

<b>THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION</b>
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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should immediately 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 the transferee or to the bank, the 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)**

**DISCLOSEABLE TRANSACTIONS**

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2nd May, 2006

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## DEFINITIONS

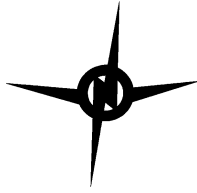
*In this circular, unless the context otherwise requires, the following expressions have the following meanings:*

“Announcement”	the announcement dated 10th April, 2006 issued by the Company in relation to the Disposal Agreement and the Shareholders’ Deed;
“Business Day”	a day other than a Saturday, Sunday on which banks are open in Hong Kong to the general public for business during their normal business hours;
“Company”	National Electronics Holdings Limited, a company incorporated in Bermuda, whose shares are listed on the main board of the Stock Exchange;
“Completion”	completion of the Disposal Agreement;
“Completion Date”	6th June, 2006 or such other date as the parties may agree or to which Completion is postponed in accordance with the Disposal Agreement as being the date on which Completion takes place;
“Completion Statement”	the unaudited or audited balance sheet of the Roebuck Group as at the Completion;
“Cost Overrun”	each amount, if any, by which expenditure on construction costs (including any interest accrued or payable prior to the expiry of two months following the date of issuance of the Occupation Permit and front-end or arrangement fees payable in relation to external financing), whether made before or after the date of the Disposal Agreement exceeds HK\$69,618,899;
“Directors”	the directors of the Company;
“Disposal”	the disposal of the Sale Shares by NHHL to the Purchaser pursuant to the Disposal Agreement;
“Disposal Agreement”	the conditional sale and purchase agreement dated 6th April, 2006 entered into by NHHL, the Purchaser and NPHL in relation to the sale and purchase of the Sale Shares;
“Forthright”	Forthright Investment Limited, a company incorporated in Hong Kong and a subsidiary of Roebuck;
“Group”	the Company and its subsidiaries;
“Independent Third Parties”	third parties independent of the Company, its director, chief executive or substantial shareholder or any of its subsidiaries or an associate of any of them;

## DEFINITIONS

“Latest Practicable Date”	28 April, 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Long Stop Date”	5 Business Days prior to the Completion Date or such other date as the parties may agree in writing;
“NHHL”	National Hotel Holdings Limited, a company incorporated in the British Virgin Islands and a wholly owned subsidiary of the Company;
“NPHL”	National Properties Holdings Limited, a company incorporated in Hong Kong and a wholly owned subsidiary of the Company;
“Net Current Asset Value”	the aggregate of receivables owing to the Roebuck Group, as at the Completion Date, less than 45 days outstanding, prepayments made by a member of the Roebuck Group as at the Completion Date and all cash at bank owned by each of the member of the Roebuck Group as at the Completion Date less the aggregate of all liabilities and provisions of the Roebuck Group as at the Completion Date (but excluding the shareholder loan and the existing bank loan, in each case, as shown in the Completion Statement);
“Occupation Permit”	the written permission to be issued by the Building Authority under the provisions of the Buildings Ordinance for the building to be occupied and includes a temporary occupation permit;
“Project Site”	a piece of land located at No. 202 to No. 206 Queen’s Road Central, Hong Kong;
“Purchaser”	CPI Asia National 1 Limited, a company incorporated in the British Virgin Islands;
“Roebuck”	Roebuck Investments Limited, a company incorporated in the British Virgin Islands;
“Roebuck Group”	Roebuck and its subsidiaries;
“Sale Shares”	80 shares of US\$1 each in the share capital of Roebuck, representing 80% of the issued share capital of Roebuck;
“Shareholders”	the shareholders of the Company;
“Shareholders’ Deed”	the shareholders’ deed to be entered into amongst NHHL, the Purchaser, Roebuck and NPHL upon Completion;
“Stock Exchange”	the Stock Exchange of Hong Kong Limited.

## LETTER FROM THE BOARD



### ***NATIONAL ELECTRONICS HOLDINGS LIMITED***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 213)**

*Executive Directors:*

Mr. Lee Yuen Ching, Jimmy (*Chairman*)  
Mr. Lee Yuen Kui, James (*Managing Director*)  
Mr. Lee Yuen Wong, Peter  
Mr. Lee Yuen Cheor, Edward

*Registered Office:*

Canon's Court  
22 Victoria Street  
Hamilton HM12  
Bermuda

*Non-executive Director:*

Miss Lee Yuen Yu, Dorathy

*Head office and principal place  
of business in Hong Kong:*

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

2nd May, 2006

*To the Shareholders*

Dear Sir or Madam,

### **DISCLOSEABLE TRANSACTIONS**

#### **INTRODUCTION**

It was stated in the Announcement that on 6th April, 2006, NHHL entered into the Disposal Agreement with the Purchaser pursuant to which the Vendor conditionally agreed to sell and the Purchaser agreed to purchase the Sale Shares representing 80% of the issued share capital in Roebuck for a consideration of HK\$31,963,714 (subject to adjustments as mentioned below).

Upon completion of the Disposal, NHHL, the Purchaser, Roebuck and NPHL (as guarantor) will enter into the Shareholders' Deed to regulate the relationship between the parties and provide for the management and the conduct of the business of Roebuck.

The Disposal and the joint venture arrangement under the Shareholders' Deed each constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. This document contains details of the Disposal Agreement and the Shareholders' Deed as required under the Listing Rules.

## LETTER FROM THE BOARD

### THE DISPOSAL AGREEMENT

Date: 6th April, 2006

Parties to the Agreement: (i) NHHL, a wholly-owned subsidiary of the Company, as Vendor  
(ii) CPI Asia National 1 Limited as Purchaser  
(ii) NPHL, a wholly-owned subsidiary of the Company, as the guarantor of NHHL

NHHL agreed to sell and the Purchaser agreed to purchase the Sale Shares representing 80% of the issued share capital of Roebuck for a consideration of HK\$31,963,714 (subject to adjustments as mentioned below).

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

The Purchaser is an investment holding company and a wholly-owned subsidiary of CBC International Real Estate LP LLC.

#### Condition:

Completion of the Disposal Agreement is subject to compliance by the Company of all the requirements imposed by the Stock Exchange for implementation and execution of the transaction contemplated under the Disposal Agreement.

If the condition is not satisfied on or before 5 p.m. on the Long Stop Date, the Purchaser may at its option postpone the date by which the condition should have been satisfied or terminate the Disposal Agreement. Completion will take place on 6th June, 2006 or such other date as agreed by the parties.

#### Consideration:

The consideration payable by the Purchaser under the Disposal Agreement was arrived at after arms length negotiations between NHHL and the Purchaser with reference to the value of the Project Site as ascertained by the Purchaser, the gain expected to accrue to the Company as a result of the Disposal of approximately HK\$75 million and taking into account the net liabilities of the Roebuck Group as at 31st March, 2006. In addition, when determining the consideration, the Company has also taken into account the fact that upon Completion and apart from the capital commitment referred to under the paragraph headed "Shareholders' Deed" below, no further capital injection will be required from the Company to complete the project.

The consideration payable by the Purchaser to NHHL under the Agreement is HK\$31,963,714 (subject to adjustments) and was/shall be satisfied as follows:

- (i) HK\$8,000,000 upon signing of the Disposal Agreement and was paid to the Purchaser's solicitors as escrow agent; and
- (ii) upon Completion, the balance of the consideration (i.e. HK\$23,963,714)

## LETTER FROM THE BOARD

Within 15 days from the Completion Date, NHHL shall prepare a Completion Statement and calculate the Net Current Asset Value in accordance with the terms of the Disposal Agreement and the parties will attempt to mutually agree on such items. If NHHL and the Purchaser cannot agree the Completion Statement and the Net Current Asset Value within 15 days from the receipt of the Completion Statement from NHHL, an independent firm of international public accountants will be appointed to audit the Completion Statement and to determine the Net Current Asset Value.

The consideration will be subject to the following adjustments upon determination of the Completion Statement and the Net Current Asset Value:

- (i) there shall be added to the consideration 80% of the amount (if any) by which the Net Current Asset Value is more than HK\$1,095,779, being the Net Current Asset Value as at 31st March, 2006; and
- (ii) there shall be deducted from the consideration 80% of the amount (if any) by which the Net Current Asset Value is less than HK\$1,095,779, being the Net Current Asset Value as at 31st March, 2006.

Any excess paid on Completion will be returned forthwith to the Purchaser without interest and any shortfall will be paid forthwith to NHHL without interest.

### **Other terms:**

Under the terms of the Disposal Agreement, NHHL has agreed that:

- (i) in the event that there is a Cost Overrun, NHHL will pay to Forthright an amount equal to the Cost Overrun; and
- (ii) in the event that issuance of the Occupation Permit is delayed beyond 31st October, 2006 other than to the extent caused by fire, flood, explosion or any other similar acts of God, NHHL will pay to Forthright, by way of liquidated damages, HK\$20,000 per day from but excluding 31st October, 2006 up to and including the date on which the Occupation Permit is issued,

provided that the aggregate liability of NHHL pursuant to (i) and (ii) above will not exceed HK\$10,000,000.

### **Guarantee:**

NPHL acts as a guarantor under the Disposal Agreement to guarantee to the Purchaser certain performance and payment obligations of NHHL under the Disposal Agreement.

### **SHAREHOLDERS' DEED**

Upon completion of the Disposal, NHHL, the Purchaser, Roebuck and NPHL (as guarantor) will enter into the Shareholders' Deed to regulate the relationship between the parties and provide for the management and the conduct of the business of Roebuck.

## LETTER FROM THE BOARD

Under the terms of the Disposal Agreement and the Shareholders' Deed, each of NHHL and the Purchaser will be responsible for a shareholder loan equal to 20% and 80% respectively of the shareholder loan outstanding as at Completion after repayment of a portion thereof out of funds drawn down under external financing. The amount of such outstanding shareholder loan will be determined and finalized on the Completion Date. As at 31st March, 2006, the amount of shareholder loan is approximately HK\$82 million. The Company estimated that the 20% portion of the outstanding shareholder loan that NHHL will be responsible as at Completion is approximately HK\$4,622,000.

In addition, pursuant to the terms of the Shareholders' Deed, Roebuck may call for advance of shareholder loan by NHHL and the Purchaser on a pro rata basis in proportion to their then respective percentage interests in Roebuck provided that such loan will not exceed HK\$10,000,000 in aggregate. Accordingly, NHHL's further financing obligation will be up to HK\$2,000,000.

NPHL also acts as a guarantor under the Shareholders' Deed to guarantee to the Purchaser certain performance and payment obligations of NHHL under the Shareholders' Deed.

### ROEBUCK

Roebuck is an investment holding vehicle incorporated on 2nd February, 1993 and wholly-owns Gilligan Developments Ltd. Gilligan Developments Ltd. and Roebuck hold 60% and 40% respectively of the issued share capital of Forthright. Forthright acquired the Project Site on 9th June, 2003 which is under development into a luxury boutique hotel.

Regarding the Project Site, the entire 30-storeyed reinforced concrete superstructure carcass was completed and topped out in March 2006 and the Occupation Permit is expected to be obtained by the end of October 2006.

After Completion, Roebuck will be owned as to 80% by the Purchaser. NHHL will retain 20% interest in Roebuck, and Roebuck will cease to be a subsidiary of NHHL.

Based on the unaudited combined financial statements of the Roebuck Group for the 12 months ended 31st March, 2005 and 31st March, 2006, (i) the total assets of the Roebuck Group are approximately HK\$40.1 million and HK\$73.2 million respectively, (ii) the total liabilities of the Roebuck Group are approximately HK\$94.3 million and HK\$127.4 million respectively and (iii) the net loss of the Roebuck Group are approximately HK\$2.2 million and HK\$44,704 respectively. The Roebuck Group suffered net loss in the preceding two financial years as the Project Site is still at the development stage and substantial costs have been incurred for the construction while no income has yet been generated.

### REASONS FOR AND BENEFITS OF THE TRANSACTION

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 Company considers the Disposal to be a good opportunity for the Company to realize its investment in the luxury boutique hotel market in Hong Kong. The joint venture also provides the Company with a valuable opportunity to co-invest with an investment partner of such prestige in the luxury boutique hotel market and there may be further opportunities to work with this investment partner in the future. The proceeds from the Disposal will be used as general working capital of the Company.



## LETTER FROM THE BOARD

The gain expected to accrue to the Company as a result of the Disposal is approximately HK\$75 million. Such gain is calculated based on the aggregate of the consideration to be received by NHHL and 80% of the unaudited combined net liabilities of the Roebuck Group as at 31st March, 2006 to be assumed by the Purchaser.

The excess of the consideration from the Disposal over the net book value of the 80% interest in Roebuck as at 31st March, 2006 is approximately HK\$75 million. The effect of the Disposal and the entering into of the joint venture arrangement on the Company are that (i) the earnings of the Company is increased by approximately HK\$75 million; (ii) the assets of the Company are decreased by approximately HK\$27 million; and (iii) the liabilities of the Company are decreased by approximately HK\$102 million.

The Directors (including the independent non-executive Directors) consider that the Disposal and the joint venture arrangement are on normal commercial terms and that such terms are fair and reasonable to the Company and the Shareholders.

### GENERAL INFORMATION

The Disposal and the joint venture arrangement under the Shareholders' Deed each constitutes a discloseable transaction under Chapter 14 of the Listing Rules.

Your attention is drawn to the general information regarding the Group which is required to be included in this circular under the Listing Rules as set out in the appendix of this circular.

Yours faithfully,  
For and on behalf of the Board of  
**NATIONAL ELECTRONICS HOLDINGS LIMITED**  
**Mr. Lee Yuen Ching, Jimmy**  
*Chairman*

**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 enquires, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

**DISCLOSURE OF INTERESTS****(i) Interests of Directors**

As at the Latest Practicable Date, the interests and short positions of the Directors of the Company in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) which: (a) 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) or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”), or (b) were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO, were as follows:

*Long positions in Shares*

Name of Director	Personal interests	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	23.57%
Mr. James Lee Yuen Kui	5,940	—	252,102,979 (note b)	252,108,919	23.48%
Mr. Peter Lee Yuen Wong	—	—	252,102,979 (note b)	252,102,979	23.48%
Mr. Edward Lee Yuen Cheor	—	—	252,102,979 (note b)	252,102,979	23.48%
Dr. Samson Sun, M.B.E., J.P.	—	4,988,968 (note c)	—	4,988,968	0.46%

*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 Yuen Wong and Edward Lee Yuen Cheor are named beneficiaries.
- (c) 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 and Dr. Samson Sun are also directors of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors of the Company had:

- (a) under Divisions 7 and 8 of Part XV of the SFO, nor were they taken or deemed to have under such provisions of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO);
- (b) any interests which are required to be entered into the register kept by the Company pursuant to Section 352 of the SFO;
- or (c) any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## **(ii) Interests of Shareholders**

As at the Latest Practicable Date, so far as is known to the Directors and 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.

## **LITIGATION**

As at the Latest Practicable Date, none of the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

## **SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors has a service agreement with the Company which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

## **DIRECTORS' INTEREST IN COMPETING BUSINESS**

As at the Latest Practicable Date, none of the Directors and his/her respective associates was considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group other than those businesses to which the Directors and his/her associates were appointed to represent the interests of the Company and/or the Group.

## **MISCELLANEOUS**

- a. In the event of any inconsistency, the English text of this circular shall prevail over the Chinese text.

- b. 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 Hong Kong Institute of Chartered Secretaries.
- c. The registered office of the Company is situated at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda and the head office and the principal place of business of the Company in Hong Kong is at Suite 3201, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong.
- d. The share registrar and transfer office of the Company in Hong Kong is located at Standard Registrars Limited of G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.