NATIONAL ELECTRONICS HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 213)

Interim Results for the six months ended 30 September 2010

UNAUDITED INTERIM RESULTS

The board ("Board") of directors ("Directors") of National Electronics Holdings Limited ("Company") would like to present the interim results of the Company and its subsidiaries (together, "Group") for the six months ended 30 September 2010.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2010

		Six months ended 30 September	
		2010	**2009**
		(unaudited)	**(unaudited)**
	Notes	*HK$'000*	*HK$'000*
Revenue	3	639,756	529,396
Cost of sales		(574,710)	(462,245)
Gross profit		65,046	67,151
Other income	4	3,515	2,410
Other gains and losses	5	(19,555)	31,472
Increase in fair value of investment properties	11	63,641	30,535
Loss on disposal of investment properties		—	(1,694)
Distribution costs		(5,086)	(3,654)
Administrative expenses		(59,289)	(43,778)
Finance costs	6	(9,270)	(11,284)
Share of results of associates		47,068	348
Profit before taxation	7	86,070	71,506
Income tax expenses	8	(17,699)	(8,757)
Profit for the period		**68,371**	**62,749**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

For the six months ended 30 September 2010

		Six months ended 30 September	
		2010	**2009**
		(unaudited)	**(unaudited)**
	Notes	*HK$'000*	*HK$'000*
Other comprehensive income			
Exchange differences arising on translation of foreign operations		(273)	5,615
Reserve realised on disposal of available-for-sale investments		—	(290)
Other comprehensive income for the period		(273)	5,325
Total comprehensive income for the period		68,098	68,074
Earnings per share	9		
Basic		**7.04 cents**	**6.45 cents**
Diluted		**7.04 cents**	**6.45 cents**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2010

	Notes	30 September 2010 (unaudited) HK$'000	31 March 2010 (restated) HK$'000
NON-CURRENT ASSETS			
Investment properties	11	1,010,908	881,108
Property, plant and equipment		353,945	343,743
Prepaid lease payments		13,150	13,991
Interests in associates		143,981	96,913
Interests in jointly controlled entities		—	—
Available-for-sale investments		15,050	15,050
		1,537,034	1,350,805
CURRENT ASSETS			
Inventories		130,439	113,148
Prepaid lease payments		304	644
Investment held for trading		4,119	4,119
Inventory of unsold properties		201,781	230,077
Bills receivables	12	9,000	8,100
Trade receivables, deposits and prepayments	12	92,890	66,608
Amounts due from associates		143,489	143,489
Amounts due from jointly controlled entities		116,000	107,500
Tax recoverable		1,933	1,335
Bank balances and cash		167,948	134,841
		867,903	809,861

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 30 September 2010

	Notes	30 September 2010 (unaudited) HK$'000	31 March 2010 (restated) HK$'000
CURRENT LIABILITIES			
Trade payables and accrued expenses	13	87,220	80,762
Bills payables	13	129,143	95,509
Tax payables		5,416	4,385
Derivative financial instruments		6,734	6,074
Obligations under finance leases		3,474	3,533
Bank loans		590,855	606,121
		822,842	796,384
NET CURRENT ASSETS		45,061	13,477
TOTAL ASSETS LESS CURRENT LIABILITIES		1,582,095	1,364,282
CAPITAL AND RESERVES			
Share capital		96,743	97,213
Reserves		790,276	739,118
TOTAL EQUITY		887,019	836,331
NON-CURRENT LIABILITIES			
Provision for long service payments		3,750	3,750
Derivative financial instruments		13,469	11,627
Obligations under finance leases		4,239	2,360
Bank loans		621,632	468,721
Deferred tax liabilities		51,986	41,493
		695,076	527,951
		1,582,095	1,364,282

(1) BASIS OF PREPARATION

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

(2) PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2010, except as described below.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA.

HKFRS 3 (Revised) "Business Combinations" and HKAS 27 (Revised) "Consolidated and Separate Financial Statements"

The Group applies HKFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 April 2010. The requirements in HKAS 27 (Revised) Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 April 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

Amendment to HKAS 17 "Leases"

As part of Improvements to HKFRSs issued in 2009, HKAS 17 "Leases" has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, lessees were required to classify leasehold land as operating leases and present them as prepaid lease payments in the condensed consolidated statement of financial position. The amendment has removed such a requirement. The amendment requires the classification of leasehold land to be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendment to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 April 2010 based on information that existed at the inception of the leases. Leasehold lands which met finance lease classification have been reclassified from prepaid lease payments to property, plant and equipment retrospectively, resulting in a reclassification from prepaid lease payments with a previous carrying amount of HK$226,318,000 at 1 April 2009 to property, plant and equipment that are measured at cost model. No profit or loss items are affected as a result of the reclassification.

The effect of changes in accounting policies described above on the financial positions of the Group as at 31 March 2010 is as follows:

	As at 31 March 2010 (Originally stated)	**Adjustments**	**As at 31 March 2010 (Restated)**
	HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	131,551	212,192	343,743
Prepaid lease payments	226,827	(212,192)	14,635
Total effects on net assets	358,378	–	358,378

The effect of changes in accounting policies described above on the financial positions of the Group as at 1 April 2009 is as follows:

	As at 1 April 2009 (Originally stated)	Adjustments	As at 1 April 2009 (Restated)
	HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	118,267	226,318	344,585
Prepaid lease payments	256,524	(226,318)	30,206
Total effects on net assets	374,791	–	374,791

The application of other new and revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied new and revised standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

(3) SEGMENT INFORMATION

The following is an analysis of the Group's revenue and result by operating segment for the six months ended 30 September 2010 and 2009:

2010

	Manufacture of watches *HK$'000*	Trading of watch movements *HK$'000*	Property development *HK$'000*	Property investment *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
REVENUE						
External sales	**112,108**	**504,045**	**23,229**	**374**	**—**	**639,756**
Inter-segment sales	**—**	**240**	**—**	**—**	**(240)**	**—**
Total revenue	**112,108**	**504,285**	**23,229**	**374**	**(240)**	**639,756**
RESULT						
Segment result	**5,160**	**13,210**	**(9,002)**	**56,713**	**—**	**66,081**
Interest income						**49**
Unallocated other income						**2,209**
Unallocated other expenses						**(20,067)**
Finance costs						**(9,270)**
Share of results of associates						**47,068**
Profit before taxation						**86,070**
Income tax expenses						**(17,699)**
Profit for the period						**68,371**

2009

	Manufacture of watches *HK$'000*	Trading of watch movements *HK$'000*	Property development *HK$'000*	Property investment *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
REVENUE						
External sales	101,546	374,165	22,791	30,894	—	529,396
Inter-segment sales	—	1,250	—	—	(1,250)	—
Total revenue	101,546	375,415	22,791	30,894	(1,250)	529,396
RESULT						
Segment result	3,870	10,294	1,593	36,822	—	52,579
Interest income						182
Unallocated other income						34,531
Unallocated other expenses						(4,850)
Finance costs						(11,284)
Share of results of associates						348
Profit before taxation						71,506
Income tax expenses						(8,757)
Profit for the period						62,749

Segment result represents the profit earned by 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 chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

Inter-segment sales are charged at cost.

Geographical information

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

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

	Revenue by geographical market	
	2010 *HK$'000*	**2009** *HK$'000*
Hong Kong and the PRC	526,693	381,742
North America	41,944	71,079
Europe	64,317	69,086
Others	6,802	7,489
	639,756	529,396

(4) OTHER INCOME

	Six months ended 30 September	
	2010	**2009**
	HK$'000	*HK$'000*
Bank interest income	49	182
Management fee income received from associates	974	513
Management fee income received from a jointly controlled entity	1,196	–
Sundry income	1,296	1,715
	3,515	2,410

(5) OTHER GAINS AND LOSSES

	Six months ended 30 September	
	2010	**2009**
	HK$'000	*HK$'000*
Gain on disposal of available-for-sale investments	—	38
Gain on disposal of property, plant and equipment	—	21,036
Loss on fair value change of investment held for trading	—	(154)
Loss on fair value changes of derivative financial instruments	(7,821)	(1,870)
Net foreign exchange (losses) / gains	(11,734)	12,422
	(19,555)	31,472

(6) FINANCE COSTS

	Six months ended 30 September	
	2010	**2009**
	HK$'000	*HK$'000*
Interest on:		
Bank loans and overdrafts		
– wholly repayable within five years	10,289	12,399
– not wholly repayable within five years	2,760	2,292
Obligations under finance leases	222	168
Total borrowing costs	13,271	14,859
Less: Amount capitalised to investment properties	(4,001)	(3,575)
	9,270	11,284

(7) PROFIT BEFORE TAXATION

	Six months ended 30 September	
	2010	**2009**
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Allowance for inventories	104	775
Depreciation of property, plant and equipment	14,308	13,571
Staff costs including directors' emoluments	53,666	42,985
Less : Amount capitalised to investment properties	(7,162)	(8,949)
	46,504	34,036
Amortisation of prepaid lease payments	153	341
Cost of inventories recognised as an expense	574,606	461,470
Minimum lease payments for operating leases in respect of land and buildings	3,860	4,402
and after crediting:		
Gross rental income	374	1,230
Less: Outgoings	(95)	(92)
Net rental income	279	1,138

Minimum lease payments for operating leases in respect of staff quarters amounting to HK$2,503,000 (2009: HK$201,000) are included in staff costs.

(8) INCOME TAX EXPENSES

	Six months ended 30 September	
	2010	**2009**
	HK$'000	*HK$'000*
Current tax		
Hong Kong profits tax	7,207	1,132
Other jurisdictions	—	140
Deferred tax	10,492	7,485
	17,699	8,757

Hong Kong profits tax has been provided for at 16.5% (2009: 16.5%) on the estimated assessable profit for the six months ended 30 September 2010.

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	
	2010	**2009**
	HK$'000	*HK$'000*
Earning		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share and diluted earnings per share	68,371	62,749
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	970,719,218	972,494,485
Effect of dilutive potential ordinary shares		
– Share options	670,407	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	971,389,625	972,494,485

(10) DIVIDENDS

	Six months ended 30 September	
	2010	**2009**
	HK$'000	*HK$'000*
Dividends recognized as distribution 2010 final dividend of 1.5 HK cents (2009: 1.5 HK cents) per ordinary share	14,581	14,589

Subsequent to the end of the reporting period, the directors proposed an interim dividend of 0.5 HK cent per share (2009: 0.5 HK cent per share) be paid to the shareholders of the Company whose names appear in the Register of Members on 20 December 2010.

(11) INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 April 2009	1,045,505
Additions	162,737
Increase in fair value recognised in profit or loss	57,000
Transfer to inventory of unsold properties	(110,490)
Disposals	(296,000)
Exchange realignment	22,356
At 31 March 2010	881,108
Additions	65,690
Increase in fair value recognised in profit or loss	63,641
Exchange realignment	469
At 30 September 2010	**1,010,908**

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The fair value of the Group's investment properties situated in Hong Kong and the PRC at 30 September 2010 have been arrived at on the basis of a valuation carried out on that date by DTZ Debenham Tie Leung Limited and Knight Frank Petty Limited respectively, independent qualified professional valuers not connected with the Group. DTZ Debenham Tie Leung Limited and Knight Frank Petty Limited are members of the Hong Kong Institute of Surveyors and they have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to market evidence of recent transaction prices for similar properties in the same locations and conditions.

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

Bills receivables with full recourse of HK$9,000,000 (31 March 2010: HK$8,100,000) are aged within 30 days.

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

Included in trade receivables, deposits and prepayments are trade receivables net of allowance for doubtful debts of HK$61,677,000 (31 March 2010: HK$37,485,000) with an aged analysis as follows:

	At 30 September 2010 *HK$'000*	At 31 March 2010 *HK$'000*
Within 30 days	32,578	28,650
31 to 90 days	16,960	3,319
91 to 180 days	8,572	2,847
Over 180 days	3,567	2,669
	61,677	37,485

(13) BILLS PAYABLES, TRADE PAYABLES AND ACCRUED EXPENSES

Included in bills payables, trade payables and accrued expenses are trade payables of HK$163,077,000 (31 March 2010: HK$123,308,000) with an aged analysis as follows:

	At 30 September 2010 *HK$'000*	At 31 March 2010 *HK$'000*
Within 30 days	102,481	89,951
31 to 90 days	55,844	32,054
91 to 180 days	3,592	968
Over 180 days	1,160	335
	163,077	123,308

(14) CONTINGENT LIABILITIES AND COMMITMENTS

	At 30 September 2010 *HK$'000*	At 31 March 2010 *HK$'000*
Contingent liabilities:		
Other guarantees	559	559
Capital commitments:		
Contracted for but not provided:		
Construction of properties	131,345	108,291

(15) SIGNIFICANT RELATED PARTY TRANSACTIONS

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

(1) Transaction with associates

	Six months ended 30 September	
	2010	**2009**
	HK$'000	*HK$'000*
Nature of transaction		
Management fee income received by the Group	974	513

(2) Transaction with a jointly controlled entity

	Six months ended 30 September	
	2010	**2009**
	HK$'000	*HK$'000*
Nature of transaction		
Management fee income received by the Group	1,196	–

(3) The Group's balances with related parties are set out in the condensed consolidated statement of financial position.

(4) The remuneration of directors relating to short-term benefits, post-employment benefits and share based payments during the period was approximately HK$8,101,000 (2009: HK$8,156,000).

INTERIM DIVIDEND

The Directors resolved to declare an interim dividend of 0.5 HK cent per share (2009: 0.5 HK cent per share).

BUSINESS REVIEW

The Group's turnover for the six months ended 30 September 2010 was HK$639,756,000 as compared with HK$529,396,000 over the same period last year. Net profit for the six months ended 30 September 2010 was HK$68,371,000 as compared with HK$62,749,000 over the same period in 2009.

During the period under review, the profit margin of the Group's watch component trading division decreased slightly due to the appreciation of the Japanese Yen versus the US Dollar and HK Dollar. The Group's watch manufacturing division was able to maintain its margins.

In the same period, the Group disposed of the remaining townhouse of our One St. Thomas project in Toronto, Canada.

PROSPECTS

The Group's watch and watch component trading division expects continuous satisfactory demand for its high function watches and watch movements. However it will be a challenge to maintain the overall profit margin as the effect of the second quantitative easing by the United States government may cause further depreciation in both the US Dollar and the HK Dollar, thus increasing the Group's labour and material costs.

During the period under review, the Group enjoyed satisfactory occupancy rates for its two joint venture hotel projects, The Putman and Le Rivage.

The Group's 50 Connaught Road Central development, a joint venture Grade A office building in Central, is on schedule. It will be completed by the first quarter of 2011.

The Group's own four boutique hotel projects will be completed in the next two years:

(1) No. 87 – 89 Jervois Street, Hong Kong is scheduled to be completed by the second quarter of 2011;

(2) 21 Whitfield Road is scheduled to be completed during the third quarter of 2011;

(3) No. 99, 101 and 103 Bonham Strand and 127 Wing Lok Street is scheduled to be completed during the fourth quarter of 2011;

(4) 194 – 196 Queen's Road Central is scheduled to be completed by the third quarter of 2012.

The Group's joint venture residential development project at 45 Tai Tam Road is expected to be completed by 2013.

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

FINANCIAL REVIEW

Liquidity and financial resources

At 30 September 2010, the Group's total borrowings were HK$1,212 million. The maturity profile spreads over a period of 28 years, with HK$591 million repayable within one year, HK$417 million within two to five years and HK$204 million beyond five years.

At 30 September 2010, the Group's gearing ratio was 0.7 (31 March 2010: 0.6) which is calculated based on the Group's long-term bank borrowings of approximately HK$622 million and shareholders' funds of approximately HK$887 million.

At 30 September 2010, the Group's total bank balances and cash was approximately HK$168 million (31 March 2010: HK$135 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 2010, 74% of the Group's borrowings was in HK$, 7% in US$, 12% in JPY and 7% in CAD.

At 30 September 2010, 54% of the Group's bank balances and cash was in HK$, 23% in US$, 11% in CAD, 9% in JPY, 2% in EUR and 1% in others.

All the Group's borrowings are variable-rate borrowings. The Group will carefully monitor its foreign exchange and interest rate exposures and 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 2010, certain properties of the Group of approximately HK$1,434 million (31 March 2010: HK$1,337 million) were pledged to secure banking facilities for the Group.

Employees

At 30 September 2010, the Group employed approximately 1,800 employees in Hong Kong, the PRC and other overseas countries. The staff costs for the period including director's emoluments amounted to HK$54 million (2009: HK$43 million). Remuneration is determined by reference to market terms as well as the qualifications and experiences of the staff concerned. Salaries are reviewed annually and discretionary bonuses may be paid depending on individual performance and the profitability of the Group.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 September 2010 the Company repurchased a total of 4,700,000 shares of HK$0.10 each of the Company on The Stock Exchange of Hong Kong Limited, all of which shares were cancelled upon repurchase. Particulars of the shares repurchased are as follows:

Month of repurchase	Number of ordinary shares of HK$0.1 each	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HK$	HK$	HK$
April 2010	20,000	0.550	0.550	11,112
August 2010	4,680,000	0.610	0.590	2,818,265
	4,700,000			2,829,377

CORPORATE GOVERNANCE

The Company has complied throughout the six months ended 30 September 2010 with the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

AUDIT COMMITTEE

The Company has established an Audit Committee and its members comprise Dr. Samson Sun, M.B.E., J.P., Mr. Chan Chak Cheung, William and Mr. Chan Kwok Wai who are all independent non-executive directors. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters. The interim results for the six months ended 30 September 2010, which have not been audited, have been reviewed by the Audit Committee.

MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiries to all directors who have confirmed that, during the period under review, they have complied with the required standard set out in the Model Code.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 20 December 2010 to 24 December 2010 (both days inclusive) during which no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, should be lodged with the Company's share registrar in Hong Kong, Tricor Standard Limited, 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on 17 December 2010.

PUBLICATION OF INTERIM REPORT

The interim report of the Company for the six months ended 30 September 2010 containing all applicable information required by Appendix 16 of the Listing Rules will be published on the Stock Exchange's website (http://www.hkex.com.hk) and on the Company's website (http://www.irasia.com/listco/hk/national/index.htm) in due course.

By Order of the Board
LEE YUEN CHING JIMMY
Chairman

Hong Kong, 24 November 2010

As at the date of this announcement, the executive Directors are Mr. Lee Yuen Ching, Jimmy, Mr. Lee Yuen Kui, James, Mr. Lee Bon Chi, Loewe, Mr. Lee Yuen Cheor, Edward and Mr. Wai Kwong Yuen, Ricky, 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.