

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in National Electronics Holdings Limited, you should at once hand this circular to the purchaser or transferee or the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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NATIONAL ELECTRONICS HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 213)

MAJOR TRANSACTION

ACQUISITION OF PROPERTY

8 June 2006

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DEFINITIONS

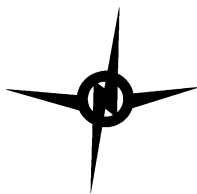
In this circular, the following expressions have the following meanings unless the context requires otherwise:

“Acquisition”	the proposed acquisition of the Property by Panteria pursuant to the Agreement dated 11 April 2006;
“Agreement”	the agreement dated 11 April 2006 between the Vendor and Panteria for the sale and purchase of the Property;
“Company”	National Electronics Holdings Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Stock Exchange;
“Deloitte”	Deloitte Touche Tohmatsu, certified public accountants
“Directors”	the directors of the Company;
“DTZ”	DTZ Debenham Tie Leung Limited, an independent valuer;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars
“Independent Third Party(ies)”	(an) independent third party(ies) not connected with the Directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or their respective associates as defined in the Listing Rules;
“Latest Practical Date”	5 June 2006 being the latest practicable date prior to the printing of this circular for ascertaining certain information contain in this circular;
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange;
“Panteria”	Panteria International Limited, a company incorporated in the British Virgin Islands which is a wholly-owned subsidiary of the Company;
“Property”	all those pieces or parcels of ground registered in the Land Registry as The Remaining Portion of Inland Lot no. 3309 and the Remaining Portion of Inland Lot no. 3310 Together with the messuages erections and buildings erected thereon known as “ELEGANT COURT” at No. 21 Whitfield Road, North Point, Hong Kong with a total site area of 1,984 square feet;
“SFO”	Securities and Future Ordinance (Chapter 571) of the Laws of Hong Kong;

DEFINITIONS

“Shares”	ordinary share(s) of HK\$0.1 each in the share capital of the Company;
“Shareholder(s)”	the shareholders of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“Vendor”	Man Ka Limited, a company incorporated in Hong Kong and the beneficial owners of which are all Independent Third Parties.

LETTER FROM THE BOARD



NATIONAL ELECTRONICS HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 213)

Executive Directors

Mr. Lee Yuen Ching, Jimmy
Mr. Lee Yuen Kui, James
Mr. Lee Yuen Wong, Peter
Mr. Lee Yuen Cheor, Edward
Mr. Wai Kwong Yuen, Ricky

Registered Office

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Non-executive Director

Miss Lee Yuen Yu, Dorathy

*Head Office and Principal Place
of Business:*

Suite 3201, Gloucester Tower,
The Landmark, 11 Pedder Street,
Central, Hong Kong

Independent Non-executive Directors

Dr. Samson Sun, M.B.E., J.P.
Mr. Chan Chak Cheung, William
Mr. Chan Kwok Wai

8 June 2006

To the Shareholders

Dear Sir/Madam,

MAJOR TRANSACTION – ACQUISITION OF PROPERTY

INTRODUCTION

On 11 April 2006, the Vendor entered into the Agreement with Panteria for the sale and purchase of the Property. The consideration for the Acquisition of the Property to be paid by Panteria is HK\$78,000,000.

The transaction contemplated under the Agreement constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to approval from the Shareholders. However, no shareholders meeting will be convened as written approval has been obtained from a closely allied group of Shareholders who together hold more than 50% in nominal value of the Shares giving the right to attend and vote at general meeting to approve the transaction. The interest of the closely allied group of Shareholders is no different from other Shareholders in respect of the transaction. No Shareholders is required to abstain from voting in respect of the proposed Acquisition if the Company were to convene a special general meeting for the approval of the transaction.

LETTER FROM THE BOARD

THE PROPERTY

Date of the Agreement: 11 April 2006

Vendor: Man Ka Limited, an Independent Third Party, who was introduced to the Purchaser by an estate agent.

Purchaser: Panteria

Summary: The Agreement was entered into between the Vendor and Panteria pursuant to which the Vendor has agreed to sell and Panteria has agreed to purchase the Property. The consideration for the Acquisition is HK\$78,000,000. The parties have entered into a formal agreement for the sale and purchase of the Property on 25 April 2006. The Agreement is legally binding on the Vendor and Panteria.

The initial deposit being HK\$3,000,000 has been paid to the Vendor by Panteria upon signing of the Agreement. Further deposit in the sum of HK\$4,800,000 has been paid to the Vendor on 25 April 2006 and the remaining consideration for the purchase of the Property being HK\$70,200,000 is payable on completion. The Acquisition is expected to be completed on or before 18 July 2006.

REASONS FOR AND BENEFITS OF THE ACQUISITION OF THE PROPERTY

The Property is located at Whitfield Road and enjoys close proximity to Victoria Park. The immediate vicinity comprise of high-rise composite buildings and commercial buildings. The Property has a total gross floor area of approximately 17,000 square feet and comprises a 24- storey building, inclusive of a ground floor shop and 23 fully furnished residential apartments.

The Property is sold subject to existing lettings, tenancies and licenses and the serviced apartments are fully leased and the ground floor shop is currently leased to a restaurant. The gross rental income derived from the Property for the preceding two years ended 31 March 2004 and 2005 were approximately HK\$2,909,000 and HK\$3,890,000 respectively. The current monthly rental income derived from the Property is approximately HK\$395,900. The Company intends to hold the Property for investment purpose by way of rental income for the time being and will consider any redevelopment opportunity in the future.

The Directors confirm that the consideration for the Property has been determined after arm's length negotiations between the parties. The consideration was arrived at by reference to the value of the Property of HK\$82,000,000 as at 11 April 2006 as determined by an independent property valuer, DTZ. The consideration will be funded by bank financing and from internal resources of the Group and the proportion of which is yet to be decided by the Company.

The Directors are of the view that the Acquisition is in the interest of the Company and the terms of the Agreement and the consideration are fair and reasonable in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

EFFECT OF THE ACQUISITION ON THE EARNINGS, ASSETS AND LIABILITIES OF THE COMPANY

The effect of the Acquisition are that (i) the earnings of the Company will be increased by approximately HK\$550,000 per year which reflects the expected rental for the year ended 31 March 2007 (by reference to the gross rental income for the year ended 31 March 2006 being HK\$4,430,747) less the amount of interest expenses and outgoings in relation to the Property; (ii) the assets of the Company will be increased by approximately HK\$56.7 million which reflects the total cost of the Acquisition of HK\$81,325,000 (as set out in note 2 to the unaudited pro forma balance sheet of the Group set out in Appendix II) less the amount of cash paid by the Company in respect of the Acquisition; and (iii) the liabilities of the Company will be increased by approximately HK\$56.7 million which reflects the portion of the consideration of the Acquisition to be paid by the Company through bank borrowings.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The principal business activities of the Group consists of watch business and property business and the Group will continue its efforts in launching innovative high end watch products as well as other electronic products. The Group plans to continue its strategy of acquiring investment properties and develop luxury boutique hotel as and when there are opportunities in the property market in the future. In the meantime, the pre-sale of the Group's "One St. Thomas" residential project in Toronto, Canada is satisfactory and about 70 per cent of the units have been pre-sold. The project is expected to be completed in 2007. Construction of the Group's deluxe boutique hotel in 202-206 Queen's Road Central, Hong Kong is progressing well and is expected to be completed by the end of 2006. Piling work on the newly acquired site in 137-138 Connaught Road West has commenced and a boutique hotel will be erected on this site and construction is expected to be completed in 2008.

As at 30th September, 2005 as disclosed in section 5 of Appendix II, the bank balances and cash of the Group were approximately HK\$57,754,000. Following the disposal of shares in Roebuck Investments Limited on 6th April 2006, the Group received the consideration of approximately HK\$31.9 million couple with the repayment of shareholders' loan of approximately HK\$82 million as at the completion date at 8th May, 2006; the Group considers that it has sufficient working capital to meet its ongoing business requirements in the coming years.

INFORMATION OF THE GROUP AND THE VENDOR

The Company is an investment holding company and its subsidiaries are principally engaged in the manufacture, assembly and sale of electronic watches, watch movements, watch parts, property development, trading and investment.

The Vendor is a company incorporated in Hong Kong for the purpose of investments holding.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Vendor and the ultimate beneficial owners of the Vendor are Independent Third Parties.

THE APPROVAL OF THE ACQUISITION BY THE SHAREHOLDERS

As the consideration for the Acquisition represents more than 25% but less than 100% of the applicable percentage ratios, the Acquisition constitutes a major transaction for the Company under the Listing Rules and must be made conditional on Shareholders' approval. Pursuant to Rule 14.44(2), a written Shareholders' approval has been obtained from the following closely allied group of Shareholders who together hold more than 50% in nominal value of the Shares giving the right to attend and vote at general meeting to approve the transactions:

LETTER FROM THE BOARD

- (1) Brentford Investments Limited, holding 252,102,979 Shares (approximately 23.589% of the issued share capital of the Company), is wholly owned by a discretionary trust of which each of Messrs. James Lee Yuen Kui, Peter Lee Yuen Wong and Edward Lee Yuen Cheor, the executive directors of the Company are named beneficiaries. Mr. Jimmy Lee Yuen Ching is the cousin of Messrs James Lee Yuen Kui, Peter Lee Yuen Wong and Edward Lee Yuen Cheor.
- (2) Fenmore Investments Limited, holding 253,106,873 Shares (approximately 23.683% of the issued share capital of the Company), is wholly owned by a discretionary trust of which Mr. Jimmy Lee Yuen Ching, an executive director of the Company and his family members are named beneficiaries. Mr. Jimmy Lee Yuen Ching is the cousin of Messrs James Lee Yuen Kui, Peter Lee Yuen Wong and Edward Lee Yuen Cheor.
- (3) Bursa Investment Limited, holding 32,646,150 Shares (approximately 3.055% of the issued share capital of the Company), is wholly owned by Mr. Ricky Wai Kwong Yuen, an executive director of the Company.
- (4) Valera Investment Limited, holding 4,621,617 Shares (approximately 0.432% of the issued share capital of the Company), is wholly owned by Mr. Ricky Wai Kwong Yuen, an executive director of the Company.

The closely allied group of Shareholders has been voting in the same way in all resolutions since they were Shareholders. They have been Shareholders for over 5 years. The most recent major transaction that was approved by these Shareholders by way of written resolution was the disposal of properties announced by the Company in September 1999. The interest of the closely allied group of Shareholders is no different from other Shareholders in respect of the transaction.

No Shareholders is required to abstain from voting in respect of the proposed Acquisition if the Company were to convene a special general meeting for the approval of the transaction.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

By Order of the Board
National Electronics Holdings Limited
Lee Yuen Ching, Jimmy
Chairman



8 June 2006

The Directors
National Electronics Holdings Limited
Suite 3201, Gloucester Tower
The Landmark
11 Pedder Street, Central
Hong Kong

Dear Sirs,

**RE: ELEGANT COURT,
NO. 21 WHITFIELD ROAD, NORTH POINT, HONG KONG.**

We refer to your instructions for us to carry out a market valuation of the above property which is to be acquired by National Electronics Holdings Limited or its subsidiaries (together “the Group”). We confirm that we have carried out inspection, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the value of the property as at 11th April, 2006 (the “date of valuation”).

Our valuation of the property represents its market value which in accordance with the Valuation Standards on Properties of the Hong Kong Institute of Surveyors is defined as “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

Our valuation excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of any onerous nature which could affect its value.

We have valued the property by capitalizing the rental income derived from the existing tenancies with due provision for the reversionary income potential of the property interests with cross- referencing to comparable sale transactions.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as planning approval, statutory notices, easements, tenure, occupancy and floor areas and all other relevant matters. Dimensions and measurements are based on the copies of documents provided to us by the Group and are therefore only approximations. No on-site measurement has been carried out.

We have not been provided with copies of the title documents relating to the property but have caused searches to be made at the Land Registry. However, we have not searched the original documents to verify ownership or to ascertain any amendment. All documents have been used for reference only and all dimensions, measurements and areas are approximate.

We have inspected the exterior of the property. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the property is free of rot, infestation or any other structural defects. No test was carried out on any of the services.

Our valuation is prepared in accordance with the Valuation Standards on Properties of the Hong Kong Institute of Surveyors and in compliance with Chapter 5 of the Listing Rules published by the Stock Exchange of Hong Kong Limited.

Our valuation certificate is hereby enclosed for your attention.

Yours faithfully,
for and on behalf of
DTZ Debenham Tie Leung Limited
K.B. Wong
Registered Professional Surveyor
M.H.K.I.S., M.R.I.C.S.
Director

Note: Mr. K.B. Wong has over 22 years' experience in valuation of properties in Hong Kong.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 11th April, 2006
Elegant Court, No. 21 Whitfield Road, North Point, Hong Kong.	Elegant Court is a 24-storey composite building completed in 1988 with retail shop on ground floor and 23 residential units on upper floors. Total gross floor area of the property is approximately 16,915 sq.ft. (1,571.44 sq.m.). It is erected on a piece of land with a registered site area of approximately 1,984 sq.ft. (184.318 sq.m.).	As informed by the Group, the ground floor shop was let at a monthly rent of HK\$60,000 for a term expiring on 26th August, 2006 and the residential portion was fully let with a total monthly income receivable of HK\$335,900.	HK\$82,000,000
The Remaining Portions of Inland Lot Nos. 3309 and 3310.	The property is held from the Government under Government Leases in respect of Inland Lot Nos. 3309 and 3310 for terms of 75 years from 19th December, 1904 renewed for further terms of 75 years. Current aggregate Government Rent payable for the lots is HK\$34,562 per annum.		

Notes: –

- (1) The registered owner of the property is Man Ka Limited.
- (2) The property falls within Hong Kong Planning Area No. 8 and is zoned on North Point Outline Zoning Plan No. S/H8/19 dated 1st February, 2005 for “Residential (Group A)” purposes.

1. INDEBTEDNESS

At the close of business on 31 March 2006, being the latest practicable date prior to the printing of this circular, the Group had outstanding bank borrowings of approximately HK\$762 million (of which HK\$648 million was secured by fixed charges on certain of the Group's assets, including properties and short-term bank deposits) representing short and long term loans and trust receipt loans. In addition, the Group had outstanding at that date obligations under hire purchase contracts and finance leases of approximately HK\$9 million and contingent liabilities in respect of guarantees given to third parties of approximately HK\$0.25 million.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have outstanding at the close of business on 31 March 2006 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

2. WORKING CAPITAL

The Directors are of the opinion that, taking into account the internal resources and the unutilised banking facilities currently available to the Group, the Group will have sufficient working capital to satisfy its present requirements for the period ending 12 months from the date of this circular except that the Group will need to obtain additional banking facility to finance the payment of a portion of the remaining consideration for the Acquisition upon completion. As at the Latest Practicable Date, the Directors are confident that such additional banking facility will be available. The Company will seek alternative funding sources in the event that such additional banking facility is not available.

3. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2005, being the date up to which the latest published audited consolidated financial statements of the Group were made.

4. EXTRACT OF THE FINANCIAL STATEMENTS

The following financial information is a reproduction of the relevant information extracted from the audited financial statements of the Group for three years ended 31 March 2005 as published in the respective 2004 and 2005 annual reports. There were no qualified or modified opinions in the auditors' reports for each of the three years ended 31 March 2005.

CONSOLIDATED PROFIT & LOSS ACCOUNT

		For the year ended 31 March		
		2005	2004	2003
	Notes	(Audited)	(Audited)	(Audited)
		HK\$'000	HK\$'000	HK\$'000
Turnover	4	1,026,973	934,119	693,295
Cost of sales		(904,000)	(846,059)	(619,833)
Gross Profit		122,973	88,060	73,462
Other operating income	5	5,708	13,620	23,531
Distribution costs		(16,154)	(15,373)	(14,080)
Administrative expenses		(74,265)	(61,316)	(60,005)
Revaluation increase (decrease) on investment properties		27,412	22,500	(22,000)
Profit from operations	6	65,674	47,491	908
Finance costs	7	(6,075)	(5,830)	(6,939)
Share of results of an associate		1,596	—	—
Share of results of jointly controlled entities		(71)	10,100	8,728
Profit before taxation		61,124	51,761	2,697
Income tax (expense) credit	9	(3,239)	(568)	56
Net profit for the year		57,885	51,193	2,753
Dividend:				
2004 final dividend paid of 0.5 HK cent per ordinary share		5,524	—	—
Earnings per share – Basic	10	5.2 HK cents	4.5 HK cents	0.2 HK cent

CONSOLIDATED BALANCE SHEET

		At 31 March		
		2005	2004	2003
	Notes	(Audited)	(Audited)	(Audited)
		HK\$'000	HK\$'000	HK\$'000
Non-current assets				
Investment properties	11	150,000	84,000	110,500
Property, plant and equipment	12	100,814	87,827	111,985
Properties under development	13	450,963	286,454	191,016
Deposits held in trust for sale of property under development		33,978	—	—
Development costs	14	—	134	1,391
Interest in an associate	16	1,317	2,880	—
Interests in jointly controlled entities	17	440	511	(9,589)
Other non-current assets	18	18,262	18,231	17,825
		<u>755,774</u>	<u>480,037</u>	<u>423,128</u>
Current assets				
Inventories	19	158,691	134,076	114,954
Investments in securities	20	8,019	4,090	4,090
Inventory of unsold properties	21	119,419	117,368	52,500
Bills receivable		6,000	582	9,017
Trade receivables, deposits and prepayments	22	103,990	101,074	65,177
Amount due from a jointly controlled entity	17	—	23,187	21,617
Tax recoverable		39	927	1,197
Pledged deposits	34	—	16,162	5,460
Bank balances and cash		28,941	31,391	78,057
		<u>425,099</u>	<u>428,857</u>	<u>352,069</u>
Current liabilities				
Trade payables and accrued expenses	23	157,994	147,788	127,332
Tax payable		2,074	—	89
Obligations under finance leases	24	2,115	1,937	3,306
Bank borrowings	25	187,324	192,442	145,752
Amount due to an associate		1,577	—	—
Amount due to a jointly controlled entity		—	804	—
Deposits received from sale of properties under development		—	15,477	—
		<u>351,084</u>	<u>358,448</u>	<u>276,479</u>
Net current assets		<u>74,015</u>	<u>70,409</u>	<u>75,590</u>
Total assets less current liabilities		<u><u>829,789</u></u>	<u><u>550,446</u></u>	<u><u>498,718</u></u>

CONSOLIDATED BALANCE SHEET

		At 31 March		
		2005	2004	2003
		(Audited)	(Audited)	(Audited)
	Notes	HK\$'000	HK\$'000	HK\$'000
Capital and reserves				
Share Capital	26	109,790	112,616	115,645
Reserves		264,620	220,013	176,127
		<u>374,410</u>	<u>332,629</u>	<u>291,772</u>
Non-current liabilities				
Provision for long service payments	28	4,132	4,047	6,544
Obligations under finance leases	24	2,123	2,025	1,666
Bank borrowings	25	382,648	210,708	197,699
Deposits received from sale of properties under development		65,439	—	—
Deferred tax liabilities	29	1,037	1,037	1,037
		<u>455,379</u>	<u>217,817</u>	<u>206,946</u>
		<u>829,789</u>	<u>550,446</u>	<u>498,718</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited.

The principal activities of the Group are the manufacture, assembly and sale of electronic watches and watch parts, trading of watch movements and watch parts, property development and investment and trading of securities.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (“HKFRSs”) (herein collectively referred to as “new HKFRSs”) which are effective for accounting periods beginning on or after 1st January, 2005 except for HKFRS 3 Business Combinations. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st March, 2005.

HKFRS 3 is applicable to business combinations for which the agreement date is on or after 1st January, 2005. The Group has not entered into any business combination for which the agreement date is on or after 1st January, 2005. Therefore, HKFRS 3 did not have any impact on the Group for the year ended 31st March, 2005.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisition of subsidiaries prior to 1st April, 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary.

Negative goodwill arising on acquisition of subsidiaries after 1st April, 2001 is presented as deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment loss.

Associate

The consolidated income statement includes the Group's share of the post-acquisition results of its associate for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates less any identified impairment loss.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised loss provide evidence of an impairment of the asset transferred.

Joint venture

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of net assets of the jointly controlled entities less any identified impairment loss. The Group's share of post-acquisition results of jointly controlled entities is included in the consolidated income statement.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Income from properties developed for sale is recognised on the execution of a binding sales agreement.

Rental income, including rental invoiced in advance from properties under operating leases, is recognised on a straight-line basis over the respective lease terms.

Revenue from trading of securities is recognised on a trade date basis when the relevant sale and purchase contract is entered into.

Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Management fee income is recognised when services are rendered.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any valuation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a revaluation decrease, in which case the excess of the valuation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less depreciation and any identified impairment loss.

Construction in progress is stated at cost less any identified impairment loss. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost of property, plant and equipment other than construction in progress over their estimated useful lives after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Freehold land	Nil
Leasehold land	Over the terms of the leases
Buildings	Over the shorter of the terms of leases, or 50 years
Leasehold improvements	20% - 33 1/3%
Plant and machinery	25%
Motor vehicles	25%
Furniture, fixtures and office equipment	14 1/3% - 25%
Tools and moulds	15% - 33 1/3%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or the terms of the leases, whichever is shorter.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the dates of acquisitions. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant leases so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease terms.

Properties under development for long-term investment

Property under development for long-term investment purposes is stated at cost which includes the cost of land, development expenditure, other attributable expenses and capitalised borrowing costs incurred less any identified impairment loss.

Development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Club debentures

Club debentures are stated at cost less any identified impairment loss.

Antiques and pictures

Antiques and pictures are stated at cost less any identified impairment loss.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the period.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Inventory of unsold properties

Completed properties remaining unsold at the year end are stated at the lower of cost and net realisable value.

Foreign currencies

Transactions in foreign currencies are translated at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of operations outside Hong Kong are translated into Hong Kong dollars at the rates of exchange prevailing on the balance sheet date. Income and expenses items are translated at the average exchange rates for the year. All exchange differences arising on consolidation are classified as equity and transferred to the Group's exchange reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement benefit costs

Payment to Mandatory Provident Fund Scheme (the “MPF Scheme”) are charged as an expense as they fall due.

4. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into five divisions – manufacture of watches, trading of watch movements, property development, property investment and trading of securities. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Manufacture of watches	–	manufacture, assembly and sale of electronic watches and watch parts.
Trading of watch movements	–	trading of watch movements and watch parts.
Property development	–	development and sale of properties.
Property investment	–	holding of properties for investment and leasing purposes.
Trading of securities	–	trading of local and overseas market securities.

Segment information about these businesses is presented below.

2005

	Manufacture of watches HK\$	Trading of watch movements HK\$	Property development HK\$	Property investment HK\$	Trading of securities HK\$	Eliminations HK\$	Consolidated HK\$
TURNOVER							
External sales	377,177,561	644,274,107	–	5,521,668	–	–	1,026,973,336
Inter-segment sales	–	6,071,983	–	–	–	(6,071,983)	–
Total turnover	<u>377,177,561</u>	<u>650,346,090</u>	<u>–</u>	<u>5,521,668</u>	<u>–</u>	<u>(6,071,983)</u>	<u>1,026,973,336</u>
Inter-segment sales are charged at cost.							
RESULT							
Segment result	<u>36,889,292</u>	<u>7,750,277</u>	<u>(7,649,275)</u>	<u>31,427,737*</u>	<u>162,549</u>	<u>–</u>	68,580,580
Interest income							584,819
Unallocated other operating income							946,047
Unallocated corporate expenses							(4,436,977)
Profit from operations							65,674,469
Finance costs							(6,075,492)
Share of result of an associate				<u>1,596,450</u>			1,596,450
Share of results of jointly controlled entities			<u>(70,994)</u>				(70,994)
Profit before taxation							61,124,433
Income tax expense							(3,239,077)
Net profit for the year							<u>57,885,356</u>

* Revaluation increase on investment properties of HK\$27,411,840 is included in the result of property investment segment.

BALANCE SHEET

	Manufacture of watches HK\$	Trading of watch movements HK\$	Property development HK\$	Property investment HK\$	Trading of securities HK\$	Eliminations HK\$	Consolidated HK\$
ASSETS							
Segment assets	187,733,500	114,582,601	499,995,368	258,945,170	4,089,561	–	1,065,346,200
Interest in an associate							1,316,543
Interests in jointly controlled entities							440,074
Unallocated corporate assets							113,770,425
Consolidated total assets							<u>1,180,873,242</u>
LIABILITIES							
Segment liabilities	59,658,502	70,437,086	84,376,876	3,376,836	8,500	–	217,857,800
Amount due to an associate							1,576,898
Unallocated corporate liabilities							587,028,106
Consolidated total liabilities							<u>806,462,804</u>

OTHER INFORMATION

	Manufacture of watches HK\$	Trading of watch movements HK\$	Property development HK\$	Property investment HK\$	Trading of securities HK\$	Unallocated HK\$	Consolidated HK\$
Capital additions	21,323,062	8,744,942	144,988,401	38,601,190	–	–	213,657,595
Depreciation and amortisation	11,908,190	3,301,886	446,083	1,591,710	–	–	17,247,869
Revaluation increase in investment properties	–	–	–	27,411,840	–	–	27,411,840
Loss (gain) on disposal of property, plant and equipment	<u>261,196</u>	<u>42,325</u>	<u>(1,500)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>302,021</u>

2004

	Manufacture of watches HK\$	Trading of watch movements HK\$	Property development HK\$	Property investment HK\$	Trading of securities HK\$	Eliminations HK\$	Consolidated HK\$
TURNOVER							
External sales	278,799,829	635,910,120	–	7,901,063	11,508,089	–	934,119,101
Inter-segment sales	–	3,604,688	–	–	–	(3,604,688)	–
Total turnover	<u>278,799,829</u>	<u>639,514,808</u>	<u>–</u>	<u>7,901,063</u>	<u>11,508,089</u>	<u>(3,604,688)</u>	<u>934,119,101</u>

Inter-segment sales are charged at cost.

RESULT

Segment result	<u>(3,237,077)</u>	<u>11,974,948</u>	<u>(3,986,271)</u>	<u>28,112,510*</u>	<u>(1,361,972)</u>	<u>–</u>	31,502,138
Interest income							189,416
Unallocated other operating income							16,930,538
Unallocated corporate expenses							(1,130,636)
Profit from operations							47,491,456
Finance costs							(5,830,278)
Share of results of jointly controlled entities			<u>10,100,440</u>				10,100,440
Profit before taxation							51,761,618
Income tax expense							(568,197)
Net profit for the year							<u>51,193,421</u>

* Revaluation increase on investment properties of HK\$22,500,000 is included in the result of property investment segment.

BALANCE SHEET

	Manufacture of watches HK\$	Trading of watch movements HK\$	Property development HK\$	Property investment HK\$	Trading of securities HK\$	Eliminations HK\$	Consolidated HK\$
ASSETS							
Segment assets	154,360,075	104,343,976	306,886,722	193,536,511	4,103,209	–	763,230,493
Interest in an associate				2,880,000			2,880,000
Interests in jointly controlled entities			23,698,177				23,698,177
Unallocated corporate assets							119,085,252
Consolidated total assets							<u>908,893,922</u>
LIABILITIES							
Segment liabilities	48,468,049	77,875,529	28,398,095	2,555,827	4,000	–	157,301,500
Amount due to a jointly controlled entity			803,535				803,535
Unallocated corporate liabilities							418,159,805
Consolidated total liabilities							<u>576,264,840</u>

OTHER INFORMATION

	Manufacture of watches HK\$	Trading of watch movements HK\$	Property development HK\$	Property investment HK\$	Trading of securities HK\$	Unallocated HK\$	Consolidated HK\$
Capital additions	3,892,320	5,894,658	73,473,585	379,430	–	–	83,639,993
Depreciation and amortisation	16,306,018	2,299,247	2,339,708	305,358	–	–	21,250,331
Revaluation increase in investment properties	–	–	–	22,500,000	–	–	22,500,000

Geographical segments

The Group's operations are located in Hong Kong, North America and Europe.

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

	Sales revenue by geographical market		Contribution to profit (loss) from operations	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Hong Kong and other regions in the People's Republic of China (the "PRC")	664,291,747	712,341,071	34,352,680	58,288,030
North America	186,508,087	55,267,885	13,696,789	(4,079,603)
Europe	173,244,075	148,409,157	17,321,922	(6,815,387)
Others	2,929,427	18,100,988	303,078	98,416
	<u>1,026,973,336</u>	<u>934,119,101</u>	<u>65,674,469</u>	<u>47,491,456</u>

The following is an analysis of the carrying amount of segment assets, additions to property, plant and equipment, properties under development and development costs, analysed by the geographical area in which the assets are located:

2005

	Carrying amount of total assets HK\$	Additions to investment properties HK\$	Additions to property, plant and equipment HK\$	Additions to properties under development HK\$
Hong Kong and the PRC	744,276,977	38,588,160	30,081,034	68,301,815
North America	431,902,404	—	145,691	76,540,895
Europe	4,530,997	—	—	—
Others	162,864	—	—	—
Total segment assets	<u>1,180,873,242</u>	<u>38,588,160</u>	<u>30,226,725</u>	<u>144,842,710</u>

2004

	Carrying amount of total assets HK\$	Additions to investment properties HK\$	Additions to property, plant and equipment HK\$	Additions to properties under development HK\$
Hong Kong and the PRC	586,310,528	—	9,959,516	21,165,198
North America	305,904,790	—	2,774,209	49,741,070
Others	16,678,604	—	—	—
Total segment assets	<u>908,893,922</u>	<u>—</u>	<u>12,733,725</u>	<u>70,906,268</u>

5. OTHER OPERATING INCOME

	2005 HK\$	2004 HK\$
Bank interest income	584,819	189,416
Dividend income from unlisted investments	186,159	—
Gain on disposal of property, plant and equipment	—	676,240
Management fee income received from jointly controlled entities (note)	—	84,426
Management fee income received from others	2,960,700	—
Net exchange gain	—	11,334,766
Sundry income	1,976,408	1,335,600
	<u>5,708,086</u>	<u>13,620,448</u>

Note:

Management fee income was charged at a fixed percentage on the total certified construction costs incurred by the projects undertaken by the jointly controlled entities.

6. PROFIT FROM OPERATIONS

	2005	2004
	HK\$	HK\$
Profit from operations has been arrived at after charging:		
Amortisation of development costs included in administrative expenses	133,709	1,257,420
Auditors' remuneration	853,271	878,737
Depreciation of:		
Owned assets	13,780,171	16,405,016
Assets held under finance leases	3,333,989	3,587,895
	17,114,160	19,992,911
Less: Amount capitalised to properties under development	(242,370)	—
	16,871,790	19,992,911
Impairment on investment in securities (included in administrative expenses)	199,801	—
Loss on disposal of property, plant and equipment	302,021	—
Minimum lease payments for operating leases in respect of land and buildings	2,998,477	2,367,326
Staff costs including directors' emoluments	94,269,626	88,363,995
Less: Amount capitalised to properties under development	(8,960,074)	(9,776,223)
	85,309,552	78,587,772
Exchange loss, net	9,503,580	—
and after crediting:		
Gross rental income from properties	5,521,668	7,901,063
Less: Outgoings	(507,843)	(459,871)
Net rental income from properties	5,013,825	7,441,192

Minimum lease payments for operating leases in respect of staff quarters amounting to HK\$5,346,968 (2004: HK\$3,281,291) are included in staff costs.

7. FINANCE COSTS

	2005 HK\$	2004 HK\$
Interest on:		
Bank loans and overdrafts		
Wholly repayable within five years	13,295,938	8,807,118
Not wholly repayable within five years	2,339,102	3,357,278
Obligations under finance leases	208,552	327,371
Total borrowing costs	15,843,592	12,491,767
Less: Amount capitalised to properties under development	(9,768,100)	(6,661,489)
	<u>6,075,492</u>	<u>5,830,278</u>

Borrowing costs capitalised during the year are calculated by applying a capitalisation rate of 6% (2004: 6%) to expenditure on properties under development.

8. DIRECTORS' AND EMPLOYEES' REMUNERATION

(a) Directors' remuneration

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

	2005 HK\$	2004 HK\$
Fees		
Executive directors	250,000	250,000
Independent non-executive directors	437,500	350,000
Non-executive directors	29,167	—
	716,667	600,000
Other emoluments (executive directors)		
Salaries and other benefits	13,040,808	13,985,300
	<u>13,757,475</u>	<u>14,585,300</u>

Included in salaries and other benefits is an amount of HK\$3,535,741 (2004: HK\$2,252,500) in respect of accommodation provided to the directors of the Company.

Besides above remuneration, two of the Group's properties are provided to the directors as an accommodation. The rateable value of the property is amounting to HK\$503,280 (2004: HK\$447,000).

The emoluments of the directors are within the following bands:

	Number of directors	
	2005	2004
HK\$		
Nil – 1,000,000	5	3
1,500,001 – 2,000,000	2	1
2,000,001 – 2,500,000	–	1
3,500,001 – 4,000,000	1	1
5,500,001 – 6,000,000	1	1
	<u>9</u>	<u>7</u>

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2004: four) are directors of the Company whose emoluments are included in the disclosures in note (a) above. The emoluments of the remaining one (2004: one) individual are as follows:

	2005	2004
	HK\$	HK\$
Salaries and other benefits	<u>4,060,000</u>	<u>2,560,000</u>

The emoluments were within the following band:

	No. of employees	
	2005	2004
HK\$2,500,001 to HK\$3,000,000	–	1
HK\$4,000,001 to HK\$4,500,000	<u>1</u>	<u>–</u>

9. INCOME TAX EXPENSE (CREDIT)

	2005	2004
	HK\$	HK\$
The charge (credit) comprises:		
Hong Kong Profits Tax		
Current year	2,837,849	668,675
Under(over)provision in prior years	81,456	(88,750)
	<u>2,919,305</u>	<u>579,925</u>
Other jurisdictions - current year	39,861	(11,728)
	<u>2,959,166</u>	<u>568,197</u>
Deferred tax liabilities (note 29)	–	–
	<u>2,959,166</u>	<u>568,197</u>
Taxation attributable to the Company and its subsidiaries	279,911	–
Share of taxation attributable to an associate	<u>3,239,077</u>	<u>568,197</u>

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profit for both years.

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

The taxation charge for the year can be reconciled to profit before taxation per the income statement as follows:

	2005 HK\$	2004 HK\$
Profit before taxation	<u>61,124,433</u>	<u>51,761,618</u>
Tax at the domestic income tax rate of 17.5%	10,696,776	9,058,283
Tax effect of expenses not deductible for tax purpose	2,219,203	466,087
Tax effect of income not taxable for tax purpose	(6,552,689)	(11,319,542)
Tax effect of share of result of an associate	532	—
Tax effect of share of results of jointly controlled entities	12,424	—
Tax effect of deductible temporary differences not recognised	(1,711,586)	—
Tax effect of tax losses not recognised	4,215,601	4,990,659
Tax effect on different tax rate of operations in other jurisdictions	(330,814)	(94,950)
Utilisation of tax losses previously not recognised	(2,401,900)	(1,864,400)
Under(over)provision in prior years	81,456	(88,750)
Effect of tax exemption (note)	(2,964,236)	(1,277,902)
Others	(25,690)	698,712
Taxation charge for the year	<u>3,239,077</u>	<u>568,197</u>

Note:

The profits of certain subsidiaries are subject to Hong Kong Profits Tax on a 50:50 apportionment basis.

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the year of HK\$57,885,356 (2004: HK\$51,193,421) and on the weighted average number of 1,106,014,684 (2004: 1,145,864,567) ordinary shares in issue during the year.

No diluted earnings per share has been presented as there were no potential ordinary shares in both years.

11. INVESTMENT PROPERTIES

	THE GROUP HK\$
At 1st April, 2004	84,000,000
Additions	38,588,160
Revaluation increase	27,411,840
At 31st March, 2005	<u>150,000,000</u>

Investment properties were valued at their open market values at 31st March, 2005 by DTZ Debenham Tie Leung Limited, International Property Advisers, on an open market existing use basis. This revaluation gave rise to an increase of HK\$27,411,840 which was credited to the income statement during the year.

At the balance sheet date, the investment properties are situated in Hong Kong under medium-term leases and are rented out under operating leases.

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings in Hong Kong held under long leases	Land and buildings in Hong Kong held under medium- term leases	Freehold land and buildings outside Hong Kong held under medium- term leases	Land and buildings outside Hong Kong held under medium- term leases	Construction in progress	Leasehold improvements	Plant and machinery	Motor vehicles	Furniture, fixtures and office equipment	Tools and moulds	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
THE GROUP											
COST											
At 1st April, 2004	42,294,801	15,396,068	5,160,789	6,367,821	–	28,527,328	65,613,367	24,024,831	53,975,249	51,773,896	293,134,150
Exchange difference	–	–	3,310	–	–	39,874	–	–	252,997	–	296,181
Additions	–	–	–	–	10,271,713	2,599,158	7,050,256	569,515	9,736,083	–	30,226,725
Disposals	–	–	–	–	–	(550,000)	(85,075)	(1,505,177)	(522,624)	–	(2,662,876)
Written off	–	–	–	–	–	(4,931,953)	(2,887,674)	(572,525)	(3,595,847)	(6,640,877)	(18,628,876)
At 31st March, 2005	42,294,801	15,396,068	5,164,099	6,367,821	10,271,713	25,684,407	69,690,874	22,516,644	59,845,858	45,133,019	302,365,304
DEPRECIATION											
At 1st April, 2004	5,815,948	2,549,433	909,857	1,290,114	–	25,832,034	58,273,288	18,662,188	44,453,168	47,521,184	205,307,214
Exchange difference	–	–	590	–	–	9,347	–	–	58,853	–	68,790
Provided for the year	568,067	302,463	132,397	218,513	–	2,084,482	4,925,903	1,823,468	3,509,336	3,549,531	17,114,160
Eliminated on disposals	–	–	–	–	–	(293,328)	(85,075)	(1,505,177)	(468,800)	–	(2,352,380)
Written off	–	–	–	–	–	(4,931,953)	(2,887,674)	(572,525)	(3,571,244)	(6,623,155)	(18,586,551)
At 31st March, 2005	6,384,015	2,851,896	1,042,844	1,508,627	–	22,700,582	60,226,442	18,407,954	43,981,313	44,447,560	201,551,233
NET BOOK VALUES											
At 31st March, 2005	35,910,786	12,544,172	4,121,255	4,859,194	10,271,713	2,983,825	9,464,432	4,108,690	15,864,545	685,459	100,814,071
At 31st March, 2004	36,478,853	12,846,635	4,250,932	5,077,707	–	2,695,294	7,340,079	5,362,643	9,522,081	4,252,712	87,826,936

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The net book values of property, plant and equipment held under finance leases are as follows:

	2005	2004
	HK\$	HK\$
Plant and machinery	3,528,429	2,448,194
Motor vehicles	1,871,097	3,228,187
Furniture, fixtures and office equipment	—	605,521
	<u>5,399,526</u>	<u>6,281,902</u>

13. PROPERTIES UNDER DEVELOPMENT

	THE GROUP	
	2005	2004
	HK\$	HK\$
At 1st April	286,454,125	191,015,969
Exchange difference	19,665,818	24,531,888
Additions	144,842,710	70,906,268
	<u>450,962,653</u>	<u>286,454,125</u>
At 31st March	<u>450,962,653</u>	<u>286,454,125</u>

At 31st March, 2005, interest of HK\$26,241,062 (2004: HK\$16,472,962) was capitalised to properties under development.

The net book value of properties shown above comprises:

	THE GROUP	
	2005	2004
	HK\$	HK\$
Land in Hong Kong:		
Long lease	89,467,013	21,165,198
Land outside Hong Kong:		
Freehold	361,495,640	265,288,927
	<u>450,962,653</u>	<u>286,454,125</u>

14. DEVELOPMENT COSTS

HK\$

**THE GROUP
COST**

At 1st April, 2004 and 31st March, 2005

3,970,683

AMORTISATION

At 1st April, 2004

3,836,974

Provided for the year

133,709

At 31st March, 2005

3,970,683

NET BOOK VALUES

At 31st March, 2005

—

At 31st March, 2004

133,709

The development costs are amortised on a straight-line basis over their estimated useful lives from three to eight years.

15. INTERESTS IN SUBSIDIARIES

THE COMPANY**2005** 2004**HK\$** **HK\$**

Unlisted shares, at cost

228,042,462 228,042,462

Amounts due from subsidiaries

22,375,515 16,799,829

250,417,977 244,842,291

In the opinion of the directors, the amounts due from subsidiaries are not repayable in the next twelve month period and, accordingly, the amounts are classified as non-current.

Particulars of the principal subsidiaries at 31st March, 2005 are as follows:

Name of subsidiary	Place/country of incorporation/ operations	Issued share capital	Principal activities
<i>Direct subsidiary</i>			
National Electronics (Consolidated) Limited	Hong Kong	4,000 ordinary shares of HK\$0.25 each	Investment holding and trading of electronic products

Name of subsidiary	Place/country of incorporation/ operations	Issued share capital	Principal activities
<i>Direct subsidiary (continued)</i>			
National Properties Holdings Limited	Hong Kong	100 ordinary shares of HK\$1 each	Investment holding and property management
<i>Indirect subsidiary</i>			
Brady Limited	Hong Kong	100 ordinary shares of HK\$1 each	Property investment
Charteray International Limited	Hong Kong	100 ordinary shares of HK\$1 each	Property investment
Cherish Limited	Hong Kong	100 ordinary shares of HK\$1 each	Property investment and trading
Chirac Limited	Hong Kong	10 ordinary shares of HK\$10 each	Investment holding
Cinic Limited	Hong Kong	2 ordinary shares of HK\$1 each	Property investment
Duprey Limited	Hong Kong	100 ordinary shares of HK\$10 each	Trading of electronic products
Eastbond (Hong Kong) Limited	Hong Kong	10 ordinary shares of HK\$1 each	Manufacture and sale of plastic products
Eastern Mount Limited	Hong Kong	2 ordinary shares of HK\$1 each	Investment holding and subcontracting of electronic products in the PRC
Majorell Limited	Hong Kong	100 ordinary shares of HK\$10 each	Property investment and investment holding
Miyota Trading Limited	Hong Kong	100 ordinary shares of HK\$1 each	Trading of electronic products
National Electronics and Watch Company Limited	Hong Kong	100 ordinary shares of HK\$10 each and 200,000 non-voting deferred shares of HK\$10 each (note)	Manufacture and sale of liquid crystal display and quartz analogue watches

Name of subsidiary	Place/country of incorporation/ operations	Issued share capital	Principal activities
<i>Indirect subsidiary (continued)</i>			
National Time Limited	Hong Kong	100 ordinary shares of HK\$10 each and 55,000 non-voting deferred shares of HK\$10 each (note)	Trading of electronic watches
National Telecommunication System Limited	Hong Kong	100 ordinary shares of HK\$10 each and 200,000 non-voting deferred shares of HK\$10 each (note)	Provision of inspection service
Phoenix Investment S.a.r.l.	Luxembourg	500 ordinary shares	Investment holding
Rever Limited	Hong Kong	100 ordinary shares of HK\$1 each	Property investment
Samford Limited	Hong Kong	100 ordinary shares of HK\$1 each	Property investment and trading
St. Thomas Developments Incorporated	Ontario, Canada	100 common shares of C\$1 each	Property development
Sun Shine Limited	Hong Kong	2 ordinary shares of HK\$1 each	Trading of electronics watches
Super Fortune Group Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US\$1 each	Investment holding
Super Plus Limited	Hong Kong	2 ordinary shares of HK\$10 each	Property development
Unionville Development Limited Partnership	Ontario, Canada	Contributed capital of C\$12,473,022	Property development
1061383 Ontario Limited	Ontario, Canada	100 common shares for C\$1 each	Property holding
中霸鐘表電子（深圳）有限公司*	PRC	Contributed capital of HK\$12,000,000	Trading of electronic products

* A wholly foreign owned enterprise.

15. INTERESTS IN SUBSIDIARIES (CONTINUED)

Note: The deferred shares, which are not held by the Group, carry practically no rights to dividends nor to receive notice of nor to attend or vote at any general meeting of the relevant companies nor to participate in any distribution on winding up.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affect the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length. All these subsidiaries are wholly-owned and private limited companies.

None of the subsidiaries had any debt security outstanding at the end of the year or at any time during the year.

16. INTEREST IN AN ASSOCIATE

	2005 HK\$	2004 HK\$
Share of net assets	1,316,543	4
Amount due from an associate	—	2,879,996
	<u>1,316,543</u>	<u>2,880,000</u>

The amount due from an associate was unsecured, interest free and repaid.

Particulars of the associate at 31 March, 2005 are as follows:

Name of associate	Form of business structure	Place of incorporation/ operation	Class of shares held	Proportion of nominal value of issued share capital indirectly held by the Company	Principal activity
Artlink International Holdings Limited	Incorporated	Hong Kong	Ordinary	40%	Property investment

17. INTEREST IN JOINTLY CONTROLLED ENTITIES

	THE GROUP 2005 HK\$	2004 HK\$
Share of net assets	440,024	511,018
Amount due from a jointly controlled entity	50	23,187,159
	<u>440,074</u>	<u>23,698,177</u>
Less: Amount due within one year shown under current assets	<u>(50)</u>	<u>(23,187,159)</u>
	<u>440,024</u>	<u>511,018</u>

The amount due from a jointly controlled entity is unsecured, interest free and repayable on demand.

Particulars of the Group's jointly controlled entities at 31st March, 2005 are as follows:

Name	Form of business structure	Place/country of incorporation/ operations	Attributable interest to the Group		Nature of business
			Direct %	Indirect %	
New Height Developments Limited	Incorporated	British Virgin Islands/Hong Kong	50	—	Investment holding
Eternity Management Limited	Incorporated	Hong Kong	—	50	Inactive
Parklane Limited	Incorporated	Hong Kong	—	50	Inactive
Phoenix Limited	Incorporated	Hong Kong	—	50	Inactive

Pursuant to a joint venture deed dated 30th March, 2001 (the “Deed”), the other joint venture partner is entitled to a preferential distribution of profit of Parklane Limited and Phoenix Limited up to an amount as specified in the Deed (the “Agreed Return”) and the Group is entitled to the remaining profit up to an amount equivalent to the Agreed Return. Thereafter, the Group is entitled to share the profit equally with the joint venture partner.

18. OTHER NON-CURRENT ASSETS

	THE GROUP	
	2005 HK\$	2004 HK\$
Club debentures, at cost	8,025,895	8,136,995
Antiques and pictures, at cost	10,235,986	10,094,013
	<u>18,261,881</u>	<u>18,231,008</u>

19. INVENTORIES

	THE GROUP	
	2005 HK\$	2004 HK\$
Raw materials and consumables	59,899,180	54,222,261
Work in progress	14,079,781	13,561,892
Finished goods	84,712,504	66,292,068
	<u>158,691,465</u>	<u>134,076,221</u>

Included above are raw materials and consumables of HK\$13,021,209 (2004: HK\$9,801,480), work in progress of HK\$1,650,255 (2004: HK\$3,772,569) and finished goods of HK\$1,178,771 (2004: HK\$4,534,887) which are carried at net realisable value.

20. INVESTMENTS IN SECURITIES

	Trading securities		Other securities		THE GROUP Total	
	2005	2004	2005	2004	2005	2004
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Listed debt securities						
Overseas	3,929,263	—	—	—	3,929,263	—
Unlisted equity equities	—	—	4,089,560	4,089,560	4,089,560	4,089,560
	<u>3,929,263</u>	<u>—</u>	<u>4,089,560</u>	<u>4,089,560</u>	<u>8,018,823</u>	<u>4,089,560</u>
Market value of listed securities	<u>3,929,263</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,929,263</u>	<u>—</u>

21. INVENTORY OF UNSOLD PROPERTIES

	THE GROUP	
	2005 HK\$	2004 HK\$
At 1st April	117,367,985	52,500,000
Exchange difference	1,312,344	—
Additions	738,522	—
Transferred from land and buildings	—	15,867,985
Transferred from investment properties	—	49,000,000
	<u>119,418,851</u>	<u>117,367,985</u>

The Group's inventory of unsold properties comprises:

	2005 HK\$	2004 HK\$
Properties held under long leases:		
— in Hong Kong	62,583,352	62,000,000
— in North America	17,180,329	15,867,985
	<u>79,763,681</u>	<u>77,867,985</u>
Properties held under medium-term leases in Hong Kong	<u>39,655,170</u>	<u>39,500,000</u>
	<u>119,418,851</u>	<u>117,367,985</u>

22. TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS

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 of HK\$76,483,376 (2004: HK\$63,319,807) with an aged analysis as follows:

	THE GROUP	
	2005	2004
	HK\$	HK\$
Within 30 days	32,590,812	35,473,595
31 to 90 days	31,192,486	11,870,877
91 to 180 days	3,568,800	6,736,797
Over 180 days	9,131,278	9,238,538
	<u>76,483,376</u>	<u>63,319,807</u>

23. TRADE PAYABLES AND ACCRUED EXPENSES

Included in trade payables and accrued expenses are trade payables of HK\$103,410,961 (2004: HK\$104,896,720) with an aged analysis as follows:

	THE GROUP	
	2005	2004
	HK\$	HK\$
Within 30 days	53,908,637	66,737,348
31 to 90 days	31,938,405	25,669,926
91 to 180 days	17,562,477	12,489,446
Over 180 days	1,442	—
	<u>103,410,961</u>	<u>104,896,720</u>

24. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2005	2004	2005	2004
	HK\$	HK\$	HK\$	HK\$
Amounts payable under finance leases				
Within one year	2,250,213	2,068,364	2,115,047	1,936,725
In the second to fifth years inclusive	2,430,595	2,197,644	2,123,257	2,024,744
	4,680,808	4,266,008	4,238,304	3,961,469
Less: future finance charges	(442,504)	(304,539)	N/A	N/A
Present value of lease obligations	<u>4,238,304</u>	<u>3,961,469</u>	<u>4,238,304</u>	<u>3,961,469</u>
Less: Amount due within one year shown under current liabilities			(2,115,047)	(1,936,725)
Amount due after one year			<u>2,123,257</u>	<u>2,024,744</u>

It is the Group's policy to lease certain of its plant and machinery, motor vehicles and office equipment under finance leases. The leases term are 3 years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

25. BANK BORROWINGS

	THE GROUP	
	2005	2004
	HK\$	HK\$
Secured		
Bank loans	410,677,300	230,160,052
Unsecured		
Bank overdrafts	—	754,988
Bank loans	159,293,975	172,235,442
	159,293,975	172,990,430
	<u>569,971,275</u>	<u>403,150,482</u>

The maturity of the above bank overdrafts and loans is as follows:

	THE GROUP	
	2005 HK\$	2004 HK\$
On demand or within one year	187,324,534	192,441,861
More than one year, but not exceeding two years	163,337,205	93,656,798
More than two years, but not exceeding five years	81,726,180	55,319,679
More than five years	137,583,356	61,732,144
	<u>569,971,275</u>	<u>403,150,482</u>
Less: Amount due within one year shown under current liabilities	(187,324,534)	(192,441,861)
Amount due after one year	<u>382,646,741</u>	<u>210,708,621</u>

26. SHARE CAPITAL

	Number of shares		Amount	
	2005	2004	2005 HK\$	2004 HK\$
Ordinary shares of HK\$0.1 each				
Authorised:				
At 1st April and 31st March	<u>1,500,000,000</u>	<u>1,500,000,000</u>	<u>150,000,000</u>	<u>150,000,000</u>
Issued and fully paid:				
At 1st April	1,126,161,928	1,156,447,928	112,616,193	115,644,793
Cancelled on repurchase of shares	<u>(28,258,000)</u>	<u>(30,286,000)</u>	<u>(2,825,800)</u>	<u>(3,028,600)</u>
At 31st March	<u>1,097,903,928</u>	<u>1,126,161,928</u>	<u>109,790,393</u>	<u>112,616,193</u>

During the year, the Company repurchased certain of its own shares on The Stock Exchange of Hong Kong Limited. The directors considered that, as the Company's shares were trading at a discount to the expected net asset value per share, the repurchase would be beneficial to the Company.

These repurchased shares were cancelled upon repurchase and, accordingly, the issued share capital of the Company was reduced by the nominal value of these shares. The premium paid on repurchase was charged to retained profits.

26. SHARE CAPITAL (CONTINUED)

Month of repurchase	Number of shares of HK\$0.1 each	Price per share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
April 2004	10,082,000	0.255	0.250	2,581,626
May 2004	7,326,000	0.255	0.220	1,827,975
June 2004	4,026,000	0.255	0.247	1,017,491
January 2005	1,684,000	0.225	0.213	371,881
February 2005	5,140,000	0.255	0.222	1,236,258
	<u>28,258,000</u>			<u>7,035,231</u>

27. RESERVES

	Share premium HK\$	Contributed surplus HK\$	Capital redemption reserve HK\$	Retained profits HK\$	Total HK\$
THE COMPANY					
At 1st April, 2003	22,785,730	90,854,039	13,676,040	10,066,956	137,382,765
Repurchase of own shares	—	—	3,028,600	(6,813,815)	(3,785,215)
Net loss for the year	—	—	—	(1,635,049)	(1,635,049)
At 31st March, 2004	22,785,730	90,854,039	16,704,640	1,618,092	131,962,501
Repurchase of own shares	—	—	2,825,800	(7,035,231)	(4,209,431)
Net profit for the year	—	—	—	17,751,632	17,751,632
Dividend paid	—	—	—	(5,523,631)	(5,523,631)
At 31st March, 2005	<u>22,785,730</u>	<u>90,854,039</u>	<u>19,530,440</u>	<u>6,810,862</u>	<u>139,981,071</u>

The contribution surplus represents the difference between the consolidated shareholders' funds of the subsidiaries at the date on which they were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition of the time of the Group reorganisation prior to the listing of the Company's shares.

Note:

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of a company is available for distribution. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- it is, or would after the payment be, unable to pay its liabilities as they become due; or
- the realisable value of its assets would thereby be less than aggregate of its liabilities and its issued share capital and share premium accounts.

The Company's reserves available for distribution to shareholders were as follows:

	2005	2004
	HK\$	HK\$
Contributed surplus	90,854,039	90,854,039
Retained profits	6,810,862	1,618,092
	<u>97,664,901</u>	<u>92,472,131</u>

The final dividend of 0.5 HK cent for the year ended 31st March, 2005 (2004: 0.5 HK cent) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

28. PROVISION FOR LONG SERVICE PAYMENTS

Under the Hong Kong Employment Ordinance, the Group is obliged to make lump sum payments on cessation of employment in certain circumstances to certain employees who have completed at least five years of service with the Group. The amount payable is dependent on the employee's final salary and years of service, and is reduced by entitlements accrued under the Group's retirement plan that are attributable to contributions made by the Group. The Group does not set aside any assets to fund any remaining obligations.

The amount recognised in the balance sheet is as follows:

	THE GROUP	
	2005	2004
	HK\$	HK\$
At beginning of the year	4,046,678	6,543,753
Additional provision in the year	520,532	1,334,978
Utilisation of provision	(435,154)	(3,832,053)
At closing of the year	<u>4,132,056</u>	<u>4,046,678</u>

The most recent actuarial valuation of the present value of the obligations under long service payments was carried out at 31st March, 2005 by Mr. Aaron Wong of Watson Wyatt Hong Kong Limited, who is a Fellow of the Society of Actuaries. The present value of the obligations under long service payments and the related current service cost were measured using the Projected Unit Credit Method.

The principal actuarial assumptions as at the balance sheet dates used are as follows:

	2005	2004
Discount rate	5.0%	5.0%
Expected rate of salary increase	Nil for the next three years commencing from 1st April, 2005 and 1.5% thereafter	Nil for the next four years commencing from 1st April, 2004 and 1.5% thereafter

Amounts recognised in the consolidated income statement for the year in respect of the obligations under long service payments are as follows:

	2005 HK\$	2004 HK\$
Current service cost	5,270	4,582
Interest cost	341,110	352,822
Net actuarial losses recognised in current year	174,152	102,098
Adjustment due to staff laid-off	—	875,476
Net amount charged to consolidated income statement as staff costs	<u>520,532</u>	<u>1,334,978</u>

The amounts included in the balance sheets arising from the Group's obligations under long service payments are as follows:

	THE GROUP	
	2005 HK\$	2004 HK\$
Present value of the obligations under long service payments	7,412,760	7,398,834
Unrecognised actuarial losses	(3,280,704)	(3,352,156)
Obligations under long service payments included in the balance sheet	<u>4,132,056</u>	<u>4,046,678</u>

29. DEFERRED TAX LIABILITIES

	Accelerated tax depreciation HK\$	Tax losses HK\$	Total HK\$
At 1st April, 2003	1,519,060	(481,772)	1,037,288
Charge (credit) to income statement for the year	221,900	(221,900)	—
Effect of change in tax rate			
— charge (credit) to income statement	3,929	(3,929)	—
At 1st April, 2004	1,744,889	(707,601)	1,037,288
Charge (credit) to income statement for the year	399,271	(399,271)	—
At 31st March, 2005	<u>2,144,160</u>	<u>(1,106,872)</u>	<u>1,037,288</u>

At the balance sheet date, the Company has unused tax losses of HK\$307,916,000 (2004: HK\$295,943,000) available for offset against future profits. A deferred tax asset of approximately HK\$1,107,000 (2004: HK\$708,000) has been recognised in respect of approximately HK\$6,325,000 (2004: HK\$4,043,000) of such losses.

No deferred tax asset has been recognised in respect of the remaining HK\$301,591,000 (2004: HK\$291,900,000) of such losses due to the unpredictability of future profit streams. The losses may be carried forward indefinitely.

At the balance sheet date, the Group has deductible temporary differences of HK\$11,184,000 (2004: HK\$20,965,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that sufficient taxable profit will be available against which the deductible temporary differences can be utilised.

30. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of HK\$2,810,000 (2004: HK\$2,991,337).

31. CONTINGENT LIABILITIES AND COMMITMENTS

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	HK\$	HK\$	HK\$	HK\$
Contingent liabilities:				
Guarantees for banking facilities granted to subsidiaries	—	—	1,161,156,910	682,037,113
Guarantees for banking facilities granted to jointly controlled entities	—	155,000,000	—	155,000,000
Other guarantees	187,000	65,000	—	—
	<u>187,000</u>	<u>155,065,000</u>	<u>1,161,156,910</u>	<u>837,037,113</u>
Capital commitments:				
Contracted for but not provided:				
Acquisition of property, plant and equipment	292,188	372,373	—	—
Property development costs	4,134,459	—	—	—
	<u>4,426,647</u>	<u>372,373</u>	<u>—</u>	<u>—</u>

32. OPERATING LEASE ARRANGEMENTS**The Group as lessee:**

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2005	2004
	HK\$	HK\$
Within one year	4,029,518	4,564,395
In the second to fifth year inclusive	10,383,156	7,855,040
Over five years	6,833,270	8,726,067
	<u>21,245,944</u>	<u>21,145,502</u>

Operating lease payments represent rental payable by the Group for certain of its office premises, staff quarters and factories. Leases for office premises and staff quarters are negotiated for terms of 2 to 6 years with fixed rentals. Leases for land are negotiated for terms of 50 years with fixed rentals.

The Group as lessor:

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP	
	2005	2004
	HK\$	HK\$
Within one year	4,042,088	4,079,846
In the second to fifth year inclusive	1,531,880	4,378,203
	<u>5,573,968</u>	<u>8,458,049</u>

The properties are expected to generate rental yields of 2% on an ongoing basis. Leases are negotiated for terms ranging from 2 to 3 years.

33. RETIREMENT BENEFIT SCHEME

Commencing from 1st December, 2000, the Group's employees are required to join the MPF Scheme. Under the MPF Scheme, both the Group and the employees contribute 5% of the employee's monthly remunerations or HK\$1,000 per month whichever is the smaller to the scheme. The Group's total contribution to the scheme for the year ended 31st March, 2005 is HK\$1,395,649 (2004: HK\$1,339,701). There is no forfeiture of employer's contribution from leaving scheme members under the MPF Scheme.

34. PLEDGE OF ASSETS

At 31st March, 2005, the Group has pledged the following assets and assigned rental income from letting of properties in favour of banks to secure the banking facilities:

	2005	2004
	HK\$	HK\$
Investment property	150,000,000	84,000,000
Land and buildings	47,597,962	47,863,960
Properties under development	450,962,653	286,454,125
Inventory of unsold properties	119,418,851	117,367,985
Bank deposits	—	16,161,600

5. UNAUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

The following financial information is a reproduction of the relevant information extracted from the interim report of the Group for the six months ended 30 September 2005.

2005 INTERIM REPORT

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September 2005

		Six months ended 30th September	
		2005	2004
		(unaudited)	(unaudited)
	Notes	HK\$'000	HK\$'000
Turnover	2	544,028	518,992
Cost of sales		(486,946)	(462,981)
Gross profit		57,082	56,011
Other revenue (expense)		4,980	(1,358)
Distribution costs		(3,257)	(3,601)
Administrative expenses		(28,207)	(26,795)
Release of negative goodwill arising on acquisition of jointly controlled entities		623	—
Profit from operations	3	31,221	24,257
Finance costs	4	(5,219)	(4,628)
Share of result of an associate		—	1,319
Share of results of jointly controlled entities		—	(15)
Profit before taxation		26,002	20,933
Taxation	5	(1,765)	(900)
Net profit for the period	2	24,237	20,033
Earnings per share	6	2.23 cents	1.80 cents

CONDENSED CONSOLIDATED BALANCE SHEET*At 30th September 2005*

	<i>Notes</i>	30/9/05 (unaudited) HK\$'000	31/3/05 (audited) HK\$'000
NON-CURRENT ASSETS			
Investment properties		150,000	150,000
Property, plant and equipment		103,234	100,814
Properties under development		553,672	450,963
Deposits held in trust for sale of property under development		53,012	33,978
Interest in an associate		36	1,317
Interests in jointly controlled entities		—	440
Other non-current assets		18,262	18,262
		<u>878,216</u>	<u>755,774</u>
CURRENT ASSETS			
Inventories		165,502	158,691
Investments held for trading		8,461	8,019
Inventory of unsold properties		121,866	119,419
Bills receivable		14,699	6,000
Trade receivables, deposits and prepayments	7	146,756	103,990
Tax recoverable		56	39
Pledged deposits		12,480	—
Bank balances and cash		57,754	28,941
		<u>527,574</u>	<u>425,099</u>
CURRENT LIABILITIES			
Trade payables and accrued expenses	8	191,553	157,994
Tax payable		3,581	2,074
Obligations under finance leases		4,319	2,115
Bank borrowings	9	213,443	187,324
Amount due to an associate		297	1,577
		<u>413,193</u>	<u>351,084</u>
NET CURRENT ASSETS		<u>114,381</u>	<u>74,015</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>992,597</u>	<u>829,789</u>
CAPITAL AND RESERVES			
Share capital	10	108,092	109,790
Reserves		279,678	264,620
		<u>387,770</u>	<u>374,410</u>
NON-CURRENT LIABILITIES			
Provision for long service payment		4,132	4,132
Obligations under finance leases		2,935	2,124
Bank borrowings	9	503,116	382,647
Deposits received from sale of properties under development		93,607	65,439
Deferred tax liabilities		1,037	1,037
		<u>604,827</u>	<u>455,379</u>
		<u>992,597</u>	<u>829,789</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30th September 2005*

	Six months ended 30th September	
	2005	2004
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total equity at the beginning of the period	374,410	332,629
Repurchase of shares	(4,114)	(5,427)
Exchange loss arising on translation of overseas operations not recognized in the income statement	(1,335)	(983)
Dividend paid	(5,428)	(5,524)
Net profit for the period	24,237	20,033
Total equity at the end of period	<u>387,770</u>	<u>340,728</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30th September 2005*

	Six months ended 30th September	
	2005	2004
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
OPERATING ACTIVITIES		
Cash generated from operations	18,819	61,383
Income taxes paid	(275)	–
NET CASH GENERATED FROM OPERATING ACTIVITIES	18,544	61,383
INVESTING ACTIVITIES		
Additions to other non-current assets	–	(317)
Additions to properties under development	(96,057)	(34,025)
Dividends paid	(5,428)	(5,524)
Purchase of property, plant and equipment	(9,625)	(8,124)
Increase in pledged deposit	(12,480)	(21,131)
Interest received	241	182
NET CASH USED IN INVESTING ACTIVITIES	(123,349)	(68,939)
FINANCING ACTIVITIES		
New bank borrowings	146,588	42,141
New obligations under finance leases	3,015	6,394
Repurchases of own shares	(4,114)	(5,427)
Interest paid	(11,871)	(7,359)
NET CASH FROM FINANCING ACTIVITIES	133,618	35,749
NET INCREASE IN CASH AND CASH EQUIVALENTS	28,813	28,193
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	28,941	30,636
CASH AND CASH EQUIVALENTS AT END OF PERIOD	57,754	58,829
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	57,754	59,592
Bank overdraft	–	(763)
	57,754	58,829

Notes:

(1) Principal Accounting Policies and Basis of Preparation

Basis of preparation and accounting policies

The Directors are responsible for the preparation of the Group's unaudited interim financials. The unaudited interim financials have been prepared in accordance with the new Hong Kong Financial Reporting Standards ("HKFRS"), which also include the Hong Kong Accounting Standards ("HKAS") and Interpretations, issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and accounting principles generally accepted in Hong Kong.

The HKICPA has issued a number of new or revised HKAS and HKFRS (herein collectively referred to as "new HKFRSs") which are generally effective for accounting periods beginning on or after 1st January, 2005. The principal accounting policies adopted in preparing these financial statements are consistent with those adopted in the Group's annual audited consolidated financial statements for the year ended 31st March, 2005 except for those mentioned below.

Business Combinations

In the current period, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which agreement date is on or after 1st April, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

In previous periods, the existing negative goodwill arising from acquisitions prior to 1st April, 2001 was recognised in other capital reserves, the Group has applied the relevant transitional provisions in HKFRS 3 to the existing negative goodwill which will be derecognised by way of an adjustment to the retained earnings at 1st April, 2005. Negative goodwill arising from acquisitions after 1st April, 2005 was recognised directly in the profit and loss account in the period in which they arise. Following the adoption of this accounting policy, the Group's profit for the six months ended 30th September, 2005 has been increased by HK\$623,000 as release of negative goodwill is credited to the profit and loss account in the current period. The Group's retained earnings as at 1st April, 2005 has been increased by HK\$2,256,230 while the Group's other capital reserves as at 1st April, 2005 has been decreased by HK\$2,256,230.

Financial Instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for accounting periods beginning on or after 1st January, 2005, generally not permits to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Financial assets and financial liabilities other than debt and equity securities

From 1st April, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of Statement of Standard Accounting Practice 24) in accordance with the requirements of HKAS 39. HKAS 39 classifies financial assets as "financial assets at fair value through profit or loss" including trading securities, "available-for-sale financial assets" including non-trading investments, "loans and receivables", or "held-to-maturity financial assets". Financial liabilities are generally classified as "Financial liabilities at fair value through profit or loss" or "Other financial liabilities carried at amortised cost using the effective interest method".

The change has resulted in reclassification of certain financial assets and liabilities and has no significant impact on the Group's results and equity.

Derivatives and hedging

From 1st April, 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held-for-trading or designated as effective hedging instruments. Under HKAS 39, derivatives are deemed as held-for-trading financial assets or financial liabilities, unless they are qualified and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held-for-trading, changes in fair values of such derivatives are recognised in profit and loss for the period in which they arise.

The Group has applied the relevant transitional provisions of HKAS 39 and adopted hedge accounting in accordance with HKAS 39 with effect from 1st April, 2005 onwards. The change has no significant impact in the Group's results and equity.

Investment properties

In the current period, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties under the SSAP 13 were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged.

The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1st April, 2005 onwards. The change in accounting policy has no material impact on the Group's retained earnings as at 1st April, 2005 as the amount held in investment property revaluation reserve was nil as at 31st March, 2005. The change has no material impact on the Group's results for the period ended 30th September, 2004 as no revaluation of the Group's investment properties was made as at 30th September, 2004.

As at 30th September, 2005, the Group's investment properties were revalued at HK\$150 million (31st March, 2005: HK\$150 million) by DTZ Debenham Tie Leung Limited, International Property Advisers, on an open market existing use basis. This revaluation did not change the income statement during the current period.

Deferred taxes related to investment properties

In previous periods, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor interpretation (SSAP-Interpretation 20). In the current period, the Group has applied HKAS Interpretation 21 ("INT-21") "Income Taxes – Recovery of Revalued Non-Depreciable Assets" which requires deferred taxation to be recognised on any revaluation changes on investment properties on the basis that the recovery of the carrying amount of the investment properties would be calculated at the applicable profits tax rate and charged to the profit and loss account. This new accounting policy has been applied retrospectively. As the amount of investment property revaluation reserve was nil as at 1st April, 2005, and no revaluation of the Group's investment properties was made as at 30th September, 2004, this change has no material impact on the shareholders' equity as at 1st April, 2005 and the Group's results for the period ended 30th September, 2004.

(2) Segmental Information

The following is an analysis of the Group's revenue and operating profit by principal activity and geographical market for the six months ended 30th September, 2005 and 2004:

Business Segment Information**2005**

	Manufacture, assembly and sale of electronic watches <i>HK\$'000</i>	Trading of watch movements and watch parts <i>HK\$'000</i>	Property development and investment <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER					
External sales	236,931	304,034	3,063	–	544,028
Inter-segment sales	–	7,740	–	(7,740)	–
Total revenue	<u>236,931</u>	<u>311,774</u>	<u>3,063</u>	<u>(7,740)</u>	<u>544,028</u>
SEGMENT RESULT	<u>26,685</u>	<u>2,912</u>	<u>1,870</u>		31,467
Interest income					241
Unallocated corporate expenses					(487)
Profit from operations					31,221
Finance costs					(5,219)
Share of result of an associate			–		–
Share of results of jointly controlled entities			–		–
Profit before taxation					26,002
Taxation					(1,765)
Net profit for the period					<u>24,237</u>

2004

	Manufacture, assembly and sale of electronic watches <i>HK\$'000</i>	Trading of watch movements and watch parts <i>HK\$'000</i>	Property development and investment <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER					
External sales	166,121	349,887	2,984	–	518,992
Inter-segment sales	–	2,324	–	(2,324)	–
Total revenue	<u>166,121</u>	<u>352,211</u>	<u>2,984</u>	<u>(2,324)</u>	<u>518,992</u>
SEGMENT RESULT	<u>18,589</u>	<u>5,550</u>	<u>484</u>		24,623
Interest income					182
Unallocated corporate expenses					(548)
Profit from operations					24,257
Finance costs					(4,628)
Share of result of an associate			1,319		1,319
Share of results of jointly controlled entities			<u>(15)</u>		<u>(15)</u>
Profit before taxation					20,933
Taxation					(900)
Net profit for the period					<u>20,033</u>

Segment Information By Geographical Market

	Turnover by geographical market		Contribution to profit from operations	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Hong Kong	308,110	364,898	5,880	7,884
North America	126,120	69,146	12,809	6,506
Europe	107,684	84,187	12,296	9,779
Others	2,114	761	236	88
	<u>544,028</u>	<u>518,992</u>	<u>31,221</u>	<u>24,257</u>

(3) Profit from operations

	Six months ended 30th September	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit from operations has been arrived at after charging:		
Amortization of intangible assets	—	134
Depreciation:		
Owned fixed assets	5,403	8,927
Assets held under finance leases	926	1,204
	<u>5,403</u>	<u>8,927</u>

(4) Finance costs

	Six months ended 30th September	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on borrowings:		
Bank borrowings	11,680	7,279
Obligations under finance leases	191	80
	<u>11,871</u>	<u>7,359</u>
Total borrowing costs	11,871	7,359
Less: Amount capitalized to property development projects	(6,652)	(2,731)
	<u>5,219</u>	<u>4,628</u>

(5) Taxation

	Six months ended 30th September	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
The Company and subsidiaries		
Hong Kong profits tax	1,762	900
Overseas tax	3	—
	<u>1,765</u>	<u>900</u>

Hong Kong profits tax has been provided for at 17.5% (2004 – 17.5%) on the estimated assessable profit for the six months ended 30th September, 2005 for each of the companies comprising the Group in Hong Kong. Profits tax for the profits of foreign subsidiaries of the Group has been provided for in accordance with the relevant local laws.

(6) Earnings Per Share

Earnings per share for the six months ended 30th September, 2005 is based on the profit attributable to shareholders of HK\$24,237,000 (2004 – HK\$20,033,000) and on the weighted average number of 1,088,958,256 shares (2004 – 1,110,195,349 shares) in issue during the six months ended 30th September, 2005.

(7) Trade receivables, deposits and prepayments

	30/9/05 <i>HK\$'000</i>	31/3/05 <i>HK\$'000</i>
Trade receivables (net of provisions for bad and doubtful debts) with aging analysis:		
Within 30 days	56,598	32,591
31 to 90 days	37,840	31,192
91 to 180 days	20,545	3,569
Over 180 days	394	9,131
	<u>115,377</u>	<u>76,483</u>
Deposits and prepayments	<u>31,379</u>	<u>27,507</u>
	<u><u>146,756</u></u>	<u><u>103,990</u></u>

(8) Trade payables and Accrued Expenses

	30/9/05 <i>HK\$'000</i>	31/3/05 <i>HK\$'000</i>
Trade payables with aging analysis:		
Within 30 days	63,921	53,909
31 to 90 days	59,127	31,939
91 to 180 days	21,108	17,562
Over 180 days	9	1
	<u>144,165</u>	<u>103,411</u>
Accrued expenses	<u>47,388</u>	<u>54,583</u>
	<u><u>191,553</u></u>	<u><u>157,994</u></u>

(9) Banking Borrowings

	30/9/05 <i>HK\$'000</i>	31/3/05 <i>HK\$'000</i>
Secured bank loan	524,948	410,677
Unsecured bank loan	<u>191,611</u>	<u>159,294</u>
	716,559	569,971
Less: Amount due within one year shown under current liabilities	<u>(213,443)</u>	<u>(187,324)</u>
Amount due after one year	<u><u>503,116</u></u>	<u><u>382,647</u></u>

(10) Share Capital

	Number of shares	Share Capital HK\$
Ordinary shares of HK\$0.1 each		
Authorised:		
At 1st April, 2005 and 30th September, 2005	<u>1,500,000,000</u>	<u>150,000,000</u>
Issued and fully paid:		
At 1st April, 2005	1,097,903,928	109,790,393
Cancelled on repurchase of shares	<u>(16,982,000)</u>	<u>(1,698,200)</u>
At 30th September, 2005	<u>1,080,921,928</u>	<u>108,092,193</u>

(11) Contingent Liabilities and Commitments

	30/9/05 HK\$'000	31/3/05 HK\$'000
Contingent liabilities:		
Other guarantees	<u>227</u>	<u>187</u>
Capital commitments:		
Contracted for but not provided:		
Acquisition of property, plant and equipment	–	292
Property development costs	<u>27,066</u>	<u>4,134</u>
	<u>27,066</u>	<u>4,426</u>

6. PROFIT AND LOSS STATEMENT OF THE PROPERTY

- For the purpose of the acquisition of the Property, the Company has requested the Vendor to provide all relevant information in relation to the Property which include rental income, tenancy agreements and financial information on expenditures/outgoings which the Property is subject to for the three financial years ended 31 March 2006. In response to the Company's request, the Vendor provided to the Company with a breakdown of the income and expenditures in respect of the Property for the relevant period ("Breakdown"). The Vendor has confirmed to the Company that such Breakdown has been properly compiled and derived from the underlying books and records in its possession. While the Vendor has provided the Company with access to certain documents at the Vendor's office, the Company is not allowed to make copies of the underlying documents from the Vendor (apart from the current tenancy agreements) due to there being confidential information contained therein. The Company was only able to make inspection on the relevant materials made available to it.
- The Company's auditors were not permitted access to the underlying books and records which the Company understands from the Vendor that such underlying documents contain other confidential financial information relating to the Vendor and its other properties which are unrelated and irrelevant to the Property under review.

3. In respect of rental income and other source of revenue (if any) of the Property, the Company has requested for relevant information from the Vendor for identifying the revenue of the Property. Copies of the tenancy agreements which include details of monthly rentals, terms of the leases and rent free period (if any) were provided by the Vendor to the Company. Since the total number of tenancy agreements for the 3 preceding years are voluminous, the Directors have only made copies of the current tenancy agreements which are still subsisting and will be continued in force after the completion of the Acquisition for reference. Details of the current tenancy agreements that the Company has made copies of are set out as follows:

Current Tenancies	Approximate Gross Floor Area <i>sq. ft.</i>	Rental contracted to be paid during the relevant periods		
		Year ended 31 March 2004 <i>HK\$'000</i>	Year ended 31 March 2005 <i>HK\$'000</i>	Year ended 31 Mar 2006 <i>HK\$'000</i>
G/F	1,712	—	540	720
1/F	661	—	13	55
2/F	661	—	—	—
3/F	661	—	25	69
4/F	661	—	80	71
5/F	661	—	—	—
6/F	661	—	—	41
7/F	661	—	—	96
8/F	661	—	—	—
9/F	661	13	13	44
10/F	661	70	50	98
11/F	661	—	—	34
12/F	661	—	—	45
13/F	661	—	—	—
14/F	661	—	—	138
15/F	661	—	—	42
16/F	661	—	—	—
17/F	661	—	—	14
18/F	661	—	—	95
19/F	661	—	108	102
20/F	661	—	54	45
21/F	661	—	—	16
22/F	661	—	—	—
23/F	661	—	—	63
	<u>16,915</u>	<u>83</u>	<u>883</u>	<u>1,788</u>

4. With regards to outgoings, the Vendor has made available to the Company all bills including government rates and rents, management fees and air-conditioning charges, electricity, telephone, internet and water supply which the Property is subject to for the relevant period (the “Bills”). Having inspected the Bills against the figures of the Breakdown provided by the Vendor, the Company is satisfied with the information as provided by the Vendor.

5. The Company has also arranged for searches at the Land Registry for the period up to 25 May 2006. The results reveal that amongst other, Likyu Company Limited trading as Li Kyu Japanese Restaurant on the ground floor of the Property ("Restaurant") was the only one registered tenancy of the Property during such period. The lease was registered for a term of 3 years commencing from 1 November 1997 to 31 October 2000. The results did not show the registration of any other tenancies for the 3 years ended 31 March 2006 as the Land Registry does not require any lease with tenancy period less than 3 years to be registered.
6. In view of the above, based on the information on the revenue and expenditure obtained from the Vendor, the Company has prepared the following table to demonstrate the profit and loss arising from the Property for the 3 years ended 31 March 2006:

	Year ended 31 March		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
Gross rental income	2,909	3,890	4,431
Outgoings (<i>Note</i>)	390	485	519
Gross rental income less outgoings	<u>2,519</u>	<u>3,405</u>	<u>3,912</u>

Note:

	Year ended 31 March		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
Electricity, gas and water	192	223	236
Government rent and rates	95	103	118
Telephone, internet and cable television	103	159	165
	<u>390</u>	<u>485</u>	<u>519</u>

7. In addition to the above, the Company has also made enquiries with a number of property agents and further researches have been made against public records widely available on the internet. Since most of this information is used by property agents for advertising and marketing purposes, the Directors consider that it will not be appropriate to use it as relevant comparables of the Property.
8. Furthermore, the Company has made further enquiries with the management office of the Property and with some existing tenants of the Property in a view to seek their knowledge of the historical occupancy level and the information on the amount of outgoings payable by them. However such information has no significant added value for the preparation of the profit and loss statement of the Property.
9. Although the Vendor has given the Company access to relevant information for its preparation of the circular, most of the information provided by the Vendor are confidential documents and thereby, the Company is restricted from disclosure to third parties. Given the circumstances, the Directors could

only prepare a table summarising detailed information from the tenancy agreements. The Directors also considered that it is impractical to copy all of the historical bills of electricity, government rents and rates in relation to the Property and is satisfied to rely on the summary spreadsheet provided by the Vendor having inspected the relevant underlying documents.

10. In view of the above, the Directors believe that they have used their best efforts and exhausted all possible means to ascertain all relevant information which the Company can rely on and are unable to gain any further details of the underlying accounting books and records from the Vendor for the purpose of identifying the income and outgoings in an attempt to comply with the Listing Rules. Procedures have been carried out by the Company's auditors on the profit and loss arising from the Property as shown in the above table in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants to ensure that such information has been properly compiled and derived from the information provided by the Vendor and the Directors.
11. Accordingly, the Company has applied to the Stock Exchange for a waiver from strict compliance by the Company of Rule 14.67(4)(b)(i) of the Listing Rules in respect of the requirement on the profit and loss statement.

7. UNAUDITED PRO FORMA BALANCE SHEET OF THE GROUP

The accompanying unaudited pro forma balance sheet of the Group, as defined below, has been prepared to illustrate the effect of the Acquisition to the financial position of the Group based on the unaudited consolidated balance sheet of the Company as at 30 September 2005 after making certain pro forma adjustments in respect of the Acquisition.

The unaudited pro forma consolidated balance sheet of the Company is prepared on the basis as if the Acquisition had been completed as at 30 September 2005.

The unaudited pro forma consolidated balance sheet of the Company has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Group as at 30 September 2005 or following the Acquisition.

	Unaudited consolidated balance sheet of the Company as at 30 September 2005 HK\$'000 (Note 1)	Adjustments for the Acquisition HK\$'000 (Note 2)	Unaudited pro forma consolidated balance sheet of the Company after the Acquisition HK\$'000
Non-current assets			
Investment properties	150,000	81,325 (a)	231,325
Property, plant and equipment	103,234	—	103,234
Properties under development	553,672	—	553,672
Deposits held in trust for sale of property under development	53,012	—	53,012
Interest in an associate	36	—	36
Other non-current assets	18,262	—	18,262
	<u>878,216</u>	<u>81,325</u>	<u>959,541</u>
Current assets			
Inventories	165,502	—	165,502
Investments held for trading	8,461	—	8,461
Inventory of unsold properties	121,866	—	121,866
Bills receivable	14,699	—	14,699
Trade receivables, deposits and prepayments	146,756	—	146,756
Tax recoverable	56	—	56
Pledged deposits	12,480	—	12,480
Bank balances and cash	57,754	(24,625) (b)	33,129
	<u>527,574</u>	<u>(24,625)</u>	<u>502,949</u>
Current liabilities			
Trade payable and accrued expenses	191,553	—	191,553
Tax payable	3,581	—	3,581
Obligations under finance leases	4,319	—	4,319
Bank borrowings	213,443	—	213,443
Amount due to an associate	297	—	297
	<u>413,193</u>	<u>—</u>	<u>413,193</u>
Non-current liabilities			
Provision for long service payment	4,132	—	4,132
Obligations under finance leases	2,935	—	2,935
Bank borrowings	503,116	56,700 (c)	559,816
Deposits received from sale of properties under development	93,607	—	93,607
Deferred tax liabilities	1,037	—	1,037
	<u>604,827</u>	<u>56,700</u>	<u>661,527</u>
	<u>387,770</u>	<u>—</u>	<u>387,770</u>
Capital and reserves			
Share capital	108,092	—	108,092
Reserves	279,678	—	279,678
	<u>387,770</u>	<u>—</u>	<u>387,770</u>

Notes:

1. Being the unaudited consolidated balance sheet of the Company as at 30 September 2005. Details of which were disclosed in the interim financial report of the Company for the six months ended 30 September 2005.
2. Being the adjustments for the Acquisition, including adjustments on:

- a. The total costs of the Acquisition as follows:

	<i>HK\$</i>
Consideration for the Acquisition	78,000,000
Stamp duty	2,145,000
Purchase commission payable to the agent	780,000
Professional fees in connection with the Acquisition	400,000
	<u>81,325,000</u>

- b. The portion of the total costs of the Acquisition settled through internal resources of the Group.
- c. The portion of the total costs of the Acquisition to be financed by additional banking facility, which will not be repayable within the next twelve months from the date of drawdown.

8. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF NATIONAL ELECTRONICS HOLDINGS LIMITED



We report on the unaudited pro forma financial information of National Electronics Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the acquisition of property known as “Elegant Court”, located at No. 21 Whitfield Road, North Point, Hong Kong (the “Acquisition”) might have affected the financial information presented, for inclusion in Section 7 of Appendix II to the circular dated 8 June 2006. (the “Circular”). The basis of preparation of the unaudited pro forma financial information is set out on page 59 to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 September 2005, or any future date.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group so far as such policies relate to the property acquired; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 8 June 2006

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained herein the omission of which would make any statement contained in this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered into the register required to be kept under section 352 of the SFO were as follows:

Long positions in Shares

Name of director or chief executive	Personal interest	Corporate interests	Other interests	Total interests	Percentage of the issued share capital of the Company
Mr. Jimmy Lee Yuen Ching	—	—	253,106,873 (note a)	253,106,873	23.683%
Mr. James Lee Yuen Kui	5,940	—	252,102,979 (note b)	252,108,919	23.589%
Mr. Peter Lee Yuen Wong	—	—	252,102,979 (note b)	252,102,979	23.589%
Mr. Edward Lee Yuen Cheor	—	—	252,102,979 (note b)	252,102,979	23.589%
Mr. Ricky Wai Kwong Yuen	—	37,267,767 (note c)	—	37,267,767	3.487%
Dr. Samson Sun, M.B.E., J.P.	—	4,988,968 (note d)	—	4,988,968	0.467%

Notes:

- (a) The 253,106,873 Shares are part of the property of a discretionary trust of which Mr. Jimmy Lee Yuen Ching and his family members are named beneficiaries.

- (b) The 252,102,979 Shares are part of the property of a discretionary trust of which each of Messrs. James Lee Yuen Kui, Peter Lee YuenWong and Edward Lee Yuen Cheor are named beneficiaries.
- (c) The 37,267,767 Shares are held by two Companies controlled by Mr. Ricky Wai Kwong Yuen.
- (d) The 4,988,968 Shares are held by a company controlled by Dr. Samson Sun, M.B.E., J.P.

Mr. Jimmy Lee Yuen Ching, Mr. James Lee Yuen Kui, Mr. Peter Lee Yuen Wong, Mr. Edward Lee Yuen Cheor, Mr. Ricky Wai Kwong Yuen and Dr. Samson Sun are also directors of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interests and short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered into the register required to be kept under section 352 of the SFO.

As at the Latest Practicable Date, none of the Directors had any interest, either direct or indirect, in any assets which have been since 31 March 2005, being the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which is subsisting as at the date of this circular and is significant in relation to the business of the Group.

(b) Interests of Shareholders

As at the Latest Practicable Date, so far as is known to the Directors and the chief executives of the Company, no person (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of any member of the Group.

3. SERVICE CONTRACTS

Mr. Jimmy Lee Yuen Ching entered into a service contract with the Company on 8th January, 1985. This contract is terminable by either party on giving six calendar months' written notice.

Mr. Chan Kwok Wai entered into a service contract with the Company on 20th April, 2005. This contract is effective for 3 years from the date of the contract and is terminable by either party by giving at least three months' prior notice in writing.

As at the Latest Practicable Date, save as disclosed above, none of the Directors has entered into any service agreement with any member of the Group nor are there any other service agreements proposed which will not expire or be determinable by the Company within one year without payment of compensation (other than statutory compensation).

4. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration proceedings of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or any of his/her associates (as such term is defined in the Listing Rules) had an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group required to be disclosed pursuant to rule 8.10 of the Listing Rules other than those businesses to which the Directors were appointed to represent the interests of the Company and/or the Group.

6. EXPERT AND CONSENT

The following is the qualification of the expert who has been named in this circular or has given opinions, letter or advices contained in this circular:

Name	Qualification
DTZ	Professional surveyors and valuers
Deloitte	Certified Public Accountants

As at the Latest Practicable Date, each of DTZ and Deloitte has given and has not withdrawn their respective written consents and issue of this circular with the inclusion therein of their reports and/or references to their names in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of DTZ and Deloitte did not have any direct or indirect interests in any assets which since 31 March 2005, being the date to which the latest audited consolidated financial statements of the Group were made up, have been acquired or disposed of, or leased to, or which are proposed to be acquired or disposed of by, or leased to any member of the Group.

7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the subsidiaries of the Company within two years preceding the date of this circular and which are or may be material:

1. a disposal agreement dated 6 April 2006 entered into between National Hotel Holdings Limited (NHHL), a company incorporated in the British Virgin Islands and a wholly owned subsidiary of the Company and CPI Asia National 1 Limited (CPI) in relation to the sale of 80% of the issued share capital of Roebuck Investments Limited (Roebuck), a company incorporated in the British Virgin Islands for a consideration of HK\$31,963,714 (as disclosed in the circular dated 2 May 2006);

2. the Agreement; and
3. a shareholders' deed dated 8 May 2006 entered into between NHHL, CPI, Roebuck and National Properties Holdings Limited, a company incorporated in Hong Kong and a wholly owned subsidiary of the Company (as guarantor) to regulate the relationship between the parties and provide for the management and the conduct of the business of Roebuck (as disclosed in the circular dated 2 May 2006).

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Company's principal place of business at Suite 3201, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong during normal business on any weekday (except public holidays) from the date of this circular up to and including 22 June 2006:

- (a) the memorandum and Bye-laws of the Company;
- (b) the annual reports of the Company of the two financial years immediately preceding the issue of this circular;
- (c) the valuation report dated 8 June 2006;
- (d) the material contracts referred to in this appendix; and
- (e) the following circulars issued by the Company pursuant to the requirements set out under Chapter 14 of the Listing Rules since 31 March 2005, being the date to which the latest published audited consolidated financial statements of the Group were made up:
 - a circular dated 2 May 2006 regarding a disposal of shares representing 80% of the issued share capital in Roebuck Investments Limited ("Roebuck") for a consideration of HK\$31,963,714 and upon completion of the disposal, the Company entered into a joint venture arrangement with other parties to regulate the relationship between them and to provide for the management and conduct of the business of Roebuck; and
 - a circular dated 25 July 2005 regarding, amongst others, an acquisition of a property comprise of three pieces of land situated in Canada for a consideration of CA\$5,150,000 (approximately HK\$32,517,000) by St. Thomas Commercial Developments Incorporated, an indirect wholly-owned subsidiary of the Company.

9. GENERAL

- (i) The qualified accountant and company secretary of the Company is Mr. Wong Kam Kee, Andy, who is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom. Mr. Wong holds a Master of Science Degree in Financial Management from the University of London and is also an associate member of The Institute of Chartered Secretaries and Administrators.
- (ii) The branch registrar and transfer office of the Company in Hong Kong is located at Standard Registrars Limited of Level 25, Three Pacific Place, 1 Queen's Road, Hong Kong.
- (iii) The English version of this circular shall prevail over the Chinese text.