



SHELL ELECTRIC MFG. (HOLDINGS) COMPANY LIMITED

蜆壳電器工業(集團)有限公司

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)
(Stock Code : 00081)

DISCLOSEABLE TRANSACTION MEMORANDUM OF UNDERSTANDING IN RELATION TO SUBSCRIPTION FOR THE TRANCHE A CONVERTIBLE NOTES, THE TRANCHE B CONVERTIBLE NOTES AND THE TRANCHE C NON-CONVERTIBLE NOTES ISSUED BY KORVAC

The Board announces that on 27 December 2006, the Company entered into a legally binding MOU with Korvac and the Original Shareholders pursuant to which Korvac proposed to issue and the Company proposed to subscribe for the Tranche A Convertible Notes, the Tranche B Convertible Notes and the Tranche C Non-Convertible Notes in an aggregate principal amount of S\$17,000,000 (approximately HK\$85,850,000) in cash in accordance with the terms and conditions of the MOU and the Agreement. Particulars of the MOU are set out under the paragraph headed "Details of the MOU" in this announcement.

The Subscription constitutes a discloseable transaction of the Company under the Listing Rules. Accordingly, the Subscription is subject to the disclosure requirements under the Listing Rules. A circular containing further information on the Subscription and other relevant information will be despatched to the Shareholders for their information as soon as possible.

DETAILS OF THE MOU

The principal terms of the MOU are as follows:

Date

27 December 2006

Parties

- (1) Korvac
- (2) Mr Sunny Tan
- (3) Mr Jeremy Tan
- (4) the Company

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Korvac and the Original Shareholders and their respective associates are third parties independent of the Group and connected persons of the Company.

Tranche A Convertible Notes

Korvac proposed to issue and the Company proposed to subscribe in cash for the Tranche A Convertible Notes on the Tranche A Issue Date at the Tranche A Issue Price pursuant to the terms and conditions of the MOU and the Agreement. The parties expect that the principal terms and conditions of the Tranche A Convertible Notes will include the following:

Expected principal terms and conditions

Principal amount S\$2,000,000

After execution of the MOU, the Company would deposit a refundable amount of S\$2,000,000 ("Deposit") with Korvac subject to the Deposit being fully secured by a corporate guarantee to be executed by Holdco in form and substance reasonably satisfactory to the Company. The Deposit shall be provided only upon execution and effectiveness of the said corporate guarantee and provided reasonable notice thereof is first provided to the Company.

The above-mentioned corporate guarantee was executed by Holdco on 27 December 2006 and the Company paid the Deposit by wire transfer on 28 December 2006.

The principal amount and the terms and conditions of the MOU have been negotiated on an arm's length basis.

Corporate Guarantee
The Tranche A Convertible Notes shall constitute the direct, unconditional and secured obligations of Korvac repayable on demand and secured by a corporate guarantee to be executed by Holdco in favour of the Company, in form and substance reasonably satisfactory to the Company ("Corporate Guarantee").

Interest
Each Tranche A Convertible Note shall bear interest from the Tranche A Issue Date at the rate of 6% per annum payable on demand. Upon fulfilment of the Release Condition Precedent (b) as set out below and delivery of evidence thereof satisfactory to the Company, the interest rate will be reduced to 2% per annum payable on demand. If Korvac fails to fulfil the aforesaid condition precedent by 30 June 2007, the interest rate will be increased to 8% per annum payable on demand with effect from 30 June 2007.

Conversion
Conditional upon (i) the completion of the subscription of the Tranche B Convertible Notes and the Tranche C Non-Convertible Notes; and (ii) the achievement by Korvac of two consecutive quarters of continuing positive cashflow and profits; and provided that after taking into account the conversion of the Tranche A Convertible Notes and the Tranche B Convertible Notes, the net asset value of Korvac is not lower than S\$20,000,000, the holder(s) of the Tranche A Convertible Notes and the Tranche B Convertible Notes shall convert all of the Tranche A Convertible Notes and the Tranche B Convertible Notes into the Conversion Shares subject to the execution of the Shareholders Agreement by the parties thereto. The conversion is provided to be made in respect of all of the Tranche A Convertible Notes and the Tranche B Convertible Notes and no partial conversion was contemplated by the parties to the MOU. The conversion of the Tranche A Convertible Notes and the Tranche B Convertible Notes will take place simultaneously.

Based on the Agreed Percentage and the amount of the shareholders' loan of Korvac as at 31 October 2006 and on the assumption that the capital base of Korvac remains unchanged at the time of conversion, the conversion price in respect of the Tranche A Convertible Notes is estimated to be approximately S\$1.20 (equivalent to approximately HK\$6.06).

Dividends
The Conversion Shares allotted shall carry the right to receive all dividends and other distributions declared but unpaid as at the date of conversion or which are declared on or after the date of conversion and other rights pursuant to the articles of association of Korvac and the prevailing laws in Singapore and shall rank *pari passu* with all ordinary shares of Korvac then in issue.

Korvac shall not declare any dividends at any time without the prior written consent of the holder(s) of the Tranche A Convertible Notes.

Redemption
At any time after the declaration of an Event of Default, the Company may by notice in writing to Korvac declare all and not part only of the Tranche A Convertible Notes to be immediately due and payable and require Korvac to redeem the Tranche A Convertible Notes, together with all accrued interest thereon remaining unpaid and such other sums as may have accrued in respect of the Tranche A Convertible Notes.

Unless previously redeemed or converted, the Tranche A Convertible Notes shall be redeemed by Korvac on a maturity date to be agreed between the Company and Korvac at the Agreement stage, together with all accrued interest thereon remaining unpaid and such other sums as may have accrued in respect of the Tranche A Convertible Notes.

Transfer

The Company shall be entitled (but not obliged to) to transfer such number or percentage of the principal value (as the case may be) of the Notes or Conversion Shares (as the case may be), to constitute or comprise 5% of the Agreed Percentage to such persons as may be nominated by the Company.

Subscription Conditions Precedent

The obligations of the Company under the Agreement in respect of the subscription for the Tranche A Convertible Notes will be conditional, inter alia, on the following having taken place:

- (a) the completion and reasonably satisfactory outcome, of all financial and legal due diligence investigations by the Company into the assets, financial, contractual, tax and trading positions, and prospects, of the Korvac Group and Holdco;
- (b) the passing of board and shareholders' resolutions of Korvac approving the transactions contemplated under the Agreement;
- (c) the Escrow Agreement in form and substance satisfactory to the Company having been executed by all the parties thereto;
- (d) the transfer of the Original Shareholders' shareholding in Korvac to Holdco, a wholly owned special purpose vehicle. In this respect, the parties to the MOU also contemplate that if the said transfer to Holdco is completed prior to the execution of the Agreement, Holdco will be made a party to the same;
- (e) the Company having obtained an exemption under the Moneylenders Act (Chapter 188, Statutes of the Republic of Singapore) from the relevant authority in Singapore for its subscription of the Notes, if required;
- (f) the Board having approved the transactions contemplated under the Agreement; and
- (g) the approval of the Stock Exchange for the entry by the Company into the Agreement and the transactions contemplated thereunder having been obtained, if required.

There are also certain standard conditions precedent for the subscription of the Tranche A Convertible Notes, including without limitation, no breach of representations and warranties and no material adverse change. If any of the Subscription Conditions Precedent is not fulfilled on or before the date falling three months from the date of the MOU or the expiry of the MOU, the Deposit shall be fully refunded forthwith to the Company.

Tranche A Completion

Subject to the fulfillment of the Subscription Conditions Precedent, Tranche A Completion shall be effected by written notification by the Company that the Deposit paid shall be deemed to be payment towards the subscription monies subject to the delivery of such title and other documents as the Company may reasonably require for the issuance of the Tranche A Convertible Notes and as evidence of the fulfilment of the Subscription Conditions Precedent.

Simultaneously with the Tranche A Completion, the Company shall (subject to reasonably satisfactory tax, accounting and legal clearance) subscribe for the Tranche B Convertible Notes and the Tranche C Non-Convertible Notes, subject to the delivery of such title and other documents as the Company may reasonably require for the issuance of the Tranche B Convertible Notes and the Tranche C Non-Convertible Notes and shall concurrently pay into escrow on the terms and conditions of the Escrow Agreement an amount aggregating to the deferred subscription monies for the Tranche B Convertible Notes and the Tranche C Non-Convertible Notes ("Tranche B and Tranche C Subscription Monies").

Tranche B Convertible Notes and Tranche C Non-Convertible Notes

Korvac proposed to issue and the Company proposed to subscribe in cash for:

- (a) the Tranche B Convertible Notes on the Tranche B and Tranche C Issue Date at the Tranche B Issue Price;
- (b) the Tranche C Non-Convertible Notes on the Tranche B and Tranche C Issue Date at the Tranche C Issue Price,

pursuant to the terms and conditions of the MOU and the Agreement. The parties expect that the principal terms and conditions of the Tranche B Convertible Notes and the Tranche C Non-Convertible Notes will include the following:

Expected principal terms and conditions

Principal amount Tranche B Convertible Notes S\$12,000,000
Tranche C Non-Convertible Notes S\$3,000,000

The principal amounts and the terms and conditions of the MOU have been negotiated on an arm's length basis.

Corporate Guarantee
The Tranche B Convertible Notes and the Tranche C Non-Convertible Notes shall constitute the direct, unconditional and secured obligations of Korvac repayable on demand and secured by the Corporate Guarantee.

Interest
Each Tranche B Convertible Note and each Tranche C Non-Convertible Note shall bear interest from the Tranche B and Tranche C Issue Date at the rate of 2% per annum payable on demand.

Conversion
Upon the conversion of the Tranche A Convertible Notes and the Tranche B Convertible Notes to the Conversion Shares, the principal amount of the Tranche C Non-Convertible Notes and all accrued interest thereon remaining unpaid shall forthwith be converted into an unsecured shareholder's loan from the Company or such other relevant holder (as the case may be). The unsecured shareholder's loan converted from the principal amount of the Tranche C Non-Convertible Notes and all accrued interest thereon remaining unpaid will represent 45% of the total shareholders' loans owing by Korvac to its shareholders. The remaining 55% of the total shareholders' loans will be extended by Holdco.

Simultaneously with the conversion of the principal amount of Tranche C Non-Convertible Notes and all accrued interest thereon remaining unpaid into an unsecured shareholder's loan, Korvac and the Original Shareholders shall capitalise and/or procure the capitalisation of the existing Original Shareholders' loans to Korvac such that only S\$3,600,000 of the Original Shareholders' loans will remain outstanding after the aforesaid capitalisation.

Based on the Agreed Percentage and the amount of the shareholders' loan of Korvac as at 31 October 2006 and on the assumption that the capital base of Korvac remains unchanged at the time of conversion, the conversion price in respect of the Tranche B Convertible Notes is estimated to be approximately S\$1.20 (equivalent to approximately HK\$6.06).

Dividends	Korvac shall not declare any dividends without the prior written consent of the holder(s) of the Tranche B Convertible Notes and the Tranche C Non-Convertible Notes.
Redemption	At any time after the declaration of an Event of Default, the Company may by notice in writing to Korvac declare all and not part only of the Tranche B Convertible Notes and the Tranche C Non-Convertible Notes to be immediately due and payable and require Korvac to redeem the Tranche B Convertible Notes and the Tranche C Non-Convertible Notes, together with all accrued interest thereon remaining unpaid and such other sums as may have accrued in respect of the Tranche B Convertible Notes and the Tranche C Non-Convertible Notes. Unless previously redeemed or converted, the Tranche B Convertible Notes and the Tranche C Non-Convertible Notes shall be redeemed by Korvac on a maturity date to be agreed between the Company and Korvac at the Agreement stage, together with all accrued interest thereon remaining unpaid and such other sums as may have accrued in respect of the Tranche B Convertible Notes and the Tranche C Non-Convertible Notes.

Release Conditions Precedent

The obligations of the Company under the Agreement in respect of the subscription for the Tranche B Convertible Notes and the Tranche C Non-Convertible Notes are subject to the same conditions precedent as set out under the paragraph headed "Subscription Conditions Precedent" in this announcement. The release of the Tranche B and Tranche C Subscription Monies from the escrow account to the vendor of the Target Company (as defined below) is additionally conditional, inter alia, on the following having taken place:

- the completion and reasonably satisfactory outcome, of all financial and legal due diligence investigations by the Company into the financial, contractual, tax and trading positions, and prospects, of a Singaporean company ("**Target Company**"), and any updating legal due diligence investigations into the Korvac Group and Holdco; and
- the completion of the acquisition by Korvac or its wholly owned subsidiary of at least 51% of the voting shares in the Target Company in accordance with such agreement in form and substance reasonably satisfactory to the Company.

As at the date of this announcement, Korvac has only just commenced preliminary discussion with the Target Company and its shareholders with regard to the proposed acquisition and that it may or may not proceed. In this regard, the Company will make a further announcement when the agreement in relation to the acquisition of the Target Company is entered into by the relevant parties.

Upon acquisition of the Target Company, Korvac will account the Target Company as a subsidiary. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Target Company and its sole ultimate beneficial owner are third parties independent of the Group and connected persons of the Company.

There are also certain standard conditions precedent for the release of the Tranche B and Tranche C Subscription Monies, including without limitation, no breach of representations and warranties and no material adverse change. If the Release Condition Precedent (b) is not fulfilled by 30 June 2007 or any of the other Release Conditions Precedent is not fulfilled by 31 March 2007, the Tranche B and Tranche C Subscription Monies, together with the accompanying interest or profit generated from the Tranche B and Tranche C Subscription Monies, shall be immediately returned to the Company and steps shall be taken to effect the redemption of the relevant Notes.

Tranche B and Tranche C Completion

The release of the Tranche B and Tranche C Subscription Monies in escrow to the vendor of the Target Company shall be effected concurrently with the return of any interest or profit generated from the escrow account to the Company subject to the delivery of such title and/or other documents as the Company may reasonably require as evidence of the fulfilment of the Release Conditions Precedent.

Exclusivity

The Company, Korvac and the Original Shareholders agreed to negotiate the proposed investment in Korvac as contemplated in the MOU exclusively with each other and shall not commence or continue any discussions or negotiations with any other person for a period of three months from the date of the MOU without the prior written consent of the other parties to the MOU.

The Agreement

The Company, Korvac and the Original Shareholders agreed to use their best endeavours to execute the Agreement, the Escrow Agreement and the Shareholders Agreement on or before the date falling three months after the date of the MOU. The Subscription will not proceed if the parties are unable to agree on the form of the Agreement. In this regard, the Company will make a further announcement when the Agreement is entered into by the parties or the Subscription will not proceed.

The MOU is intended to set out the parties' understanding regarding the Agreement and related documents to be negotiated and entered into. The terms of the MOU may be refined or expanded subsequently in the Agreement although the principal terms are expected to be substantially as set out in the MOU.

Term

The MOU shall continue in force for a period of three months from 27 December 2006 or until the earlier execution of the Agreement.

INFORMATION ON KORVAC GROUP

Korvac is a company incorporated in Singapore on 31 December 1999. As at the date of this announcement, Korvac is wholly-owned by Holdco. Immediately after the conversion of all the Tranche A Convertible Notes and the Tranche B Convertible Notes to the Conversion Shares, the Company will own approximately 45% of the enlarged issued share capital of Korvac. The remaining approximately 55% of the enlarged issued share capital of Korvac will be owned by Holdco.

The Company will account Korvac as an associated company under prevailing accounting treatment upon full conversion of the Tranche A Convertible Notes and the Tranche B Convertible Notes.

The principal activities of Korvac are that of IT consulting, implementation and software house. The principal activities of Korvac Subsidiaries are that of banking infrastructure and network, payment processing, micropayment processing and loyalty and marketing services.

The audited net loss both before and after taxation and after minority interest of Korvac Group for the period from 1 January 2004 to 31 December 2004 was approximately S\$3,670,402 (equivalent to approximately HK\$18,535,530) based on the Singapore Financial Reporting Standards. The audited net loss both before and after taxation and after minority interest of Korvac Group for the period from 1 January 2005 to 31 December 2005 was approximately S\$3,957,459 (equivalent to approximately HK\$19,985,168) based on the Singapore Financial Reporting Standards. The net liabilities of Korvac Group after minority interest as at 31 October 2006 was approximately S\$15.85 million (equivalent to approximately HK\$80.04 million).

REASONS FOR AND BENEFITS OF THE SUBSCRIPTION

The principal activities of the Group are the manufacturing and marketing of electrical household appliances and investments in property and high technology businesses.

The total consideration of S\$17 million is calculated on the basis of price earning ratio of Korvac's projected operating profit in 2008. Korvac is a good channel for the Company to enter into the industry of payment processing in Singapore. With the industry knowledge of Korvac and a strong customer base of the Target Company, the Company believes that Korvac Group will grow on an accelerated basis after the acquisition of the Target Company. The Company therefore considers that the Subscription will enhance its usual diversification of the business of the Group and contribute positively to the future development of the Group through the broadening of the income base of the Group.

The Directors, including the independent non-executive Directors, consider that the terms and conditions of the MOU are on normal commercial terms and are fair and reasonable as far as the Shareholders as a whole are concerned and in the interests of the Shareholders as a whole.

The Subscription will be solely financed by the Company's internal resources.

LISTING RULES IMPLICATION

The Subscription constitutes a discloseable transaction of the Company under the Listing Rules. Accordingly, the Subscription is subject to the disclosure requirements under the Listing Rules. A

circular containing further information on the Subscription and other relevant information will be despatched to the Shareholders for their information as soon as possible.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

"Agreed Percentage"	45% of the notional enlarged issued share capital of Korvac that the Conversion Shares shall comprise on the basis that all the Tranche A Convertible Notes and Tranche B Convertible Notes are converted to the Conversion Shares and taking into account the capitalisation of the existing Original Shareholders' loans to Korvac as contemplated under the MOU
"Agreement"	a proposed subscription agreement to be entered into between Korvac, Holdco, the Original Shareholders and the Company in relation to the participation by the Company in Korvac by way of subscription for the Tranche A Convertible Notes, the Tranche B Convertible Notes and the Tranche C Non-Convertible Notes
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Company"	Shell Electric MFG. (Holdings) Company Limited (蜆壳 電器 工業 (集團) 有限公司), a company incorporated in Hong Kong with limited liability, the Shares of which are listed on the Stock Exchange
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Conversion Shares"	such number of new ordinary shares in the capital of Korvac to be issued credited as fully paid-up upon the conversion of the Tranche A Convertible Notes and the Tranche B Convertible Notes in accordance with the terms of the Agreement, such new ordinary shares representing the Agreed Percentage of the total issued share capital of Korvac upon conversion of the Tranche A Convertible Notes and the Tranche B Convertible Notes in accordance with the Agreement and taking into account the capitalisation of the existing Original Shareholders' loans to Korvac as contemplated under the MOU and which will rank <i>pari passu</i> in all respects with all the other then existing ordinary shares in the capital of Korvac
"Directors"	the directors of the Company
"Escrow Agreement"	the proposed escrow agreement to be entered into by the parties thereto
"Event of Default"	such usual events of default commonly found in a convertible and non-convertible notes subscription agreement, in form and substance reasonably satisfactory to Korvac
"Group"	the Company and its subsidiaries
"Holdco"	Secave Holdings Pte. Ltd., a company incorporated in Singapore and the holder of the entire issued share capital of Korvac as at the date of this announcement
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Korvac"	Korvac International Systems (S) Pte Ltd, a company incorporated in Singapore
"Korvac Group"	Korvac and Korvac Subsidiaries and Korvac Group Company shall mean any one of them
"Korvac Subsidiaries"	the subsidiaries of Korvac (as defined under Section 5 of the Companies Act (Chapter 50, Statutes of the Republic of Singapore))
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"MOU"	the memorandum of understanding dated 27 December 2006 entered into between Korvac, the Original Shareholders and the Company in relation to the Notes
"Mr Jeremy Tan"	Mr Tan Kuan Loong, Jeremy, the beneficial owner of 40% interests in the issued share capital of Holdco as at the date of this announcement
"Mr Sunny Tan"	Mr Tan Swee Hock Sunny, the beneficial owner of 60% interests in the issued share capital of Holdco as at the date of this announcement
"Notes"	the Tranche A Convertible Notes, the Tranche B Convertible Notes and the Tranche C Non-Convertible Notes
"Original Shareholders"	Mr Sunny Tan and Mr Jeremy Tan
"Release Conditions Precedent"	the conditions precedent in relation to the release of the Tranche B and Tranche C Subscriptions Monies as set out in the paragraph headed "Release Conditions Precedent" in this announcement
"Share(s)"	ordinary share(s) of HK\$0.5 each in the Company
"Shareholder(s)"	holder(s) of Shares
"Shareholders Agreement"	the proposed shareholders agreement to be entered into by the parties thereto
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription"	the subscription of the Notes by the Company
"Subscription Conditions Precedent"	the conditions precedent in relation to the Subscription as set out in the paragraph headed "Subscription Conditions Precedent" in this announcement
"Tranche A Completion"	completion of the subscription by the Company for the Tranche A Convertible Notes
"Tranche A Convertible Notes"	one or more convertible notes with an aggregate principal amount of S\$2,000,000 and bearing interest payable as contemplated in the MOU
"Tranche A Issue Date"	the date falling 7 days after the date on which the last of the Subscription Conditions Precedent is fulfilled (or such other date as Korvac and the Company may agree in writing)
"Tranche A Issue Price"	the principal value of the Tranche A Convertible Notes
"Tranche B and Tranche C Completion"	release of the Tranche B and Tranche C Subscription Monies
"Tranche B and Tranche C Issue Date"	the date falling 7 days after the date on which the last of the Subscription Conditions Precedent is fulfilled (or such other date as Korvac and the Company may agree in writing)
"Tranche B Convertible Notes"	one or more convertible notes with an aggregate principal amount of S\$12,000,000 and bearing interest payable as contemplated in the MOU
"Tranche B Issue Price"	the principal value of the Tranche B Convertible Notes
"Tranche C Issue Price"	the principal value of the Tranche C Non-Convertible Notes
"Tranche C Non-Convertible Notes"	one or more non-convertible notes with an aggregate principal amount of S\$3,000,000 and bearing interest payable as contemplated in the MOU
"HK\$"	Hong Kong dollars, the lawful currency of Hong Kong
"S\$"	Singapore dollars, the lawful currency of the Republic of Singapore
"%"	per cent

Unless otherwise specified herein, amounts denominated in S\$ in this announcement have been translated, for the purpose of illustration only, into Hong Kong dollar amounts using the rate of HK\$5.05 = S\$1. No representation is made that any amount in S\$ or HK\$ could have been or could be converted at the above rate or at any other rate at all.

By Order of the Board
Peter Lee Yip Wah
Secretary

Hong Kong, 4 January 2007

As at the date of this announcement, the Board comprises ten Directors, of which five are executive Directors, namely Mr. Billy K. YUNG, Madam YUNG HO Wun Ching, Mr. LEUNG Chun Wah, Mr. Plato Chak Sang POON and Mr. Eddie HURIP, one non-executive Director being Mr. Simon Kwok Choi YUNG and four independent non-executive Directors, namely Dr. Leo Tung-Hai LEE, Mr. Shiu-Kit NGAI, Mr. Peter Chung On WONG and Mr. Peter LAM.