

NATIONAL ELECTRONICS HOLDINGS LIMITED

Stock Code: 213



INTERIM REPORT 2017

2017 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 2017.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2017

		Six months ended 30 September	
		2017	2016
		(unaudited)	(unaudited)
	Notes	HK\$'000	HK\$'000
Revenue	3	535,557	545,804
Cost of sales		(455,806)	(476,303)
Gross profit		79,751	69,501
Other income	4	27,844	3,201
Other gains – net	5	6,056	5,273
Increase in fair value of investment properties	11	76,735	67,864
Distribution costs		(5,313)	(5,230)
Administrative expenses		(66,513)	(54,751)
Finance costs	6	(34,094)	(34,893)
Share of result of an associate		(39)	(45)
Share of results of joint ventures		2	(612)
Profit before taxation	7	84,429	50,308
Income tax expense	8	(9,190)	(18)
Profit for the period		75,239	50,290
Earnings per share	9		
Basic		7.40 HK cents	4.93 HK cents
Diluted		7.34 HK cents	4.90 HK cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2017

	Six months ended 30 September	
	2017 (unaudited) HK\$'000	2016 (unaudited) HK\$'000
Profit for the period	75,239	50,290
Other comprehensive income/(expense)		
<i>Items that may be subsequently reclassified to profit or loss</i>		
Exchange differences arising on translation of foreign operations	40,279	(6,214)
Other comprehensive income/(expense) for the period	40,279	(6,214)
Total comprehensive income for the period	115,518	44,076

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*At 30 September 2017*

		30 September 2017 (unaudited) HK\$' 000	31 March 2017 (audited) HK\$' 000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Investment properties	11	3,574,443	3,391,985
Property, plant and equipment		372,434	421,021
Prepaid lease payments		—	2,641
Goodwill		1,270	1,270
Interest in an associate		7,530	7,569
Interests in joint ventures		368,832	368,830
Available-for-sale investments		27,430	27,430
Held-to-maturity investments		2,910	2,995
Deferred tax assets		1,813	1,688
		<hr/>	<hr/>
		4,356,662	4,225,429
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories		141,458	128,627
Prepaid lease payments		—	68
Financial assets at fair value through profit or loss		83,790	97,969
Inventory of unsold properties		90,309	5,988
Properties under development for sale		705,241	603,844
Bills receivables	12	669	766
Trade receivables, deposits and prepayments	13	252,226	475,589
Amount due from a joint venture		40,500	40,150
Tax recoverable		17	278
Bank balances and cash		889,619	401,039
		<hr/>	<hr/>
		2,203,829	1,754,318
		<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)**At 30 September 2017*

		30 September	31 March
		2017	2017
		(unaudited)	(audited)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
CURRENT LIABILITIES			
Trade and bills payables	14	138,618	131,711
Customers' deposits		384,968	286,768
Accrued expenses and other payables		54,763	93,189
Amount due to an associate		4,539	4,555
Tax payable		2,376	2,346
Derivative financial instruments		2,338	914
Obligations under finance leases		4,125	4,120
Bank loans		1,280,979	1,051,487
		<u>1,872,706</u>	<u>1,575,090</u>
NET CURRENT ASSETS		<u>331,123</u>	<u>179,228</u>
TOTAL ASSETS LESS			
CURRENT LIABILITIES		<u>4,687,785</u>	<u>4,404,657</u>
CAPITAL AND RESERVES			
Share capital	15	101,713	101,721
Reserves		2,006,193	1,931,432
TOTAL EQUITY		<u>2,107,906</u>	<u>2,033,153</u>
NON-CURRENT LIABILITIES			
Provision for long service payments		4,741	4,741
Obligations under finance leases		18,300	20,354
Bank loans		2,506,202	2,305,309
Deferred tax liabilities		50,636	41,100
		<u>2,579,879</u>	<u>2,371,504</u>
		<u>4,687,785</u>	<u>4,404,657</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2017

	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 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>
At 1 April 2017 (audited)	101,721	24,097	(88,002)	52,857	2,766	66,142	38,486	1,835,086	2,033,153
Profit for the period	—	—	—	—	—	—	—	75,239	75,239
Other comprehensive income for the period	—	—	40,279	—	—	—	—	—	40,279
Total comprehensive income for the period	—	—	40,279	—	—	—	—	75,239	115,518
Dividend recognised as distribution	—	—	—	—	—	—	—	(40,688)	(40,688)
Repurchase of own shares	(8)	—	—	—	—	—	8	(77)	(77)
At 30 September 2017 (unaudited)	<u>101,713</u>	<u>24,097</u>	<u>(47,723)</u>	<u>52,857</u>	<u>2,766</u>	<u>66,142</u>	<u>38,494</u>	<u>1,869,560</u>	<u>2,107,906</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS*For the six months ended 30 September 2017*

	Six months ended 30 September	
	2017	2016
	(unaudited)	(unaudited)
	<i>HK\$' 000</i>	<i>HK\$' 000</i>
Net cash generated from operating activities	181,107	45,200
Net cash used in investing activities	(84,454)	(625,490)
Net cash generated from financing activities	362,576	246,017
Net increase/(decrease) in cash and cash equivalents	459,229	(334,273)
Cash and cash equivalents at 1 April	401,039	692,019
Effect of foreign exchange rate changes	29,351	(5,182)
Cash and cash equivalents at 30 September	889,619	352,564
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	889,619	352,564

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2017

(1) BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(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 2017 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2017.

In the current interim period, the Group has applied, for the first time, certain amendments to the 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 the 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 but additional disclosures about changes in liabilities arising from financing activities, including both change arising from cash flows and non-cash changes on application of amendments to the Hong Kong Accounting Standard (“HKAS”) 7 “Disclosure Initiative” will be provided in the consolidated financial statements for the year ending 31 March 2018.

The Group has not early applied the new and amendments to HKFRSs that have been issued but are not yet effective. Expected impacts of adopting HKFRS 9 *Financial Instruments* and HKFRS 15 *Revenue from Contracts with Customers* in the period of initial application on the consolidated financial statements are discussed below.

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

(2) PRINCIPAL ACCOUNTING POLICIES *(continued)*

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial assets as at 30 September 2017, the Directors anticipate that the initial application of HKFRS 9 is not expected to have material impact on the classification and measurement of the Group's financial assets. However, the expected credit loss model may result in early provision of credit loss which are not yet incurred in relation of the Group's financial assets measured at amortised cost.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

(2) PRINCIPAL ACCOUNTING POLICIES *(continued)*

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Directors anticipate that the initial application of HKFRS 15 may result in more disclosures, however, it is not expected to have significant impact on amounts reported in the consolidated financial statements based on the assessment on the existing contracts with customers after taking into account the above core principle.

(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 2017 (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>475,294</u>	<u>5,398</u>	<u>54,865</u>	<u>535,557</u>
RESULT				
Segment result	<u>10,545</u>	<u>68,787</u>	<u>31,417</u>	<u>110,749</u>
Bank interest income				975
Unallocated other income				27,079
Unallocated other expenses				(20,243)
Finance costs				(34,094)
Share of result of an associate				(39)
Share of results of joint ventures				<u>2</u>
Profit before taxation				<u>84,429</u>
Income tax expense				<u>(9,190)</u>
Profit for the period				<u><u>75,239</u></u>

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

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	492,862	9,026	43,916	545,804
RESULT				
Segment result	10,605	59,786	20,703	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 result of an associate				(45)
Share of results of joint ventures				(612)
Profit before taxation				50,308
Income tax expense				(18)
Profit for the period				50,290

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 result of an associate, share of results of joint ventures, other income and finance costs. This is the measure reported to the chief operating decision maker 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	
	2017	2016
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong and the PRC	514,225	515,425
North America	5,707	18,186
Europe	5,392	9,145
Others	10,233	3,048
	<u>535,557</u>	<u>545,804</u>

(4) **OTHER INCOME**

	Six months ended 30 September	
	2017	2016
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank interest income	975	1,058
Interest income from held-to-maturity investments	84	49
Reversal of impairment loss on property, plant and equipment	25,400	—
Sundry income	1,385	2,094
	<u>27,844</u>	<u>3,201</u>

(5) OTHER GAINS - NET

	Six months ended 30 September	
	2017	2016
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Gain on disposal of property, plant and equipment	2,168	281
Gain on fair value changes of investments held for trading	773	1,544
Bargain purchase gain arising on acquisition of a subsidiary	—	8,722
Foreign exchange gain/(loss)	3,115	(5,274)
	<u>6,056</u>	<u>5,273</u>

(6) FINANCE COSTS

	Six months ended 30 September	
	2017	2016
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
Bank loans and overdrafts	47,654	43,230
Obligations under finance leases	502	583
Total borrowing costs	48,156	43,813
Less: Amounts capitalised to investment properties and properties under development for sale	(14,062)	(8,920)
	<u>34,094</u>	<u>34,893</u>

(7) **PROFIT BEFORE TAXATION**

	Six months ended 30 September	
	2017	2016
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation has been arrived at after charging:		
Staff costs including directors' emoluments	44,983	35,353
Depreciation of property, plant and equipment	12,475	15,103
Amortisation of prepaid lease payments	151	151
Cost of inventories recognised as an expense	427,237	440,006
Minimum lease payments for operating leases in respect of land and buildings	5,958	6,187
and after crediting:		
Gross rental income	59,387	50,317
Less: Outgoings	(21,617)	(24,249)
Net rental income	<u>37,770</u>	<u>26,068</u>

Minimum lease payments for operating leases in respect of staff quarters amounting to approximately HK\$3,356,000 (six months ended 30 September 2016: HK\$3,121,000) are included in staff costs.

(8) **INCOME TAX EXPENSE**

	Six months ended 30 September	
	2017	2016
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax		
– Hong Kong Profits Tax	—	—
– Other jurisdictions	16	18
Deferred tax		
– Current period	9,174	—
	<u>9,190</u>	<u>18</u>

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

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	
	2017	2016
	(unaudited)	(unaudited)
	<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	75,239	50,290
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,017,205,345	1,019,158,077
Effect of dilutive potential ordinary shares – Share options	7,933,560	6,538,960
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,025,138,905</u>	<u>1,025,697,037</u>

(10) DIVIDENDS

	Six months ended 30 September	
	2017	2016
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividends recognised as distribution during the period:		
2017 final dividend of 3.0 HK cents (2016: 3.0 HK cents) per share	30,516	30,568
2017 special cash dividend of 1.0 HK cent (2016: 1.0 HK cent) per share	10,172	10,189
	<u>40,688</u>	<u>40,757</u>

Subsequent to the end of the reporting period, the Directors proposed an interim dividend of 0.5 HK cent (2016: 0.5 HK cent) per share be paid to the shareholders of the Company whose names appear in the Register of Members on 15 December 2017.

(11) INVESTMENT PROPERTIES

HK\$' 000

FAIR VALUE

At 1 April 2016 (audited)	2,685,101
Additions	75,415
Acquired on acquisition of a subsidiary	676,000
Transfer to properties under development for sale	(219,242)
Increase in fair value recognised in profit or loss - unrealised	191,237
Exchange realignment	(16,526)
	<hr/>
At 31 March 2017 (audited)	3,391,985
Additions	66,085
Increase in fair value recognised in profit or loss - unrealised	76,735
Exchange realignment	39,638
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At 30 September 2017 (unaudited)	<u><u>3,574,443</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 2017 have been arrived at on the basis of a valuation carried out on that date by 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 2017 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 2017 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 either depreciated replacement cost approach or residual approach.

(12) BILLS RECEIVABLES

Bills receivables of approximately HK\$669,000 (31 March 2017: HK\$766,000) are aged within 30 days.

(13) TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS

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\$39,095,000 (31 March 2017: HK\$19,736,000) with an ageing analysis as follows:

	At 30 September 2017 (unaudited) HK\$'000	At 31 March 2017 (audited) HK\$'000
Within 30 days	37,792	15,918
31 to 90 days	585	1,015
91 to 180 days	66	2,151
Over 180 days	652	652
	<u>39,095</u>	<u>19,736</u>

(14) TRADE AND BILLS PAYABLES

The following is an ageing analysis of trade and bills payables presented based on the invoice date:

	At 30 September 2017 (unaudited) HK\$'000	At 31 March 2017 (audited) HK\$'000
Within 30 days	90,060	102,137
31 to 90 days	44,257	22,306
91 to 180 days	633	1,756
Over 180 days	3,668	5,512
	<u>138,618</u>	<u>131,711</u>

(15) SHARE CAPITAL

	Number of shares	Amount <i>HK\$'000</i>
Ordinary shares of HK\$0.1 each		
Authorised:		
At 1 April 2016 (audited), 31 March 2017 (audited) and 30 September 2017 (unaudited)	<u>1,500,000,000</u>	<u>150,000</u>
Issued and fully paid:		
At 1 April 2016 (audited)	1,019,888,962	101,989
Cancelled on repurchase of shares	<u>(2,682,000)</u>	<u>(268)</u>
At 31 March 2017 (audited)	1,017,206,962	101,721
Cancelled on repurchase of shares	<u>(74,000)</u>	<u>(8)</u>
At 30 September 2017 (unaudited)	<u>1,017,132,962</u>	<u>101,713</u>

(16) CAPITAL COMMITMENTS

	At 30 September 2017 (unaudited) <i>HK\$'000</i>	At 31 March 2017 (audited) <i>HK\$'000</i>
Contracted for but not provided:		
Construction and acquisition of properties	16,937	45,911
Acquisition of a subsidiary	<u>318,750</u>	<u>—</u>
	<u>335,687</u>	<u>45,911</u>

(17) RELATED PARTY TRANSACTIONS

- (1) Transaction with a joint venture

Nature of transaction	Six months ended 30 September	
	2017	2016
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Management fee income received by the Group	875	2,625

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

	At 30 September	At 31 March
	2017	2017
	(unaudited)	(audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loan to a joint venture	51,154	51,154
Advance to a joint venture	40,500	40,150
Advance from an associate	4,539	4,555

- (3) The compensation to key management personnel during the period was approximately HK\$18,289,000 (six months ended 30 September 2016: HK\$12,275,000).

(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 and financial 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).

Financial assets/ Financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
	30/09/2017 (unaudited) <i>HK\$'000</i>	31/03/2017 (audited) <i>HK\$'000</i>			
Listed equity securities classified as financial assets at fair value through profit or loss	16,222	33,986	Level 1	Quoted bid prices in an active market	N/A
Unlisted fund investment classified as financial assets at fair value through profit or loss	57,309	56,233	Level 3	Net asset value (Note)	N/A
Unlisted debt securities classified as financial assets at fair value through profit or loss	10,259	7,750	Level 2	Quoted price provided by financial institutions	N/A

(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/ Financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
	30/09/2017 (unaudited) HK\$'000	31/03/2017 (audited) HK\$'000			
Interest rate swaps classified as derivative financial instruments	Liabilities- 2,338	Liabilities- 914	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A
Club debenture classified as available-for-sale investments	27,430	27,430	Level 2	Market prices in secondary markets	N/A

Note: The net asset value is mainly attributable from an underlying unlisted investment with its fair value is determined with reference to the recent transaction price of the investment.

There were no transfers between Level 1 and 2 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 fund investment HK\$'000
At 1 April 2017 (audited)	56,233
Total gain in profit or loss - unrealised	1,076
	<hr/>
At 30 September 2017 (unaudited)	57,309
	<hr/> <hr/>

(19) EVENT AFTER THE END OF THE REPORTING PERIOD

On 23 May 2017, Perfect Way Limited, a wholly owned subsidiary of the Company, entered into a sale and purchase agreement with third parties to acquire the entire issued share capital of Elite Bright Asia Pacific Limited (“Elite”) together with the shareholders’ loan, at a cash consideration of HK\$375,000,000, which is subject to an adjustment based on the net current asset value of Elite on the completion date. The deposit paid of HK\$56,250,000 had been included in the condensed consolidated statement of financial position as at 30 September 2017 as deposit paid for acquisition of a subsidiary. The acquisition has been completed on 3 October 2017. The major assets of Elite are investment properties representing commercial properties situated in Hong Kong. The Directors are of the opinion that the transaction does not constitute a business combination as defined in HKFRS 3, therefore, the acquisition would have been accounted for as an acquisition of assets.

INTERIM DIVIDEND

The Directors resolved to declare an interim dividend of 0.5 HK cent (2016: 0.5 HK cent) per share.

BUSINESS REVIEW

The Group’s turnover for the six months ended 30 September 2017 was approximately HK\$535,557,000 as compared with HK\$545,804,000 over the same period last year. Net profit for the six months ended 30 September 2017 was approximately HK\$75,239,000 as compared with approximately HK\$50,290,000 over the same period in 2016.

During the period under review, the worldwide sales of watches remained stagnant and the Group’s watch manufacturing and watch component trading division recorded a slight decrease in turnover and profit.

However, the Group’s hotel operation achieved satisfactory growth both in terms of revenue and profit margin.

During the same period, the Group’s property development and investment division also benefited from Hong Kong’s strong residential market.

PROSPECTS

As worldwide demand for watches is expected to remain weak, there exists strong competition among manufacturers and the Group anticipates continued pressure on its watch manufacturing and watch component trading business.

On the other hand, the Group’s strategy of upgrading the overall amenities and service of its four boutique hotels has had very positive results and the Group continues its efforts in promoting its brand locally and internationally.

The Group has obtained the occupation permit for its luxurious residential development at 45 Tai Tam Road, Hong Kong, a Joint Venture project with BPE Asia Real Estate Fund L.P., and the internal fitting out work is expected to be completed by the first quarter of 2018.

PROSPECTS *(continued)*

On 3 October 2017, the Group completed its purchase of an office floor located at 15/F, One Island South, Wong Chuk Hang, Hong Kong for investment purpose.

On 19 November 2017, the Group disposed of one of its properties located at Regalia Bay, Wong Ma Kok Road, Hong Kong.

The final closing of the Group's boutique commercial development project 7 St. Thomas, Toronto, Canada will be completed before the end of 2017.

For the Group's multi-phased mixed use project 88 Queen Street East in Toronto, Canada, the construction work for phase I, which has been fully presold, has commenced and detailed planning for the marketing of phase II is well under way.

FINANCIAL REVIEW

Liquidity and financial resources

At 30 September 2017, the Group's total borrowings were approximately HK\$3,787 million. The maturity profile spreads over a period of 25 years, with approximately HK\$1,281 million repayable within one year, approximately HK\$2,033 million within two to five years and approximately HK\$473 million beyond five years.

At 30 September 2017, the Group's gearing ratio was 1.19 (31 March 2017: 1.13) which is calculated based on the Group's long-term bank borrowings of approximately HK\$2,506 million and shareholders' funds of approximately HK\$2,108 million.

At 30 September 2017, the Group's total bank balances and cash was approximately HK\$890 million (31 March 2017: HK\$401 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 2017, 81% of the Group's borrowings was in HK\$, 14% in CAD, 3% in US\$ and 2% in JPY.

At 30 September 2017, 60% of the Group's bank balances and cash was in HK\$, 18% in CAD, 13% in US\$, 5% in JPY and 4% 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 2017, certain properties of the Group of approximately HK\$4,519 million (31 March 2017: HK\$4,404 million) were pledged to secure banking facilities for the Group.

Employees

At 30 September 2017, the Group employed approximately 400 employees in Hong Kong, the PRC and other overseas countries. The staff costs recognised in profit or loss for the period including directors' emoluments amounted to approximately HK\$45 million (six months ended 30 September 2016: HK\$35 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 2017, 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	—	250,813,276 _(L) (note f)	285,701,618 (note a)	536,514,894	52.75%
Mr. Loewe Lee Bon Chi	Managing Director	—	—	315,421,618 (notes a, b)	315,421,618	31.01%
Mr. James Lee Yuen Kui	Managing Director	6,534	—	250,813,276 _(L) (note c) 250,813,276 _(S) (note f)	250,819,810 _(L)	24.66%
Mr. Edward Lee Yuen Cheor	Director	—	—	250,813,276 _(L) (note c) 250,813,276 _(S) (note f)	250,813,276	24.66%
Mr. Ricky Wai Kwong Yuen	Director	—	40,994,543 (note d)	—	40,994,543	4.03%
Dr. Samson Sun, M.B.E., J.P.	Director	—	5,817,864 (note e)	—	5,817,864	0.57%
Mr. William Chan Chak Cheung	Director	330,000	—	—	330,000	0.03%

(L) denotes the person's long position

(S) denotes the person's short position

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) 265,701,618 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) 250,813,276 shares (the "Discretionary Trust 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. Following the exercise of the call option as mentioned in note (f) below on 26 October 2017, Mr. James Lee Yuen Kui and Mr. Edward Lee Yuen Cheor ceased to have any interest in the Discretionary Trust Shares after the exercise date.
- (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..
- (f) Pursuant to an option agreement dated 21 April 2017, a call option was granted to a company wholly owned by Mr. Jimmy Lee Yuen Ching to acquire the Discretionary Trust Shares. This call option was exercised on 26 October 2017 and 250,813,276 shares were transferred to a company wholly owned by Mr. Jimmy Lee Yuen Ching on the same date.

Saved as disclosed above, at 30 September 2017, 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 2017, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 17,050,000 (30 September 2016: 17,050,000), representing 1.68% (30 September 2016: 1.67%) 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 1.4.2017	Granted during the period	Exercised during the period	Forfeited during the period	Expired during the period	Balance at 30.9.2017
Mr. Loewe Lee Bon Chi	18.3.2010	18.3.2010-17.3.2018	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 2017.

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 2017.

Month of repurchase	Number of ordinary shares of HK\$0.1 each	Price per share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
September 2017	<u>74,000</u>	1.04	1.04	<u>77,235</u>

CORPORATE GOVERNANCE

The Company had complied throughout the six months ended 30 September 2017 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 2017, 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, 28 November 2017

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.