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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 SALE SHARES AND ASSIGNED SHAREHOLDER'S LOAN

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DEFINITIONS

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

“Acquisition”	the acquisition of the Sale Shares and the Assigned Shareholder’s Loan by the Purchaser pursuant to the Agreement
“Agreement”	the agreement dated 4 June 2007 entered into between the Vendor and the Purchaser for the sale and purchase of the Sale Shares and the Assigned Shareholder’s Loan
“Assigned Shareholder’s Loan”	20% of the Shareholder’s Loan
“Company”	National Electronics Holdings Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Stock Exchange
“Completion”	completion of the Agreement
“Consideration”	the consideration to be paid by the Purchaser to the Vendor for the Acquisition pursuant to the Agreement
“Directors”	the directors of the Company
“DTZ”	DTZ Debenham Tie Leung Limited, an independent valuer
“Eden Bay”	Eden Bay Corporation, a company incorporated in the British Virgin Islands
“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 Practical Date”	22 June 2007 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
“Properties”	No. 50 to 59 Connaught Road Central, Hong Kong
“Purchaser”	Smart Rise Investments Limited, a company incorporated in British Virgin Islands and a wholly-owned subsidiary of the Company

DEFINITIONS

“Sale Shares”	20% of the entire issued share capital of Eden Bay
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder’s Funds”	the aggregate of Shareholder’s Loan and the share capital of Eden Bay
“Shareholder’s Loan”	the Shareholder’s Loan due by Eden Bay to the Vendor
“Shareholders”	the shareholders of the Company
“Shares”	ordinary share(s) of HK\$0.1 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor”	Newgrounds Corporate Inc., a company incorporated in the British Virgin Islands and the ultimate beneficial owners of which are Independent Third Parties

NATIONAL ELECTRONICS HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

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Executive Directors

Mr. Lee Yuen Ching, Jimmy (*Chairman*)
Mr. Lee Yuen Kui, James (*Managing Director*)
Mr. Lee Bon Chi, Loewe
Mr. Lee Yuen Wong, Peter
Mr. Lee Yuen Cheor, Edward
Mr. Wai Kwong Yuen, Ricky

Non-executive Director

Miss Lee Yuen Yu, Dorothy

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

25 June 2007

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION

ACQUISITION OF SALE SHARES AND ASSIGNED SHAREHOLDER'S LOAN

INTRODUCTION

On 4 June 2007, the Purchaser, a wholly-owned subsidiary of the Company, entered into the Agreement with the Vendor to acquire the Sale Shares and the Assigned Shareholder's Loan.

The Acquisition constitutes discloseable transaction of the Company under Chapter 14 of the Listing Rules. The purpose of this circular is to provide you with further information on the Acquisition.

LETTER FROM THE BOARD

AGREEMENT DATED 4 JUNE 2007

Parties

Vendor: Newgrounds Corporate Inc., an Independent Third Party

Purchaser: Smart Rise Investments Limited

Sale Shares and Assigned Shareholder's Loan

The Sale Shares represent 20% of the entire issued share capital of Eden Bay. Eden Bay will be an associate of the Company after the Completion and will be accounted for using the equity method of accounting. The Vendor will hold the remaining 80% of the entire issued share capital of Eden Bay after the Completion. To the best knowledge and belief of the Directors, having made all reasonable enquiries, the Vendor is an investment holding company and Eden Bay is its sole immediate subsidiary.

The Assigned Shareholder's Loan of US\$15,413,835.14 represents 20% of the interest free unsecured Shareholder's Loan due by Eden Bay to the Vendor.

Eden Bay is an investment holding company and the key assets of its sole wholly owned subsidiary are the Properties. The Properties, namely Crocodile House 1, Crocodile House 2 and Ananda Tower, are located at No. 50 to 59 Connaught Road Central, Hong Kong. The Properties are office buildings with a total registered site area of approximately 11,488 sq.ft. and are currently subject to tenancy. However, it is intended to demolish and re-develop the Properties into office buildings for long term investment purposes and tenancy termination notices have been sent to all existing tenants. Detailed re-development plan of the Properties has not been determined.

Eden Bay was incorporated on 5 January 2007 for the purpose of acquiring the Properties. The audited consolidated net loss both before and after taxation and extraordinary items of Eden Bay for the period from 5 January 2007 to 30 April 2007 was US\$224,004. The audited consolidated net liabilities of Eden Bay as at 30 April 2007 was US\$346,714.

Consideration and payment terms

Pursuant to the Agreement, the Consideration is US\$15,838,166.91 which is determined after arm's length negotiations between the parties by reference to the book value of the Shareholder's Funds of US\$77,069,185.72, the market value of the Properties of HK\$1,620,000,000 as at 4 June 2007 provided by an independent valuer, DTZ, and the bank loans secured by the Properties of approximately US\$126.3 million. Since Completion has taken place on 18 June 2007 which is earlier than the original scheduled completion date of 28 June 2007, the final Consideration is adjusted to US\$15,800,166.91 to reflect the time cost saved. The amount of the Shareholder's Funds of US\$77,069,185.72 has not been changed at Completion and hence no adjustment to the Consideration due to change in the amount of the Shareholder's Funds has been made.

LETTER FROM THE BOARD

The Consideration has been paid by the Purchaser from the internal resources of the Group to the Vendor in cash at Completion.

Completion

Completion has taken place on 18 June 2007.

REASON FOR THE ACQUISITION

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 and investment. Since the Properties are located in prime area, the Acquisition allows the Group to enlarge its properties portfolio with high quality assets. The Directors consider that the Acquisition is in the interest of the Company and the terms of the Agreement are fair and reasonable as far as the Shareholders are concerned.

The Directors consider that the Acquisition will not have any effect on the earnings and net asset value of the Group. The Acquisition will bring an increase in the Group's assets but such increase will be offset by a decrease in cash balance and an increase in bank borrowings representing the consideration payable.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the Appendix 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 Company. 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.

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 of its associated corporation(s) (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 were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange 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	24.53%
Mr. Loewe Lee Bon Chi	—	—	253,106,873 (note a)	253,106,873	24.53%
Mr. James Lee Yuen Kui	5,940	—	252,102,979 (note b)	252,108,919	24.43%
Mr. Peter Lee Yuen Wong	—	—	252,102,979 (note b)	252,102,979	24.43%
Mr. Edward Lee Yuen Cheor	—	—	252,102,979 (note b)	252,102,979	24.43%
Mr. Ricky Wai Kwong Yuen	—	37,267,767 (note d)	—	37,267,767	3.61%
Dr. Samson Sun, M.B.E., J.P.	—	4,988,968 (note c)	—	4,988,968	0.48%

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 including Mr. Loewe Lee Bon Chi 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.
- (d) The 37,267,767 Shares are held by two companies controlled by Mr. Ricky Wai Kwong Yuen.

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(s) (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 were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

(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 would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, 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 general meetings of any other member of the Group.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group which will not expire or may not be terminated by the Company within one year without payment of compensation (other than statutory compensation).

4. LITIGATION

As at the Latest Practicable Date, there was no litigation or claims of material importance known to the Directors 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 their 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.

6. GENERAL

- (i) The qualified accountant and company secretary of the Company is Ms. Yue Man Ying, who is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Ms. Yue holds a Master Degree in Business Administration.
- (ii) The branch registrar and transfer office of the Company in Hong Kong is Standard Registrars Limited at 26th Floor, Tesbury Centre, 28 Queens Road East, Wanchai, Hong Kong.
- (iii) The English version of this circular shall prevail over the Chinese text.