

<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 TRANSACTION DISPOSAL OF PROPERTY**

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12 June 2006

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## DEFINITIONS

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

“Agreement”	the provisional agreement dated 16 May 2006 between the Vendor and the Purchaser 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;
“Directors”	the directors of the Company;
“Disposal”	the proposed disposal of the Property by the Vendor pursuant to the Agreement dated 16 May 2006;
“Group”	the Company and its subsidiaries;
“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 Practicable Date”	8 June 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;
“Purchaser”	Roxy Property Investment Co., Limited, a company incorporated in Hong Kong and the beneficial owners of which are all Independent Third Parties;
“Property”	Room 2802 (also known as Room 2802A) and Room 2803 (also known as Room 2802B) on the 28th Floor of Tower One, Lippo Centre, 89 Queensway, Hong Kong with a total of floor area of 3,992 square feet;
“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”	Samford Limited, a company incorporated in Hong Kong, which is an indirect wholly-owned subsidiary of the Company.

## 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  
Mr. Wai Kwong Yuen, Ricky

*Non-executive Director:*

Miss Lee Yuen Yu, Dorathy

*Independent Non-executive Directors:*

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

*Registered Office:*

Canon's Court  
22 Victoria Street  
Hamilton HM12  
Bermuda

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

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

12 June 2006

*To the Shareholders*

Dear Sir or Madam,

### DISCLOSEABLE TRANSACTION

#### INTRODUCTION

It was stated in the announcement of the Company dated 23 May 2006 that on 16 May 2006 the Vendor entered into the Agreement with the Purchaser for the sale and purchase of the Property, which consists of two commercial units in Lippo Centre, Queensway, Hong Kong. The consideration for the Disposal is HK\$39,960,000. Pursuant to the Agreement, the parties entered into a formal agreement for the sale and purchase of the Property on 29 May 2006.

The transaction contemplated under the Agreement constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and this circular contains details of the Disposal as required by the Listing Rules.

#### THE AGREEMENT

Date of the Agreement: 16 May 2006

Vendor: Samford Limited, an indirectly wholly-owned subsidiary of the Company

Purchaser: Roxy Property Investment Co., Ltd., an Independent Third Party

## LETTER FROM THE BOARD

**Property:** Room 2802 (also known as Room 2802A) and Room 2803 (also known as Room 2802B) on the 28th Floor of Tower One, Lippo Centre, 89 Queensway, Hong Kong with a total of floor area of 3,992 square feet

**Summary:** The Agreement was entered into between the Vendor and the Purchaser pursuant to which the Vendor has agreed to sell and the Purchaser has agreed to purchase the Property. The consideration for the Disposal is HK\$39,960,000. Pursuant to the Agreement, the parties entered into a formal agreement for the sale and purchase of the Property on 29 May 2006.

The Disposal was conducted through an estate agent which is an Independent Third Party. The initial deposit being HK\$2,000,000 has been paid to the Vendor by the Purchaser upon signing of the Agreement. Further deposit in the sum of HK\$1,996,000 was paid to the Vendor on 29 May 2006 and the remaining consideration for the purchase of the Property being HK\$35,964,000 is payable on completion. The Disposal is expected to be completed on or before 17 July 2006.

### **Information of the Group and the Purchaser**

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.

The Purchaser is a company incorporated in Hong Kong which is principally engaged in property investment.

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

### **REASONS FOR AND BENEFITS OF THE DISPOSAL OF THE PROPERTY**

The Property is located in the prime commercial district in Admiralty, Hong Kong and was acquired by the Group on 31 October 2000. The Property has been leased to third parties since it was acquired by the Group until 30 September 2004.

In light of the increase in the value of real estate in the Hong Kong property market and the substantial gain expected to be generated from the proposed Disposal, the Directors consider that it is an opportunity for the Group to realise its investment in the property market. The Group purchased the Property on 31 October 2000 at a cost of HK\$24.2 million. The book value of the Property as at 31 March 2006 is approximately HK\$ 26.4 million. Based on such book value, the expected aggregate gain accrued to the Group upon completion of the Disposal is approximately HK\$13 million after taking into account of commissions and other expenses payable by the Group in relation to the Disposal of approximately HK\$500,000.

## LETTER FROM THE BOARD

The Group intends to use the sale proceeds from the Disposal of approximately HK\$18.5 million for repayment of bank loans and the balance of approximately HK\$21 million for general working capital of the Group.

The net losses before and after taxation and extraordinary items attributable to the Property are approximately HK\$289,000 and HK\$1,267,000 for the two financial years ended 31 March 2006 respectively. The Property was not rented out since 30 September 2004 and since then no rental income was generated from the Property. The Group did not seek a new tenant because it planned to dispose the Property as vacant units. The Group continued to incur expenses such as interests on bank loans, management fees and rates on the Property and therefore it resulted in net losses for the two financial years ended 31 March 2006 respectively. As at 30 September 2004, the Property was rented out at a monthly rent of HK\$71,856.

As no revenue has been generated from the Property since 30 September 2004, the Disposal will impose no effect on the Group's earnings. The effect of the Disposal is that: (i) the assets of the Company are decreased by approximately HK\$5.5 million; (ii) the liabilities of the Company are decreased by approximately HK\$18.5 million; and (iii) the cash reserve of the Company is increased by approximately HK\$13 million as a result of the net gain on the Disposal.

The Directors confirm that the consideration for the Property has been determined after arm's length negotiations between the parties by reference to the market value of similar properties in the same location. Based on information obtained from real-estate agent, the current price per square feet of Lippo Centre as at May 2006 is approximately HK\$8,500 and the market value of the Property with total floor area of square feet of 3,992 is therefore approximately HK\$33,932,000. The consideration of the Disposal is at 18% premium compared to such market value. The Directors considered that the Disposal at such premium is a good opportunity for the Company to realise its investment.

The Directors are of the view that the Disposal 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.

### GENERAL INFORMATION

As the consideration for the Disposal represents more than 5% but less than 25% of the applicable percentage ratios, the Disposal constitutes a discloseable transaction for the Company under 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**  
**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 enquiries, 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	23.683%
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. Wai Kwong Yuen, Ricky	—	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 Yuen Wong and Edward Lee Yuen Cheor are named beneficiaries.
- (c) The 37,267,767 Shares are held by two companies controlled by Mr. Wai Kwong Yuen, Ricky.
- (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, Mr. Edward Lee Yuen Cheor, Mr. Wai Kwong Yuen, Ricky 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**

Mr. Jimmy Lee Yuen Ching entered into a service contract with the Company on 8 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 20 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).



**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 Institute of Chartered Secretaries and Administrators.
- 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 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 East, Hong Kong.