

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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 TRANSACTIONS

DISPOSAL OF PROPERTIES

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DEFINITIONS

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

“Agreements”	the First Agreement and the Second Agreement
“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
“Disposals”	the First Disposal and the Second Disposal
“First Agreement”	the preliminary agreement dated 4 October 2007 entered into between the First Vendor and the First Purchaser for the sale and purchase of the First Property
“First Disposal”	the disposal of the First Property by the First Vendor pursuant to the First Agreement
“First Property”	Unit 1 to 8, 6th Floor, Citicorp Centre, No. 18 Whitfield Road, Hong Kong (with carpark no. 28, 29 and 57)
“First Purchaser”	Tipau Hong Kong Limited, a company incorporated in Hong Kong and the ultimate beneficial owners of which are Independent Third Parties
“First Vendor”	Sinoway Enterprises Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
“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”	24 October 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”	the First Property and the Second Property
“Second Agreement”	the preliminary agreement dated 5 October 2007 entered into between the Second Vendor and the Second Purchaser for the sale and purchase of the Second Property

DEFINITIONS

“Second Disposal”	the disposal of the Second Property by the Second Vendor pursuant to the Second Agreement
“Second Property”	Unit 3201, 32nd Floor, Tower Two, Lippo Centre, No. 89 Queensway, Hong Kong
“Second Purchaser”	Cantic Limited, a company incorporated in Hong Kong and the ultimate beneficial owners of which are Independent Third Parties
“Second Vendor”	Rever Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
“SFO”	Securities and Future Ordinance (Chapter 571) of the Laws of Hong Kong
“Shareholder(s)”	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

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 Bon Chi, Loewe
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

26 October 2007

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTIONS DISPOSAL OF PROPERTIES

INTRODUCTION

On 4 October 2007, the First Vendor, a wholly-owned subsidiary of the Company, entered into the First Agreement with the First Purchaser to dispose the First Property at a consideration of HK\$57,000,000.

On 5 October 2007, the Second Vendor, a wholly-owned subsidiary of the Company, entered into the Second Agreement with the Second Purchaser to dispose the Second Property at a consideration of HK\$37,934,900.

With respect to the acquisition and disposal of properties by the Company in the past 12 months, the board of Directors of the Company confirms that (i) the vendors and the purchasers and their ultimate beneficial owners of the past acquisitions and disposals do not have any relationship with the First Purchaser and the Second Purchaser and the First Purchaser and the Second Purchaser do not have any relationship with each other; (ii) the Company has not disposed any properties adjacent to the First Property and the Second Property; and (iii) the Company has not entered into any transactions with the First Purchaser and the Second Purchaser. As such, Rule 14.22 of the Listing Rules does not apply.

LETTER FROM THE BOARD

The Disposals constitute discloseable transactions of the Company under Chapter 14 of the Listing Rules. The purpose of this circular is to provide you with further information on the Disposals.

FIRST AGREEMENT DATED 4 OCTOBER 2007

Parties

First Purchaser: Tipau Hong Kong Limited, the First Purchaser and the ultimate beneficial owners of which are Independent Third Parties

First Vendor: Sinoway Enterprises Limited

Information of the First Property

The First Property is located at Unit 1 to 8, 6th Floor, Citicorp Centre, No. 18 Whitfield Road, Hong Kong (with carpark no. 28, 29 and 57). The First Property is a commercial premises with a saleable area of 10,508 sq.ft..

Consideration and payment terms

The consideration for the First Disposal of HK\$57,000,000 has been determined after arm's length negotiations between the parties by reference to the market value of the First Property of HK\$56,000,000 as at 4 October 2007, being a value indication by an independent valuer, DTZ Debenham Tie Leung Limited. The Group currently intends to use the net proceeds from the First Disposal of approximately HK\$32.9 million for repayment of bank loan and approximately HK\$23.4 million for general working capital of the Group.

The consideration for the First Disposal shall be payable to the First Vendor in cash in the following manner:

- (a) an initial deposit in the sum of HK\$2,800,000 has been paid by the First Purchaser upon signing of the First Agreement;
- (b) a further deposit of HK\$2,900,000 has been paid by the First Purchaser on 17 October 2007; and
- (c) the remaining balance of HK\$51,300,000 shall be paid by the First Purchaser upon completion on or before 16 November 2007.

Completion

A formal agreement for the sale and purchase of the First Property has been entered into by the parties. Completion of the sale and purchase of the First Property shall take place on or before 16 November 2007. The First Purchaser agreed to purchase the First Property subject to the existing tenancy.

LETTER FROM THE BOARD

SECOND AGREEMENT DATED 5 OCTOBER 2007

Parties

Second Purchaser: Cantic Limited, a company incorporated in Hong Kong and the Second Purchaser and the ultimate beneficial owners of which are Independent Third Parties

Second Vendor: Rever Limited

Information of the Second Property

The Second Property is located at Unit 3201, 32nd Floor, Tower Two, Lippo Centre, No. 89 Queensway, Hong Kong. The Second Property is a commercial premises with a saleable area of 2,415 sq.ft..

Consideration and payment terms

The consideration for the Second Disposal of HK\$37,934,900 has been determined after arm's length negotiations between the parties by reference to the market value of the Second Property of HK\$37,000,000 as at 5 October 2007, being a value indication by an independent valuer, DTZ Debenham Tie Leung Limited. The Group currently intends to use the net proceeds from the Second Disposal of approximately HK\$13.4 million for repayment of bank loan and approximately HK\$23.9 million for general working capital of the Group.

The consideration for the Second Disposal shall be payable to the Second Vendor in cash in the following manner:

- (a) an initial deposit in the sum of HK\$1,500,000 has been paid by the Second Purchaser upon signing of the Agreement;
- (b) a further deposit of HK\$2,293,490 has been paid by the Second Purchaser on 18 October 2007; and
- (c) the remaining balance of HK\$34,141,410 shall be paid by the Second Purchaser upon completion on or before 18 March 2008.

Completion

A formal agreement for the sale and purchase of the Second Property has been entered into by the parties. Completion of the sale and purchase of the Second Property shall take place on or before 18 March 2008. Upon completion, the Second Vendor shall deliver vacant possession of the Second Property to the Second Purchaser.

LETTER FROM THE BOARD

REASON FOR THE DISPOSALS

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. The First Property was acquired by the Group in March 2005. It has been used by the Group for rental purposes since acquisition. The Second Property was acquired by the Group in December 2000. It was initially used by the Group for rental purposes until January 2006. Since then, the Second Property has been vacant. The Directors consider that the Disposals provides an opportunity for the Group to realise the Properties and provide working capital for the Group in view of the present property market in Hong Kong. The Directors consider that the disposal of the Properties is in the interest of the Company and the terms of the Agreements are fair and reasonable as far as the Shareholders are concerned.

The audited net profit before taxation and extraordinary items attributable to the First Property was approximately HK\$3.17 million for the year ended 31 March 2007 and the audited net profit after taxation and extraordinary items attributable to the First Property was approximately HK\$2.76 million for the year ended 31 March 2007.

The audited net profit both before and after taxation and extraordinary items attributable to the First Property was approximately HK\$8.02 million for the year ended 31 March 2006.

As at 31 March 2007, the audited net book value of the First Property was HK\$50 million. Based on such net book value, a gain of approximately HK\$6.3 million is expected to accrue to the Group upon completion of the First Agreement after taking into account of the related expenses payable by the Group of approximately HK\$0.7 million.

The audited net loss both before and after taxation and extraordinary items attributable to the Second Property was approximately HK\$1.18 million for the year ended 31 March 2007. Since no rental income was received during this financial year and expenses such as interest expenses were incurred, a net loss was incurred.

The audited net loss both before and after taxation and extraordinary items attributable to the Second Property was approximately HK\$0.41 million for the year ended 31 March 2006. Since the rental income received during this financial year was not large enough to cover the interest expenses attributable to the Second Property, a net loss was incurred.

As at 31 March 2007, the audited net book value of the Second Property was HK\$23.3 million. Based on such net book value, a gain of approximately HK\$14.0 million is expected to accrue to the Group upon completion of the Second Agreement after taking into account of the related expenses payable by the Group of approximately HK\$0.6 million.

LETTER FROM THE BOARD

FINANCIAL EFFECT OF THE DISPOSALS

The net assets of the Group will be increased by approximately HK\$20.3 million following the Disposals. The total assets of the Group will be decreased by approximately HK\$26.0 million which is a result of the decrease in the net book value of the Properties of approximately HK\$73.3 million and the increase in the bank balance of approximately HK\$47.3 million. Such decrease in total assets will be offset by a decrease in bank loans of approximately HK\$46.3 million following the Disposals. Since the First Property has been used for rental purposes and generated profits, it is expected that the First Disposal will reduce the Group's earnings. On the other hand, the Second Property has been vacant since January 2006 and hence no rental income is derived from the Second Property. It is expected that the Second Disposal will bring a positive contribution to the results of the Group since expenses relating to the Second Property will no longer be incurred.

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 <i>(note a)</i>	253,106,873	24.94%
Mr. Loewe Lee Bon Chi	—	—	253,106,873 <i>(note a)</i>	253,106,873	24.94%
Mr. James Lee Yuen Kui	5,940	—	252,102,979 <i>(note b)</i>	252,108,919	24.85%
Mr. Edward Lee Yuen Cheor	—	—	252,102,979 <i>(note b)</i>	252,102,979	24.85%
Mr. Ricky Wai Kwong Yuen	—	37,267,767 <i>(note d)</i>	—	37,267,767	3.67%
Dr. Samson Sun, M.B.E., J.P.	—	4,988,968 <i>(note c)</i>	—	4,988,968	0.49%

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 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 Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (iii) The English version of this circular shall prevail over the Chinese text.