# NATIONAL ELECTRONICS HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 213)**

## Interim Results Announcement for the six months ended 30 September 2018

## UNAUDITED INTERIM RESULTS

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 2018.

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the six months ended 30 September 2018*

| | | **Six months ended 30 September** | |
|---|---|---|---|
| | | **2018** | **2017** |
| | | **(unaudited)** | **(unaudited)** |
| | *Notes* | *HK$'000* | *HK$'000* |
| Revenue | 3 | 474,242 | 535,557 |
| Cost of sales | | (394,138) | (455,806) |
| Gross profit | | 80,104 | 79,751 |
| Other income | 4 | 3,898 | 27,844 |
| Other gains - net | 5 | 2,615 | 6,056 |
| Increase in fair value of investment properties | 11 | 125,390 | 76,735 |
| Distribution costs | | (5,410) | (5,313) |
| Administrative expenses | | (84,234) | (66,513) |
| Finance costs | 6 | (42,124) | (34,094) |
| Share of result of an associate | | (34) | (39) |
| Share of results of joint ventures | | (5,664) | 2 |
| Profit before taxation | 7 | 74,541 | 84,429 |
| Income tax expense | 8 | (3,133) | (9,190) |
| **Profit for the period** | | **71,408** | **75,239** |
| **Earnings per share** | 9 | | |
| **Basic** | | **6.96 HK cents** | **7.40 HK cents** |
| **Diluted** | | **6.96 HK cents** | **7.34 HK cents** |

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

*For the six months ended 30 September 2018*

| | Six months ended 30 September | |
|---|---|---|
| | **2018** | **2017** |
| | **(unaudited)** | **(unaudited)** |
| | *HK$'000* | *HK$'000* |
| **Profit for the period** | **71,408** | **75,239** |
| Other comprehensive (expense) / income | | |
| *Items that may be subsequently reclassified to profit or loss* | | |
| Exchange differences arising on translation of foreign operations | (12,198) | 40,279 |
| Fair value loss on other assets at fair value through other comprehensive income | (200) | — |
| Other comprehensive (expense) / income for the period | (12,398) | 40,279 |
| **Total comprehensive income for the period** | **59,010** | **115,518** |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 30 September 2018*

| | Notes | 30 September 2018 (unaudited) HK$'000 | 31 March 2018 (audited) HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Investment properties | 11 | 3,794,468 | 3,652,884 |
| Property, plant and equipment | | 454,380 | 464,554 |
| Prepaid lease payments | | 2,539 | 2,573 |
| Goodwill | | 1,270 | 1,270 |
| Interest in an associate | | 7,442 | 7,476 |
| Interests in joint ventures | | 364,469 | 370,133 |
| Other assets at fair value through other comprehensive income | | 26,000 | — |
| Available-for-sale investments | | — | 26,200 |
| Debt instruments at amortised cost | | 3,280 | — |
| Held-to-maturity investments | | — | 3,483 |
| Deferred tax assets | | 3,404 | 3,449 |
| | | 4,657,252 | 4,532,022 |
| **CURRENT ASSETS** | | | |
| Inventories | | 140,215 | 165,511 |
| Prepaid lease payments | | 68 | 68 |
| Financial assets at fair value through profit or loss | | 174,035 | 157,199 |
| Inventory of unsold properties | | 6,116 | 6,174 |
| Properties under development for sale | | 472,719 | 396,497 |
| Bills receivables | 12 | 752 | 667 |
| Trade receivables, deposits and prepayments | 13 | 90,730 | 81,020 |
| Amount due from a joint venture | | 42,115 | 41,651 |
| Tax recoverable | | 21 | 523 |
| Derivative financial instruments | | 1,105 | — |
| Bank balances and cash | | 708,502 | 864,810 |
| | | 1,636,378 | 1,714,120 |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
(continued)
*At 30 September 2018*

| | Notes | 30 September 2018 (unaudited) HK$'000 | 31 March 2018 (audited) HK$'000 |
|---|---|---|---|
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | 14 | 110,990 | 126,271 |
| Customers' deposits | | 227,950 | 227,133 |
| Trade deposits, accrued expenses and other payables | | 103,445 | 98,011 |
| Amount due to an associate | | 4,555 | 4,555 |
| Tax payable | | 7,643 | 13,858 |
| Derivative financial instruments | | — | 225 |
| Obligations under finance leases | | 4,240 | 4,155 |
| Bank loans | | 633,350 | 772,764 |
| | | 1,092,173 | 1,246,972 |
| **NET CURRENT ASSETS** | | 544,205 | 467,148 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 5,201,457 | 4,999,170 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | | 102,392 | 102,806 |
| Reserves | | 2,143,363 | 2,129,711 |
| **TOTAL EQUITY** | | 2,245,755 | 2,232,517 |
| **NON-CURRENT LIABILITIES** | | | |
| Provision for long service payments | | 2,954 | 2,954 |
| Obligations under finance leases | | 14,061 | 16,199 |
| Bank loans | | 2,867,724 | 2,680,000 |
| Deferred tax liabilities | | 70,963 | 67,500 |
| | | 2,955,702 | 2,766,653 |
| | | 5,201,457 | 4,999,170 |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 September 2018*

### (1) BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the Hong Kong Accounting Standard ("HKAS") 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 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2018.

**New and amended Hong Kong Financial Reporting Standards ("HKFRSs") adopted by the Group**

A number of new or amended standards became applicable for the current reporting period. Those that are relevant to the Group's condensed consolidated interim financial information are as follows:

- HKFRS 9 "*Financial Instruments*"; and

- HKFRS 15 "*Revenue from Contracts with Customers*".

The impact of the adoption of these standards and the new accounting policy are disclosed below. The other standards did not have material impact on the Group's accounting policies and did not require any adjustments.

The below explains the impact of adoption of HKFRS 9 "*Financial Instruments*" ("HKFRS 9") and HKFRS 15 "*Revenue from Contracts with Customers*" ("HKFRS 15") on the Group's condensed consolidated interim financial information:

***Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments"***

In the current period, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (i) the classification and measurement of financial assets and financial liabilities, (ii) expected credit losses ("ECL") for financial assets and (iii) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 April 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 April 2018. The difference between carrying amounts as at 31 March 2018 and the carrying amounts as at 1 April 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVTOCI") and at fair value through profit or loss ("FVTPL"). On initial recognition the Group makes an election to designate the equity investments at FVTOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained profits. It is not recycled through profit or loss. Dividends from equity investments, irrespective of whether classified as at FVTPL or FVTOCI (non-recycling), are recognised in profit or loss as other income when the Group's right to receive payments is established.

The Group's financial assets measured at amortised cost and FVTPL continue with their respective classification and measurements upon initial application of HKFRS 9.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liabilities' credit risk to be recognised in other comprehensive income (non-recycling). The Group does not have any financial liabilities designated at FVTPL and therefore the new requirement on financial liabilities does not have any impact on the Group.

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with Expected Credit Loss model ("ECL model"). Under the ECL model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. From 1 April 2018, the Group applies the new ECL model to financial assets measured at amortised cost. The Group applies the simplified approach permitted by HKFRS 9 for trade receivables which requires expected lifetime losses to be recognised from initial recognition of the receivables. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

*Summary of effects arising from initial application of HKFRS 9*

On 1 April 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The Group elected to present in other comprehensive income for the fair value changes of the investments previously classified as available-for-sale investments, of which previously measured at fair value under HKAS 39, as the investments are not held for trading and not expected to be sold in the foreseeable future. As at the date of initial application of HKFRS 9, financial assets with a fair value of approximately HK$26,200,000 were reclassified from available-for-sale investments to other assets at FVTOCI, financial assets with a fair value of approximately HK$3,280,000 were reclassified from held-to-maturity investments to debt instruments at amortised cost and reserve amount of approximately HK$14,467,000 were reclassified from the investments revaluation reserve to the FVTOCI reserve.

The table below illustrates the classification of financial assets under HKFRS 9 and HKAS 39 at the date of initial application, 1 April 2018. Line items that were not affected by the changes have not been included.

| | **Available-for-sale investments** | **Other assets at FVTOCI** | **Held-to-maturity investments** | **Debt instruments at amortised cost** | **Revaluation reserve** | **FVTOCI reserve** |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 31 March 2018 (audited) - HKAS 39 | 26,200 | — | 3,280 | — | 51,627 | — |
| Reclassification upon initial application of HKFRS 9 | (26,200) | 26,200 | (3,280) | 3,280 | (14,467) | 14,467 |
| At 1 April 2018 (unaudited) | — | 26,200 | — | 3,280 | 37,160 | 14,467 |

***HKFRS 15 "Revenue from Contracts with Customers"***

The Group has adopted HKFRS 15 from 1 April 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the condensed consolidated interim financial information. The Group has adopted the modified retrospective approach with the cumulative effect on initial adoption recognised at the date of initial application, which is 1 April 2018, and comparative information has not been restated.

Previously, revenue from manufacture of watches and trading of watch movements and property development and investment were generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised goods or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised goods or service is regarded as being transferred over time:

A — When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B — When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced; or

C — When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The Group has the revenue which is recognised at a point in time under HKFRS 15, namely (i) manufacture of watches and trading of watch movements and (ii) property development and investment. Gross rental income from leasing of properties and hotel operation are specifically excluded from the scope of HKFRS 15. Management has performed an assessment and concluded that the implementation of HKFRS 15 does not result in any significant impact on the Group's financial position and results of operations.

HKFRS 15 does not prohibit an entity from using alternative descriptions in the statement of financial position for contract assets and contract liabilities, provided that sufficient information is available for a financial statements user to distinguish between receivables and contract assets, payables and contract liabilities. The Group does not have any significant contract asset and continues to include contract liability in "customers' deposits" in the condensed consolidated statement of financial position. The amounts of contract liability were approximately HK$227,950,000 and HK$218,962,000 as at 30 September 2018 and 31 March 2018 respectively.

**Impact of standards issued but not yet effective**

***HKFRS 16 "Leases" ("HKFRS 16")***

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "*Leases*" ("HKAS 17") and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

## (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 2018 (unaudited)**

| | Manufacture of watches and trading of watch movements | Property development and investment | Hotel operation | Consolidated |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **REVENUE** | | | | |
| External sales | 408,344 | 2,556 | 63,342 | 474,242 |
| **RESULT** | | | | |
| Segment result | 8,090 | 92,229 | 35,532 | 135,851 |
| Bank interest income | | | | 2,957 |
| Unallocated other income | | | | 2,494 |
| Unallocated other expenses | | | | (18,939) |
| Finance costs | | | | (42,124) |
| Share of result of an associate | | | | (34) |
| Share of results of joint ventures | | | | (5,664) |
| Profit before taxation | | | | 74,541 |
| Income tax expense | | | | (3,133) |
| Profit for the period | | | | 71,408 |

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

Six months ended 30 September 2017 (unaudited)

| | Manufacture of watches and trading of watch movements *HK$'000* | Property development and investment *HK$'000* | Hotel operation *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|---|
| **REVENUE** | | | | |
| External sales | 475,294 | 5,398 | 54,865 | 535,557 |
| **RESULT** | | | | |
| Segment result | 10,545 | 68,787 | 31,417 | 110,749 |
| 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 | | | | 2 |
| Profit before taxation | | | | 84,429 |
| Income tax expense | | | | (9,190) |
| Profit for the period | | | | 75,239 |

Segment result represents the profit earned by each segment without allocation of central administration costs, 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 | |
|---|---|---|
| | **2018** | **2017** |
| | **(unaudited)** | **(unaudited)** |
| | *HK$'000* | *HK$'000* |
| Hong Kong and the PRC | 459,351 | 514,225 |
| North America | 3,473 | 5,707 |
| Europe | 8,634 | 5,392 |
| Others | 2,784 | 10,233 |
| | 474,242 | 535,557 |

**(4) OTHER INCOME**

| | Six months ended 30 September | |
|---|---|---|
| | **2018** | **2017** |
| | **(unaudited)** | **(unaudited)** |
| | *HK$'000* | *HK$'000* |
| Bank interest income | 2,957 | 975 |
| Interest income from debt instruments at amortised cost | 224 | — |
| Interest income from held-to-maturity investments | — | 84 |
| Reversal of impairment loss on property, plant and equipment | — | 25,400 |
| Sundry income | 717 | 1,385 |
| | 3,898 | 27,844 |

## (5) OTHER GAINS — NET

| | Six months ended 30 September | |
|---|---|---|
| | **2018** | **2017** |
| | **(unaudited)** | **(unaudited)** |
| | *HK$'000* | *HK$'000* |
| Gain on disposal of property, plant and equipment | — | 2,168 |
| Gain on fair value changes of investments held for trading | 2,615 | 773 |
| Foreign exchange gain | — | 3,115 |
| | 2,615 | 6,056 |

## (6) FINANCE COSTS

| | Six months ended 30 September | |
|---|---|---|
| | **2018** | **2017** |
| | **(unaudited)** | **(unaudited)** |
| | *HK$'000* | *HK$'000* |
| Interest on: | | |
| Bank loans and overdrafts | 57,946 | 47,654 |
| Obligations under finance leases | 418 | 502 |
| Total borrowing costs | 58,364 | 48,156 |
| Less: Amounts capitalised to investment properties and properties under development for sale | (16,240) | (14,062) |
| | 42,124 | 34,094 |

## (7) PROFIT BEFORE TAXATION

| | Six months ended 30 September | |
|---|---|---|
| | **2018** | **2017** |
| | **(unaudited)** | **(unaudited)** |
| | *HK$'000* | *HK$'000* |
| Profit before taxation has been arrived at after charging: | | |
| Staff costs including directors' emoluments | 55,904 | 44,983 |
| Depreciation of property, plant and equipment | 13,377 | 12,475 |
| Amortisation of prepaid lease payments | 151 | 151 |
| Cost of inventories recognised as an expense | 366,399 | 427,237 |
| Minimum lease payments for operating leases in respect of land and buildings | 6,108 | 5,958 |
| and after crediting: | | |
| Gross rental income | 65,898 | 59,387 |
| Less: Outgoings | (22,899) | (21,617) |
| Net rental income | 42,999 | 37,770 |

Minimum lease payments for operating leases in respect of staff quarters amounting to approximately HK$4,500,000 (six months ended 30 September 2017: HK$3,356,000) are included in staff costs.

## (8) INCOME TAX EXPENSE

| | Six months ended 30 September | |
|---|---|---|
| | **2018** | **2017** |
| | **(unaudited)** | **(unaudited)** |
| | *HK$'000* | *HK$'000* |
| Current tax | | |
| - Hong Kong Profits Tax | — | — |
| - Other jurisdictions | 55 | 16 |
| Deferred tax | | |
| - Current period | 3,078 | 9,174 |
| | 3,133 | 9,190 |

Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 September 2017: 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 | |
|---|---|---|
| | **2018** | **2017** |
| | **(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 | 71,408 | 75,239 |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 1,025,725,454 | 1,017,205,345 |
| Effect of dilutive potential ordinary shares - Share options | — | 7,933,560 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | 1,025,725,454 | 1,025,138,905 |

## (10) DIVIDENDS

| | Six months ended 30 September | |
|---|---|---|
| | **2018** | **2017** |
| | **(unaudited)** | **(unaudited)** |
| | *HK$'000* | *HK$'000* |
| Dividends recognised as distribution during the period: | | |
| 2018 final dividend of 3.0 HK cents (2017: 3.0 HK cents) per share | 30,751 | 30,516 |
| 2018 special cash dividend of 1.0 HK cent (2017: 1.0 HK cent) per share | 10,250 | 10,172 |
| | 41,001 | 40,688 |

Subsequent to the end of the reporting period, the Directors proposed an interim dividend of 0.5 HK cent (2017: 0.5 HK cent) per share be paid to the shareholders of the Company whose names appear in the Register of Members on 14 December 2018.

## (11) INVESTMENT PROPERTIES

| | HK$'000 |
|---|---|
| **FAIR VALUE** | |
| At 1 April 2017 (audited) | 3,391,985 |
| Additions | 190,533 |
| Acquired on an acquisition of a subsidiary | 376,339 |
| Disposals | (84,000) |
| Disposal of subsidiaries | (490,000) |
| Transfer to properties under development for sale | (5,209) |
| Increase in fair value recognised in profit or loss - unrealised | 246,758 |
| Exchange realignment | 26,478 |
| At 31 March 2018 (audited) | 3,652,884 |
| Additions | 37,282 |
| Increase in fair value recognised in profit or loss - unrealised | 125,390 |
| Transfer to properties under development for sale | (3,460) |
| Exchange realignment | (17,628) |
| **At 30 September 2018 (unaudited)** | **3,794,468** |

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 2018 have been arrived at on the basis of a valuation carried out on that date by Cushman & Wakefield Limited and Jones Lang LaSalle Limited, independent qualified professional valuers not connected with the Group.

The fair value of the investment property located in Canada at 30 September 2018 has been arrived at on the basis of a valuation carried out on that date by CBRE Limited, independent qualified professional valuer not connected with the Group.

The fair value of the investment property located in the PRC at 30 September 2018 has been arrived at on the basis of a valuation carried out on that date by Knight Frank Petty Limited, independent qualified professional valuer not connected with the Group.

The fair value of the Group's investment property located in the United Kingdom at 30 September 2018 has been arrived at on the basis of a valuation carried out by Savills (UK) Limited, independent qualified professional valuer not connected with the Group.

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

The fair value of the investment properties under construction located in Hong Kong and the PRC was determined by using residual approach with the basis that the investment properties will be developed and completed in accordance with the latest development proposals and taken into account the construction costs that will be expended to complete the development to reflect the quality of the completed development.

**(12) BILLS RECEIVABLES**

Bills receivables of approximately HK$752,000 (31 March 2018: HK$667,000) 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$33,385,000 (31 March 2018: HK$33,224,000) with an ageing analysis as follows:

| | **At 30 September 2018 (unaudited)** *HK$'000* | **At 31 March 2018 (audited)** *HK$'000* |
|---|---|---|
| Within 30 days | 32,255 | 32,512 |
| 31 to 90 days | 8 | 56 |
| 91 to 180 days | 17 | 1 |
| Over 180 days | 1,105 | 655 |
| | 33,385 | 33,224 |

**(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 2018 (unaudited)** *HK$'000* | **At 31 March 2018 (audited)** *HK$'000* |
|---|---|---|
| Within 30 days | 61,823 | 101,597 |
| 31 to 90 days | 46,915 | 19,478 |
| 91 to 180 days | 193 | 1,279 |
| Over 180 days | 2,059 | 3,917 |
| | 110,990 | 126,271 |

## INTERIM DIVIDEND

The Directors resolved to declare an interim dividend of 0.5 HK cent (2017: 0.5 HK cent) per share.

## BUSINESS REVIEW

The Group's turnover for the six months ended 30 September 2018 was approximately HK$474,242,000 as compared with HK$535,557,000 over the same period last year. Net profit for the six months ended 30 September 2018 was approximately HK$71,408,000 as compared with approximately HK$75,239,000 over the same period in 2017.

During the period under review, the Group's sales of analogue quartz watch products remained weak and the Group's watch manufacturing and watch component trading recorded a decrease in turnover and profit.

At the same time, the Group's hotel operation continued to grow and achieved higher revenue and profit.

During the same period, the Group's property development and investment division's performance was satisfactory.

## PROSPECTS

As the current trade war between the United States and the PRC creates a significant overhang on the world economy, demand for consumer products made in the PRC continues to be weak. The Group expects a challenging year ahead for its watch manufacturing and watch component trading business.

With regard to the Group's boutique hotel business, the Group continues to reap positive results and reviews as the Group's hotel brands strengthen their presence locally and internationally.

The Group has obtained the Certificate of Compliance 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 previews of the project have commenced.

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, is well underway and first occupancy is expected to begin around the end of 2019.

## FINANCIAL REVIEW

### Liquidity and financial resources

At 30 September 2018, the Group's total borrowings were approximately HK$3,501 million. The maturity profile spreads over a period of 25 years, with approximately HK$633 million repayable within one year, approximately HK$2,178 million within two to five years and approximately HK$690 million beyond five years.

At 30 September 2018, the Group's gearing ratio was 1.28 (31 March 2018: 1.20) which is calculated based on the Group's long-term bank borrowings of approximately HK$2,868 million and shareholders' funds of approximately HK$2,246 million.

At 30 September 2018, the Group's total bank balances and cash was approximately HK$709 million (31 March 2018: HK$865 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 2018, 84% of the Group's borrowings was in HKD, 10% in CAD, 3% in JPY, 2% in USD and 1% in GBP.

At 30 September 2018, 49% of the Group's bank balances and cash was in HKD, 18% in USD, 13% in CAD, 12% in JPY, 5% in RMB and 3% in GBP.

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 2018, certain properties and bank deposits of the Group of approximately HK$4,592 million (31 March 2018: HK$4,334 million) were pledged to secure banking facilities for the Group.

**Employees**

At 30 September 2018, the Group employed approximately 300 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$56 million (six months ended 30 September 2017: HK$45 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

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 2018.

| Month of repurchase | Number of ordinary shares of HK$0.1 each | Price per share Highest | Price per share Lowest | Aggregate consideration paid (including expenses) |
|---|---|---|---|---|
| | | *HK$* | *HK$* | *HK$* |
| April 2018 | 1,300,000 | 1.15 | 1.14 | 1,489,838 |
| May 2018 | 552,000 | 1.14 | 1.14 | 631,533 |
| June 2018 | 300,000 | 1.16 | 1.15 | 348,924 |
| July 2018 | 898,000 | 1.16 | 1.16 | 1,045,464 |
| August 2018 | 802,000 | 1.16 | 1.14 | 919,597 |
| September 2018 | 296,000 | 1.14 | 1.13 | 337,757 |
| | 4,148,000 | | | 4,773,113 |

## CORPORATE GOVERNANCE

The Company had complied throughout the six months ended 30 September 2018 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 2018, 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.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 12 December 2018 to Friday, 14 December 2018 (both days inclusive) for determining the entitlement to the interim dividend, during which no transfer of shares will be registered.

The record date for the interim dividend is at the close of business of Friday, 14 December 2018. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrar and Transfer Office in Hong Kong, Tricor Standard Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 11 December 2018.

The interim dividend is expected to be paid on or about Friday, 28 December 2018.

## PUBLICATION OF INTERIM REPORT

The interim report of the Company for the six months ended 30 September 2018 containing all applicable information required by Appendix 16 of the Listing Rules will be published on the Stock Exchange's website (http://www.hkexnews.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, 26 November 2018

*As at the date of this announcement, the Executive Directors of the Company 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.*