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NATIONAL ELECTRONICS HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 213)

INSIDE INFORMATION

MEMORANDUM OF UNDERSTANDING IN RELATION TO A MAJOR ACQUISITION

THE PROPOSED ACQUISITION

The Board is pleased to announce that on 22 March 2016, the Purchaser, a wholly-owned subsidiary of the Company, entered into a legally binding MOU with the Vendor, pursuant to which the Vendor agreed to sell, and the Purchaser agreed to purchase, the entire issued share capital of BIL and all the shareholders' loans owed by BIL to the Vendor as at Completion.

Subject to the necessary adjustment in the amount of the consideration on account of the net asset value / working capital adjustment of BIL as will be provided in the SPA, the aggregate consideration for the Proposed Acquisition is HK\$668,000,000, which was determined with reference to the agreed value of the Property.

Subject to the satisfaction of certain conditions, the SPA shall be executed within the Exclusivity Period, and which shall contain a confirmation by the Purchaser that it is satisfied with the results of its due diligence investigation.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the Proposed Acquisition is expected to be higher than 25% but less than 100%, the Proposed Acquisition will constitute a major transaction of the Company and is therefore subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules. The Company has a closely allied group of shareholders which together hold approximately 52.60% of the total issued share capital of the Company as at the date of this announcement. Pursuant to Rule 14.44 of the Listing Rules, the Company will obtain a written approval from such closely allied group of shareholders, for the approval of the Proposed Acquisition.

Further announcement(s) will be made when the SPA is executed in compliance with the Listing Rules. A circular containing, among other things, further details on the Proposed Acquisition and valuation report for the Property will be despatched to the shareholders of the Company as soon as practicable thereafter in accordance with the requirements of the Listing Rules.

As Completion of the Proposed Acquisition is subject to the fulfillment of the conditions precedent under the SPA, the Proposed Acquisition may or may not proceed to Completion. Accordingly, shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company.

This announcement is made by the Company pursuant to Rule 13.09(2) of Listing Rules and Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong).

MEMORANDUM OF UNDERSTANDING IN RESPECT OF THE PROPOSED ACQUISITION

The Board is pleased to announce that on 22 March 2016, the Purchaser, a wholly-owned subsidiary of the Company, entered into a legally binding MOU with the Vendor, pursuant to which the Vendor agreed to sell, and the Purchaser agreed to purchase, the Sale Shares and the Debt.

MAJOR TERMS OF THE MOU

Date: 22 March 2016

Parties: (1) Cornes Properties Limited, as the Vendor
(2) Baldrick Investments Limited, as the Purchaser

To the best knowledge of the Directors having made all reasonable enquiries, the Vendor and its ultimate shareholder(s) are third parties independent of the Company and its connected persons.

Assets to be acquired

Pursuant to the MOU, the Vendor agrees to sell and assign, and the Purchaser, subject to its satisfactory due diligence on BIL and the Property, agrees to purchase the Sale Shares and take up the assignment of the Debt.

BIL owns the entire interest in the Property. The Property is presently subject to a mortgage (“**Mortgage**”) in favour of HSBC Private Bank (Suisse) SA dated 1 February 2013 and an Assignment of Mortgages (“**Assignment of Mortgages**”) in favour of HSBC dated 1 November 2013, both of which will be released upon Completion.

The Property shall be sold subject to the existing tenancies and on an “as-is” basis.

Consideration

Subject to the necessary adjustment in the amount of the consideration on account of the net asset value / working capital adjustment of BIL as will be provided in the SPA, the aggregate consideration for the Proposed Acquisition is HK\$668,000,000 (the “**Purchase Price**”), which was determined with reference to the agreed value of the Property and shall be payable by the Purchaser to the Vendor in the following manner:

- (a) HK\$33,400,000 as initial deposit (the “**Initial Deposit**”) to the Vendor’s solicitors as stakeholder upon signing of the MOU, which shall be refunded to the Purchaser if the Purchaser informs the Vendor or the Vendor’s solicitors in writing setting out its reasons and justifications, on or before the expiry of the Exclusivity Period, that the Purchaser is not satisfied with the results of its due diligence investigation due to: (i) defective title of the Property; and/or (ii) discovery of matter(s) which will cause a material adverse effect on the Property and/or BIL upon Completion; and/or (iii) the Vendor’s failure to satisfactorily answer the Purchaser’s questions on due diligence investigation and does not intend to proceed with the Proposed Acquisition;
- (b) HK\$33,400,000 as further deposit (the “**Further Deposit**”) (which, together with the Initial Deposit, shall constitute 10% of the Purchase Price) to the Vendor’s solicitors as stakeholder upon signing of the SPA as part payment of the Purchase Price by the Purchaser; and

- (c) subject to adjustment as will be provided for in the SPA, the remaining 90% of the Purchase Price, being HK\$601,200,000 (the “**Balance Payment**”), upon Completion in accordance with the SPA.

The part of the Purchase Price equivalent to the face value of the Debt shall be treated as consideration for the Debt and the balance of the Purchase Price shall be the consideration for the Sale Shares.

The Initial Deposit and Further Deposit shall be held by the Vendor’s solicitors as stakeholder who shall release the same to the Vendor upon the signing of the SPA by the Purchaser provided that the Vendor shall produce to the Purchaser a written confirmation from HSBC confirming that the total redemption money required to release the Property from the Mortgage and Assignment of Mortgages at Completion is less than the Balance Payment.

Conditions for execution of SPA

Execution of the SPA is conditional on the following:

- (a) the Purchaser not exercising its right of rescission under paragraph (a) in the “Consideration” section above; and
- (b) the agreement of the SPA with the relevant debt assignment and tax indemnity on mutually acceptable terms.

Subject to the satisfaction of the conditions above, the SPA shall be executed within the Exclusivity Period, and which shall contain a confirmation by the Purchaser that it is satisfied with the results of its due diligence investigation.

Conditions precedent and warranties

The SPA shall contain, among others, the following key warranties given by the Vendor in favour of the Purchaser in respect of the following which shall also constitute the conditions precedent for Completion under the SPA:

- (a) the Vendor, as the registered and beneficial owner of BIL, has the right, power and authority to sell the Sale Shares and to assign the Debt and to perform the Proposed Acquisition;
- (b) the Vendor has good title to the Sale Shares and the Debt;
- (c) the Debt is owing and due by BIL to the Vendor and is repayable in full on demand free of any interests, set-off or deduction;

- (d) the Vendor shall procure that BIL can give good title to the Property in accordance with Section 13A of the CPO and can prove its title in accordance with Section 13 of the CPO at the Vendor's costs;
- (e) the Sale Shares and the Debt are free from Encumbrances (as defined below) upon Completion;
- (f) BIL is the legal and beneficial owner of the Property;
- (g) upon Completion, each of BIL and the Property is free from any debt, loan, tax, liabilities, options, liens, charges, claims, agreements, equities and encumbrances and other third party rights of any nature whatsoever (collectively, the "**Encumbrances**") (other than in respect of (i) the Sale Shares; (ii) the Debt; (iii) any Encumbrances which have been provided for in the completion accounts and/or otherwise provided for in the SPA which the Purchaser has agreed subject to the necessary adjustment in the amount of the consideration as provided in the SPA); and
- (h) for those parts of the Property which are not subject to tenancies or instruments of a similar nature as previously disclosed to the Purchaser or otherwise agreed by the Purchaser in writing (the "**Vacant Portions**"), vacant possession of such Vacant Portions will be delivered to the Purchaser upon Completion.

Completion

Completion of the Proposed Acquisition is expected to take place within 3 months after the date of the SPA. Upon Completion, the Purchaser will be the legal and beneficial owner of the Sale Shares and the Debt. Neither the Purchaser nor the Seller shall be obliged to complete the Proposed Acquisition unless the sale and purchase of the Sale Shares and the assignment of the Debt are completed simultaneously.

Subject to the execution of the SPA within the Exclusivity Period which shall contain a confirmation by the Purchaser that it is satisfied with the results of its due diligence investigation, the Purchaser's right to rescind the MOU shall be waived if the Purchaser for whatever reasons fails to give a written notification to the Vendor or the Vendor's solicitors on or before the expiry of the Exclusivity Period that the Purchaser is not satisfied with the results of its due diligence investigation, and the Purchaser shall be bound to proceed with the Completion of the Proposed Acquisition in accordance with the terms of the MOU and/or the SPA (if signed).

Due Diligence

The Purchaser and its professional advisors will be entitled to carry out a due diligence investigation on BIL and the Property during the Exclusivity Period, which will cover, among the other things, legal (including the title deeds to the Property), financial, tax, corporate and commercial matters, and physical inspection of the Vacant Portions and common areas and facilities of the Property.

The Purchaser's due diligence investigation should be completed within the Exclusivity Period.

Confidentiality

Neither the Purchaser nor the Vendor shall disclose the existence of the MOU, the Proposed Acquisition and the terms thereof or the status and the contents of the negotiations for the Proposed Acquisition to any person or entity, save to each party's respective representatives and/or professional advisers, financiers and consultants and save where required for the enforcement of the provisions herein or required by applicable law or regulation or by the rules of any securities exchange or supervisory or regulatory or governmental body (including the Listing Rules).

Exclusivity

The Vendor undertakes that for the period commencing from the date of the MOU until the earlier of (i) the expiry of the 5 weeks from the date of the MOU; (ii) the termination of the negotiations between the Vendor and the Purchaser relating to the Proposed Acquisition by either party as a result of any breach of the binding provisions of the MOU by the other party; and (iii) the termination of the negotiations with the Vendor by the Purchaser relating to the Proposed Acquisition due to the Purchaser's non-satisfaction with the results of their due diligence investigation by issuing a written notice to the Vendor or the Vendor's Solicitors pursuant to paragraph (a) in the "Consideration" section above (the "**Exclusivity Period**"):

- (a) the Vendor or any of its affiliates shall not make any initial or further approach to, enter into or continue negotiations with, or make available any information to, any other person with a view to consummating a transaction which would preclude or materially restrict or delay the Proposed Acquisition; and
- (b) the Purchaser shall have an exclusive right to negotiate the Proposed Acquisition or any other transaction which involves direct or indirect ownership of BIL or the Property for the duration of the Exclusivity Period.

Legal Effect and Time of the Essence

The MOU is intended to be legally binding and time shall be of the essence.

INFORMATION OF BIL AND THE PROPERTY

BIL is an investment holding company.

The Property is a residential investment property.

In addition to the Mortgage and the Assignment of Mortgages, the Property is subject to certain existing tenancies, including a tenancy in relation to a certain unit and certain car parking spaces in the Property which is currently being negotiated for renewal. After signing of the SPA, all leasing matters in relation to the Property including (without limitation) any acceptance of surrender of any part of the Property or the creation of new tenancy or renewed tenancy over any part of the Property shall be subject to the prior written approval of the Purchaser, and the Vendor shall not vary the terms and conditions of any of the aforesaid existing tenancies over the Property without the prior written approval of the Purchaser.

The financial information of BIL has not been made available to the Purchaser as at the date of this announcement. The financial information of and an accountants' report on BIL in compliance with the requirements of the Listing Rules will be included in the announcement in relation to the SPA and the circular to be despatched to the shareholders of the Company respectively.

REASONS FOR AND BENEFITS OF THE PROPOSED ACQUISITION

The Property is being acquired for long-term investment purpose by way of receiving rental income from the tenants of the Property. The Directors consider that the acquisition of the Property through the Proposed Acquisition and its development will enable the Group to enlarge its properties portfolio with high quality assets and the Group's property business portfolio will be strengthened and enhanced.

The Directors consider that the Proposed Acquisition is on normal commercial terms and that such terms are fair and reasonable and in the interests of the Company and its shareholders as a whole.

The Group intends to finance the Acquisition by bank financing and internal resources.

INFORMATION OF THE COMPANY, THE PURCHASER AND THE VENDOR

Information of the Company

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

Information of the Purchaser

The Purchaser is an investment holding company incorporated in the British Virgin Islands, and is a wholly-owned subsidiary of the Company.

Information of the Vendor

The Vendor is an investment holding company incorporated in Hong Kong.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the Proposed Acquisition is expected to be higher than 25% but less than 100%, the Proposed Acquisition will constitute a major transaction of the Company and is therefore subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, no shareholders of the Company or any of their respective associates have any material interest in the Proposed Acquisition. As such, no shareholders of the Company would be required to abstain from voting under the Listing Rules if the Company were to convene a general meeting for the approval of such matters.

The Company has a closely allied group of Shareholders which together hold approximately 52.60% of the total issued share capital of the Company as at the date of this announcement. Pursuant to Rule 14.44 of the Listing Rules, the Company will obtain a written approval from Brentford Investments Limited which held 260,813,276 shares in the Company as at the date of this announcement (representing approximately 25.57% of the issued share capital of the Company), and from Fenmore Investments Limited which held 275,701,618 shares in the Company as at the date of this announcement (representing approximately 27.03% of the issued share capital of the Company), for the approval of the Proposed Acquisition. The said 260,813,276 shares of the Company held by Brentford Investments Limited are part

of the property of a discretionary trust of which each of Messrs. James Lee Yuen Kui and Edward Lee Yuen Cheor is named beneficiary. The said 275,701,618 shares of the Company held by Fenmore Investments Limited are part of the property of a discretionary trust of which Mr. Jimmy Lee Yuen Ching and his family members including Mr. Loewe Lee Bon Chi's family members are named beneficiaries. Messrs. James Lee Yuen Kui and Edward Lee Yuen Cheor are brothers and they are cousins of Mr. Jimmy Lee Yuen Ching, who is the father of Mr. Loewe Lee Bon Chi. As such, no general meeting will be convened by the Company to approve such matters.

Further announcement(s) will be made when the SPA is executed in compliance with the Listing Rules. A circular containing, among other things, further details on the Proposed Acquisition and valuation report for the Property will be despatched to the Shareholders as soon as practicable thereafter in accordance with the requirements of the Listing Rules.

GENERAL

As Completion of the Proposed Acquisition is subject to the fulfillment of the conditions precedent under the SPA, the Proposed Acquisition may or may not proceed to Completion. Accordingly, shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions shall have the meanings given to them as below:

“Assignment of Mortgages”	has the meaning as defined in the “Assets intended to be acquired” section
“Balance Payment”	has the meaning as defined in the “Consideration” section
“Board”	board of Directors
“BIL”	Bentley Investments Limited, a company incorporated in Hong Kong with limited liability and which is wholly-owned by the Vendor as at the date of this announcement

“Company”	National Electronics Holdings Limited, a company incorporated in Bermuda with limited liability, whose Shares are listed on the Main Board of the Stock Exchange
“Completion”	the completion of the Proposed Acquisition
“CPO”	Conveyancing and Property Ordinance (Cap. 219 of the Laws of Hong Kong)
“Director(s)”	director(s) of the Company
“Debt”	all the shareholders’ loans owed by BIL to the Vendor as at Completion
“Encumbrances”	has the meaning as defined in the “Conditions precedent” section
“Exclusivity Period”	has the meaning as defined in the “Exclusivity” section
“Further Deposit”	has the meaning as defined in the “Consideration” section
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HSBC”	the Hongkong and Shanghai Banking Corporation Limited
“Initial Deposit”	has the meaning as defined in the “Consideration” section
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mortgage”	has the meaning as defined in the “Assets intended to be acquired” section
“MOU”	the memorandum of understanding dated 22 March 2016 entered into between the Purchaser and the Vendor in relation to the Proposed Acquisition
“Property”	means the piece or parcel of ground together with all the messuage, erection and building thereon known as No. 3 South Bay Close, Hong Kong

“Proposed Acquisition”	means the acquisition of the Sale Shares and the Debt by the Purchaser in accordance with the terms of the MOU and/or the SPA (if signed)
“Purchaser”	Baldric Investments Limited, a company incorporated in the British Virgin Islands with limited liability and which is a wholly-owned subsidiary of the Company
“Sale Shares”	10,000 ordinary shares of BIL, being the entire issued share capital of BIL as at the date of this announcement
“SPA”	the formal sale and purchase agreement for the sale and purchase of the Sale Shares and the assignment of the Debt
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vacant Portions”	has the meaning as defined in the “Conditions precedent” section
“Vendor”	Cornes Properties Limited, a company incorporated in Hong Kong with limited liability
“%”	per cent

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

Hong Kong, 22 March 2016

As at the date of this announcement, the executive Directors are Mr. Lee Yuen Ching, Jimmy, Mr. Lee Bon Chi, Loewe, Mr. Lee Yuen Kui, James, Mr. Lee Yuen Cheor, Edward and Mr. Wai Kwong Yuen, Ricky, the non-executive Director is Ms. Lee Yuen Yu, Dorathy and the independent non-executive Directors are Dr. Samson Sun, M.B.E., J.P., Mr. Chan Chak Cheung, William and Mr. Chan Kwok Wai.