

<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 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)**

### **DISCLOSEABLE TRANSACTION ACQUISITION OF PROPERTY**

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4 July 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 New Height pursuant to the Agreement;
“Agreement”	the agreement dated 10 June 2006 between the Vendor and New Height 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;
“DTZ”	DTZ Debenham Tie Leung Limited, the independent valuer;
“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;
“Joyful Asia”	Joyful Asia Group Limited, a company incorporated in the British Virgin Islands which is a wholly-owned subsidiary of the Company;
“Latest Practical Date”	30 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;
“New Height”	New Height Developments 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 INLAND LOT NO. 4857 & INLAND LOT NO. 4858 together with all the messuages erections and buildings thereon known as KING HUNG COMMERCIAL BUILDING, NOS. 194-196 QUEEN’S ROAD CENTRAL, HONG KONG;
“SFO”	Securities and Future Ordinance (Chapter 571) of the Laws of Hong Kong;

<b>DEFINITIONS</b>
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“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”	Worldround Developments 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 (*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 HM 12  
Bermuda

*Head Office and Principal*

*Place of Business:*

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

4 July 2006

*To the Shareholders*

Dear Sir or Madam,

#### **DISCLOSEABLE TRANSACTION – ACQUISITION OF PROPERTY**

#### **INTRODUCTION**

On 10 June 2006, the Vendor entered into the Agreement with New Height for the sale and purchase of the Property. The consideration for the Acquisition to be paid by New Height is HK\$56,500,000.

The transaction contemplated under the Agreement constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

#### **THE PROPERTY**

Date of the Agreement: 10 June 2006

Vendor: Worldround Developments Limited, an Independent Third Party

Purchaser: Joyful Asia Group Limited (as nominated by New Height as the purchaser)

## LETTER FROM THE BOARD

**Summary:** The Agreement was entered into between the Vendor and New Height pursuant to which the Vendor has agreed to sell and New Height has agreed to purchase the Property. The consideration for the Acquisition is HK\$56,500,000.

Joyful Asia (as nominated by New Height as the purchaser) and the Vendor entered into a formal agreement for the sale and purchase of the Property on 24 June 2006.

The initial deposit being HK\$1,650,000 has been paid to the Vendor by New Height upon signing of the Agreement. Further deposit in the sum of HK\$9,650,000 was paid to the Vendor on 24 June 2006 and the remaining consideration for the purchase of the Property being HK\$45,200,000 is payable on completion. The Acquisition is expected to be completed on or before 21 July 2006.

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

The Property is a commercial building named King Hung Commercial Building, located in Nos. 194-196 Queen's Road Central, Hong Kong which was built in 1970. The Property is sold subject to existing lettings, tenancies and licenses which has a current occupancy rate of 80%. 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 Property was introduced by an estate agent which is an Independent Third Party. 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\$60,000,000 as at 10 June 2006 as determined by an independent property valuer, DTZ. The consideration will be funded partly by bank borrowings and partly 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.

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

The Directors expect that the Acquisition will (i) increase the future earnings of the Company by approximately HK\$1 million for the financial year ending 31 March 2007; (ii) increase the assets of the Company by approximately HK\$59 million; (iii) increase the liabilities of the Company by approximately HK\$39 million and (iv) decrease the cash reserve of the Company by approximately HK\$20 million.

The Company has used its best effort to obtain information from the Vendor which include historical income and expenses of the Property. Based on such information, the Directors estimated that (i) the net profits before taxation and extraordinary items attributable to the Property were approximately HK\$700,000 and HK\$1,050,000 for the two financial years ended 31 March 2005 and 2006 respectively and (ii) the net profits after taxation and extraordinary items attributable to the Property were approximately HK\$577,500 and HK\$866,250 for the two financial years ended 31 March 2005 and 2006 respectively.

<b>LETTER FROM THE BOARD</b>
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**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 its ultimate beneficial owners are Independent Third Parties.

**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*

## 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 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. Ricky Wai Kwong Yuen	—	37,267,767 (note d)	—	37,267,767	3.487%
Dr. Samson Sun, M.B.E., J.P.	—	4,988,968 (note c)	—	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 4,988,968 Shares are held by a company controlled by Dr. Samson Sun, M.B.E., J.P.
- (d) The 37,267,767 Shares are held by two Companies controlled by Mr. Ricky Wai Kwong Yuen.

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.

#### **(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. 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 East, Hong Kong.
- (iii) The registered office of the Company is situated at Canon's Court, 22 Victoria Street, Hamilton HM 12, 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.
- (iv) The English version of this circular shall prevail over the Chinese text.