment	722
Other receivables, deposits and prepayments	1,235
Bank balances	10,069
Other payables and accruals	(657)
Tenancy deposits	(1,808)
Receipt in advance	(426)
Amount due to a shareholder	(297,822)
Bank loans	(185,500)
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	201,813
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Bargain purchase gain arising on acquisition:

	<i>HK\$' 000</i>
Consideration transferred	490,913
Less: assignment of shareholder's loan	(297,822)
Less: net assets acquired	(201,813)
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Bargain purchase gain arising on acquisition	(8,722)
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Net cash outflow on acquisition:

	<i>HK\$' 000</i>
Cash consideration paid	490,913
Less: cash and cash equivalent balances acquired	(10,069)
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	480,844
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(17) ACQUISITION OF A SUBSIDIARY *(continued)*

Included in the profit for the six months ended 30 September 2016 is approximately HK\$1,459,000 attributable to the additional business incurred by BIL. Revenue for the six months ended 30 September 2016 includes approximately HK\$1,980,000 attributable to BIL.

Had the acquisition been completed at the beginning of the interim period, total group revenue for the six months ended 30 September 2016 would have been approximately HK\$550 million, and profit for the six months ended 30 September 2016 would have been approximately HK\$52 million. The pro forma 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.

In determining the ‘pro-forma’ revenue and profit of the Group had BIL been acquired at the beginning of the interim period, the directors have determined borrowing costs based on the funding levels, credit ratings and debt/equity position of the Group after the business combination.

(18) 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 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 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).

(18) 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	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
	30/09/2016 (unaudited) HK\$'000	31/03/2016 (audited) HK\$'000			
Listed equity securities classified as investments held for trading	42,035	28,183	Level 1	Quoted bid prices in an active market	N/A
Unlisted equity securities classified as investments held for trading	15,512	15,512	Level 3	Recent transaction price	N/A
Unlisted fund investments classified as investments held for trading	56,388	56,473	Level 3	Net asset value	N/A
Club debenture classified as available-for-sale investment	26,200	26,200	Level 2	Market prices in secondary markets	N/A

There were no transfers between Level 1, 2 and 3 during the period.

Fair value of 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.

Reconciliation of Level 3 fair value measurements

	Unlisted equity securities HK\$'000	Unlisted fund investments HK\$'000
At 1 April 2016 (audited)	15,512	56,473
Total loss in profit or loss	—	(85)
At 30 September 2016 (unaudited)	<u>15,512</u>	<u>56,388</u>

INTERIM DIVIDEND

The Directors resolved to declare an interim dividend of 0.5 HK cent per share (2015: 0.5 HK cent per share).

BUSINESS REVIEW

The Group's turnover for the six months ended 30 September 2016 was approximately HK\$545,804,000 as compared with HK\$646,944,000 over the same period last year. Net profit for the six months ended 30 September 2016 was approximately HK\$50,290,000 as compared with approximately HK\$30,591,000 over the same period in 2015.

During the period under review, the worldwide demand for watch products in general continued to be weak. As a result, the turnover and profit margin of the Group's watch manufacturing and watch component trading division decreased as compared with the same period last year.

Despite a challenging market environment for the hospitality sector in Hong Kong, the Group is able to maintain its sales revenue for its hotel operation with slimmer profit margin.

During the same period, Hong Kong's luxurious residential market continued to be strong and the Group's property development and investment business also benefited and the result is satisfactory.

PROSPECTS

The depreciation of the RMB and other world currencies against the U.S. Dollar will further weaken the purchasing power for watch products from China, Europe and Asian countries. However the Group is hopeful that the improvement of the U.S. market may reduce the negative impact.

To counter the current slowdown in Hong Kong's hotel sector, the Group is upgrading the overall service level of the 4 boutique hotels by recruiting talented staff and professional consultants to establish a programme to enhance our services and promote our brand locally and internationally.

With the continued rise of transaction prices in the ultra-luxurious residential market, the Group's acquisition of 3 South Bay Close has proven to be a very positive investment. The Group is planning to demolish the current building and create another landmark residential project in Hong Kong.

The construction work of the Group's Joint Venture project with BPE Asia Real Estate Fund, L.P. at 45 Tai Tam Road is progressing as planned and extensive luxurious interior fitting out work will commence by the first quarter of 2017.

The Group's boutique commercial office development 7 St. Thomas in Toronto, Canada is targeted for completion within this financial year.

For the Group's 88 Queen Street East project in Toronto, Canada, the presale result of its first phase development comprising approximately 400 residential units was very successful. The Group is planning to start excavation work in the first quarter of 2017.

FINANCIAL REVIEW

Liquidity and financial resources

At 30 September 2016, the Group's total borrowings were approximately HK\$3,212 million. The maturity profile spreads over a period of 25 years, with approximately HK\$642 million repayable within one year, approximately HK\$2,090 million within two to five years and approximately HK\$480 million beyond five years.

At 30 September 2016, the Group's gearing ratio was 1.32 (31 March 2016: 1.04) which is calculated based on the Group's long-term bank borrowings of approximately HK\$2,570 million and shareholders' funds of approximately HK\$1,947 million.

At 30 September 2016, the Group's total bank balances and cash was approximately HK\$353 million (31 March 2016: HK\$692 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 2016, 77% of the Group's borrowings was in HK\$, 15% in CAD, 5% in JPY, and 3% in US\$.

At 30 September 2016, 35% of the Group's bank balances and cash was in US\$, 31% in HK\$, 14% in JPY, 11% in CAD and 9% in RMB.

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

At 30 September 2016, certain properties of the Group of approximately HK\$4,191 million (31 March 2016: HK\$3,339 million) were pledged to secure banking facilities for the Group.

Employees

At 30 September 2016, the Group employed approximately 600 employees in Hong Kong, the PRC and other overseas countries. The staff costs for the period including directors' emoluments amounted to approximately HK\$46 million (six months ended 30 September 2015: HK\$59 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 2016, 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	—	—	275,701,618 (note a)	275,701,618	27.058%
Mr. Loewe Lee Bon Chi	Managing Director	—	—	308,701,618 (note a,b)	308,701,618	30.297%
Mr. James Lee Yuen Kui	Managing Director	6,534	—	260,813,276 (note c)	260,819,810	25.597%
Mr. Edward Lee Yuen Cheor	Director	—	—	260,813,276 (note c)	260,813,276	25.597%
Mr. Ricky Wai Kwong Yuen	Director	—	40,994,543 (note d)	—	40,994,543	4.023%
Dr. Samson Sun, M.B.E., J.P.	Director	—	5,817,864 (note e)	—	5,817,864	0.571%
Mr. William Chan Chak Cheung	Director	330,000	—	—	330,000	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)	16,720,000	16,720,000
Mr. Chan Kwok Wai	Independent Non-executive Director (Beneficial owner)	330,000	330,000

Notes:

- (a) 275,701,618 shares are part of the property of a discretionary trust of which Mr. Jimmy Lee Yuen Ching and his family members and Mr. Loewe Lee Bon Chi's family members are named beneficiaries.
- (b) 33,000,000 shares are held by Mr. Loewe Lee Bon Chi's family member.
- (c) 260,813,276 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.
- (d) 40,994,543 shares are held by two companies controlled by Mr. Ricky Wai Kwong Yuen.
- (e) 5,817,864 shares are held by a company controlled by Dr. Samson Sun, M.B.E., J.P..

Saved as disclosed above, at 30 September 2016, 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.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

At 30 September 2016, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 17,050,000 (30 September 2015: 17,050,000), representing 1.67% (30 September 2015: 1.66%) 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 <i>HK\$</i>	Balance at 1.4.2016	Granted during the period	Exercised during the period	Forfeited during the period	Expired during the period	Balance at 30.9.2016
Mr. Loewe Lee Bon Chi	18.3.2010	18.3.2010-17.03.2018	0.493	10,120,000	—	—	—	—	10,120,000
	23.3.2011	23.3.2011-22.3.2018	0.691	6,600,000	—	—	—	—	6,600,000
Mr. Chan Kwok Wai	23.3.2011	23.3.2011-22.3.2018	0.691	330,000	—	—	—	—	330,000

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.

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 2016.

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 2016.

Month of repurchase	Number of ordinary shares of HK\$0.1 each	Price per share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
May 2016	<u>958,000</u>	0.89	0.88	<u>849,067</u>

CORPORATE GOVERNANCE

The Company had complied throughout the six months ended 30 September 2016 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.

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 AND RISK MANAGEMENT COMMITTEE

The Company has established an Audit and Risk Management 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 and Risk Management Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed the auditing, internal control, risk management and financial reporting matters. The interim results for the six months ended 30 September 2016, which have not been audited, have been reviewed by the Audit and Risk Management 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, 21 November 2016

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.