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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 AND EXEMPTED CONNECTED TRANSACTION TERMINATION OF THE CO-OPERATION AGREEMENT

Termination of the Co-operation Agreement

On 24 June 2009, Beijing EB Real Estate entered into the Termination Agreement with Qingdao Chongjie and Mr. Wu Zu Hua, pursuant to which the parties of the Termination Agreement agreed to terminate the Co-operation Agreement dated 2 August 2007. Furthermore, Beijing EB Real Estate and Qingdao Chongjie agreed to enter into a separate agreement (i.e. the Settlement Agreement) for the settlement arising from the termination of the Co-operation Agreement.

The Settlement Agreement

On the same day, Beijing EB Real Estate entered into the Settlement Agreement with Qingdao Chongjie, Qingdao Yijing and Ms. Yuan Jie, pursuant to which (i) Qingdao Yijing agreed to repay the outstanding shareholder's loan of RMB165.31 million (approximately HK\$186.8 million), penalty for breach of contract of RMB5.0 million (approximately HK\$5.65 million) and fund appropriation fees of RMB27.0 million (approximately HK\$30.51 million), totaling RMB197.31 million (approximately HK\$222.96 million) (i.e. the Outstanding Amount) to Beijing EB Real Estate; and (ii) upon full repayment of the Outstanding Amount, Beijing EB Real Estate agreed to transfer 70% registered capital in Qingdao Yijing to Qingdao Chongjie for a consideration of RMB7.0 million (approximately HK\$7.91 million), within 10 days from such repayment.

The Guarantee Agreement

On the same day, Beijing EB Real Estate entered into the Guarantee Agreement with Qingdao Yijing and the Guarantors, pursuant to which the Guarantors agreed to provide guarantee in respect of the Outstanding Amount payable by Qingdao Yijing to Beijing EB Real Estate.

Listing Rules requirements

As Qingdao Yijing is beneficially owned as to 70% by Beijing EB Real Estate, as to 18% by Qingdao Chongjie and as to 12% by Mr. Wu Zu Hua, Qingdao Chongjie is a substantial shareholder of Qingdao Yijing, and is therefore a connected person of the Company under the Listing Rules.

Hence, the entering into of the Settlement Agreement constitutes a connected transaction for the Company under Rule 14A.13(1)(a) of the Listing Rules. As the applicable percentage ratios (other than the profits ratio) are more than 2.5% but less than 25% and the consideration is less than HK\$10,000,000, the transaction contemplated under the Settlement Agreement is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement pursuant to Rule 14A.32 of the Listing Rules.

As some of the relevant percentage ratios under Rule 14.07 of the Listing Rules exceed 5% but less than 25%, accordingly, the transaction contemplated under the Settlement Agreement also constitutes a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules.

1. INTRODUCTION

References are made to the announcement of the Company dated 27 August 2007 and the circular of the Company dated 13 September 2007 in relation to the acquisition of 70% registered capital in Qingdao Yijing.

On 24 June 2009, Beijing EB Real Estate entered into the Termination Agreement with Qingdao Chongjie and Mr. Wu Zu Hua, pursuant to which the parties of the Termination Agreement agreed to terminate the Co-operation Agreement dated 2 August 2007. Furthermore, Beijing EB Real Estate and Qingdao Chongjie agreed to enter into a separate agreement (i.e. the Settlement Agreement) for the settlement arising from the termination of the Co-operation Agreement.

On the same day, Beijing EB Real Estate entered into the Settlement Agreement with Qingdao Chongjie, Qingdao Yijing and Ms. Yuan Jie, pursuant to which (i) Qingdao Yijing agreed to repay the outstanding shareholder's loan of RMB165.31 million (approximately HK\$186.8 million), penalty for breach of contract of RMB5.0 million (approximately HK\$5.65 million) and fund appropriation fees of RMB27.0 million (approximately HK\$30.51 million), totaling RMB197.31 million (approximately HK\$222.96 million) (i.e. the Outstanding Amount) to Beijing EB Real Estate; and (ii) upon full repayment of the Outstanding Amount, Beijing EB Real Estate agreed to transfer 70% registered capital in Qingdao Yijing to Qingdao Chongjie for a consideration of RMB7.0 million (HK\$7.91 million), within 10 days from such repayment.

Furthermore, on the same day, Beijing EB Real Estate entered into the Guarantee Agreement with Qingdao Yijing and the Guarantors, pursuant to which the Guarantors agreed to provide guarantee in respect of the Outstanding Amount payable by Qingdao Yijing to Beijing EB Real Estate.

2. THE TERMINATION AGREEMENT

Pursuant to the Co-operation Agreement, Qingdao Chongjie and Mr. Wu Zu Hua (i.e. Party A) were responsible to obtain the necessary approval for the development of the Land in No. 466 Hong Kong East Road, Laoshan Region, Qingdao, the PRC (中國青島嶗山區香港東路466號) (the "Laoshan Project") within 75 days from the date of the Co-operation Agreement (in any event, no later than one month thereafter).

Despite Party A's effort, the relevant government permit has not been obtained and Qingdao Yijing is therefore not permitted to develop commercial buildings on the Land. Accordingly, Beijing EB Real Estate and Party A agreed to terminate the Co-operation Agreement by entering into the Termination Agreement.

Pursuant to the Termination Agreement, Beijing EB Real Estate and Qingdao Chongjie agreed to enter into a separate agreement (i.e. the Settlement Agreement) for the settlement arising from the termination of the Co-operation Agreement.

3. THE SETTLEMENT AGREEMENT

Summarised below are the principal terms of the Settlement Agreement.

3.1 Date

24 June 2009

3.2 Parties

- (a) Beijing EB Real Estate;
- (b) Qingdao Yijing;
- (c) Qingdao Chongjie; and
- (d) Ms. Yuan Jie.

As Qingdao Yijing is beneficially owned as to 70% by Beijing EB Real Estate, as to 18% by Qingdao Chongjie and as to 12% by Mr. Wu Zu Hua, Qingdao Chongjie is a substantial shareholder of Qingdao Yijing, and is therefore a connected person of the Company under the Listing Rules.

Ms. Yuan Jie is the legal representative and a substantial shareholder of Qingdao Chongjie and a director of Qingdao Yijing.

3.3 Subject of the Settlement Agreement

Qingdao Yijing is a company incorporated in PRC with limited liability with registered capital of RMB10 million. It is principally engaged in property development business in the PRC. In December 2003, Qingdao Yijing obtained the rights via open auction market to develop the Laoshan Project.

As at the date of the Settlement Agreement, Qingdao Yijing has not obtained the necessary permit to develop commercial buildings on the Land, accordingly, development of the Land has not yet been commenced.

As at 31 December 2008, Qingdao Yijing had a net liability value under Hong Kong Generally Accepted Accounting Principles (“HK GAAP”) of approximately RMB4.7 million (approximately HK\$5.3 million). For the two years ended 31 December 2008, Qingdao Yijing’s loss (before and after taxation) under HK GAAP were approximately RMB5.5 million (approximately HK\$6.2 million) and RMB8.4 million (approximately HK\$9.5 million), respectively.

3.4 Consideration and settlement method

Pursuant to the Settlement Agreement, Qingdao Yijing agreed to repay the Outstanding Amount of RMB197.31 million (approximately HK\$222.96 million) to Beijing EB Real Estate. The Outstanding Amount includes the outstanding shareholder’s loan of RMB165.31 million (approximately HK\$186.8 million), penalty for breach of contract of RMB5.0 million (approximately HK\$5.65 million) and fund appropriation fees of RMB27.0 million (approximately HK\$30.51 million) to Beijing EB Real Estate.

Upon full repayment of the Outstanding Amount, Beijing EB Real Estate agreed to transfer 70% registered capital in Qingdao Yijing to Qingdao Chongjie for a consideration of RMB7.0 million (HK\$7.91 million), within 10 days from such repayment.

The consideration was made, after arm’s length negotiation, with reference to the original purchase price of 70% registered capital in Qingdao Yijing by Beijing EB Real Estate in August 2007 of RMB7.0 million (approximately HK\$7.91 million).

Set out below is the schedule of repayment of the Outstanding Amount from Qingdao Yijing to Beijing EB Real Estate:

- RMB10.0 million (approximately HK\$11.3 million) on or before 30 June 2009;
- RMB30.0 million (approximately HK\$33.9 million) on or before 31 July 2009;
- RMB40.0 million (approximately HK\$45.2 million) on or before 31 August 2009;
- RMB10.0 million (approximately HK\$11.3 million) on or before 30 September 2009; and
- the remaining balance of RMB107.31 million (approximately HK\$121.26 million) on or before 31 December 2009;

The interest of outstanding shareholder’s loan will be accrued with reference to the lending rate by commercial banks. Prior to 31 December 2009, for any delay in payment under the above schedule, the outstanding amounts will charge an interest rate of 0.021% per day.

In the event that Qingdao Yijing is unable to repay the outstanding shareholder’s loan of RMB165.31 million (approximately HK\$186.8 million) before 31 December 2009, the penalty interest on all outstanding balance of the Outstanding Amount will be accrued at 0.03% per day beginning from 1 January 2010.

In the event that Qingdao Yijing repay the outstanding shareholder’s loan of RMB165.31 million (approximately HK\$186.8 million) before 31 December 2009, Qingdao Yijing can extend the repayment of other payment, including the breach of contract penalty of RMB5.0 million (approximately HK\$5.65 million), fund appropriation fees of RMB27.0 million (approximately HK\$30.51 million) and the interest accrued on the shareholders’ loan to on or before 31 March 2010. The penalty amounts for the breach of contract were agreed under the Co-operation Agreement. The fund appropriation fees were determined, after arm’s length negotiation between the parties, taking into account (i) the length of investment by Beijing EB Real Estate in Qingdao Yijing; and (ii) a penalty interest for the usage of the shareholder’s loan.

Within 10 days of full settlement of the Outstanding Amount by Qingdao Yijing, Qingdao Chongjie will pay Beijing EB Real Estate the consideration of RMB7.0 million (approximately HK\$7.91 million) as mentioned above.

3.5 Guarantee

Pursuant to the Settlement Agreement, Qingdao Chongjie and Ms. Yuan Jie agreed to provide guarantee in respect of the Outstanding Amount payable by Qingdao Yijing to Beijing EB Real Estate. The guarantee period will be two years following the scheduled full repayment of the outstanding shareholders' loan, i.e. 31 December 2011.

Qingdao Chongjie undertook that, within 5 days of signing of the Settlement Agreement, it will procure its related companies, including青島崇杰環保有限公司 (Qingdao Chongjie Environment Protection Limited*), 青島崇杰保萊西污水處理有限公司 (Qingdao Chongjie Baolaixi Sewage Treatment Limited*), 青島崇杰環保平度污水處理有限公司 (Qingdao Chongjie Environment Protection Pingdao Sewage Treatment Limited*) and 青島崇杰環保膠州污水處理有限公司 (Qingdao Chongjie Environment Protection Gaozhou Sewage Treatment Limited*), to provide guarantee in respect of the Outstanding Amount payable by Qingdao Yijing to Beijing EB Real Estate.

3.6 Completion

Completion of the transfer of 70% registered capital in Qingdao Yijing from Beijing EB Real Estate to Qingdao Chongjie will take place upon receiving RMB7.0 million (approximately HK\$7.91 million) from Qingdao Chongjie and the full settlement of the Outstanding Amount. Beijing EB Real Estate will provide all necessary documents to the relevant PRC government department for the registration of the transfer of 70% registered capital in Qingdao Yijing upon receiving RMB7.0 million (approximately HK\$7.91 million) from Qingdao Chongjie.

Upon completion of the Settlement Agreement, Qingdao Yijing will cease to be a subsidiary of the Company.

4. THE GUARANTEE AGREEMENT

On 24 June 2009, Beijing EB Real Estate entered into the Guarantee Agreement with Qingdao Yijing and the Guarantors, pursuant to which the Guarantors agreed to provide guarantee in respect of the Outstanding Amount payable by Qingdao Yijing to Beijing EB Real Estate.

5. REASONS FOR AND BENEFITS OF ENTERING INTO THE TERMINATION AGREEMENT AND THE SETTLEMENT AGREEMENT

The principal activities of the Group comprise property investment and development, manufacturing and marketing of electric fans and other electrical household appliances and contract manufacturing business, property leasing and investment holding.

Qingdao Chongjie is principally engaged in property development and sale of properties.

Pursuant to the Co-operation Agreement, Beijing EB Real Estate agreed to acquire 70% of registered capital of Qingdao Yijing at an aggregate payment of RMB560.0 million (approximately HK\$632.8 million) comprising RMB7.0 million (approximately HK\$7.91 million) to Qingdao Chongjie and Beijing EB Real Estate agreed to provide shareholder's loans to Qingdao Yijing of RMB553.0 million (approximately HK\$624.89 million). The consideration of RMB7.0 million for the 70% of registered capital of Qingdao Yijing under the Co-operation Agreement was paid by Beijing EB Real Estate in August 2007. As at the date of the Termination Agreement and the Settlement Agreement, Beijing EB Real Estate has advanced a shareholder's loan of RMB165.31 million (approximately HK\$186.8 million) to Qingdao Yijing.

In addition, pursuant to the Co-operation Agreement, Qingdao Chongjie and Mr. Wu Zu Hua (i.e. Party A) were responsible to obtain the necessary approval for the development of the Laoshan Project within 75 days from the date of the Co-operation Agreement (in any event, no later than one month thereafter).

As Party A could not obtain the relevant government permit pursuant to the Co-operation Agreement, Beijing EB Real Estate and Party A entered into a supplemental agreement on 18 March 2008 to grant an extension to Party A for obtaining the relevant government permit within two months following the date of the supplemental agreement.

Despite Party A's effort, the relevant government permit has not been obtained and Qingdao Yijing is therefore not permitted to develop commercial buildings on the Land.

As a result of the uncertainties surrounding the property development of the Laoshan Project, the Directors, having taken the prudent approach in evaluating the property portfolio of the Group, consider the entering into the Termination Agreement and the Settlement Agreement would release further capital requirement and management resources from the development of the Laoshan Project.

The Directors are of the view that the terms of the Termination Agreement and the Settlement Agreement are on normal commercial terms, which are fair and reasonable and in the interest of the shareholders as a whole.

The transaction contemplated under the Settlement Agreement will give rise to a gain before taking into account the relevant tax expenses of approximately RMB43.7 million (approximately HK\$49.38 million) (unaudited), being the net effect of the aggregation of (i) the breach of contract penalty of RMB5.0 million; (ii) the fund appropriation fees of RMB27.0 million; (iii) the consideration of RMB7.0 million for the transfer of 70% registered capital in Qingdao Yijing; and (iv) the adjustment of the net liability value of Qingdao Yijing of approximately RMB4.7 million as at 31 December 2008.

The Company intends to use the net proceeds of approximately RMB39.0 million (approximately HK\$44.07 million), comprised of (i) the breach of contract penalty of RMB5.0 million; (ii) the fund appropriation fees of RMB27.0 million; and (iii) the consideration of RMB7.0 million for the transfer of 70% registered capital in Qingdao Yijing, for general working capital of the Company.

6. LISTING RULES REQUIREMENTS

As Qingdao Yijing is beneficially owned as to 70% by Beijing EB Real Estate, as to 18% by Qingdao Chongjie and as to 12% by Mr. Wu Zu Hua, Qingdao Chongjie is a substantial shareholder of Qingdao Yijing, and is therefore a connected person of the Company under the Listing Rules.

Hence, the entering into of the Settlement Agreement constitutes a connected transaction for the Company under Rule 14A.13(1)(a) of the Listing Rules. As the applicable percentage ratios (other than the profits ratio) are more than 2.5% but less than 25% and the consideration is less than HK\$10,000,000, the transaction contemplated under the Settlement Agreement is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement pursuant to Rule 14A.32 of the Listing Rules.

As some of the relevant percentage ratios under Rule 14.07 of the Listing Rules exceed 5% but less than 25%, accordingly, the transaction contemplated under the Settlement Agreement also constitutes a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules.

7. DEFINITIONS

Unless the context otherwise require, the following expressions have the following meanings in this announcement:

“Beijing EB Real Estate”	北京光大房地產開發有限公司 (Beijing Everbright Real Estate Development Limited*), an indirect 70% owned subsidiary of the Company
“Board”	the Board of Directors
“Company”	Shell Electric Mfg. (Holdings) Company Limited, a company incorporated in Hong Kong with limited liability, the Shares of which are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning as ascribed in the Listing Rules
“Co-operation Agreement”	the co-operation agreement dated 2 August 2007 entered into by Beijing EB Real Estate, Qingdao Chongjie and Mr. Wu Zu Hua
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Guarantee Agreement”	the guarantee agreement dated 24 June 2009 entered into between Beijing EB Real Estate, Qingdao Yijing and the Guarantors

“Guarantors”	青島崇杰環保有限公司 (Qingdao Chongjie Environment Protection Limited*), 青島崇杰保萊西污水處理有限公司 (Qingdao Chongjie Baolaixi Sewage Treatment Limited*), 青島崇杰環保平度污水處理有限公司 (Qingdao Chongjie Environment Protection Pingdao Sewage Treatment Limited*) and 青島崇杰環保膠州污水處理有限公司 (Qingdao Chongjie Environment Protection Gaozhou Sewage Treatment Limited*)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Land”	中國青島嶗山區香港東路466號 (No. 466 Hong Kong East Road, Laoshan Region, Qingdao, the PRC)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Outstanding Amount”	includes the outstanding shareholder’s loan of RMB165.31 million (approximately HK\$186.8 million), penalty for breach of contract of RMB5.0 million (approximately HK\$5.65 million) and fund appropriation fees of RMB27.0 million (approximately HK\$30.51 million) payable by Qingdao Yijing to Beijing EB Real Estate
“Party A”	Qingdao Chongjie and Mr. Wu Zu Hua
“PRC”	the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Qingdao Chongjie”	青島崇杰集團有限公司, (Qingdao Chongjie Company Limited*), a company incorporated in the PRC with limited liability, is principally engaged in property development and sale of properties
“Qingdao Yijing”	青島頤景房地產開發有限公司, (Qingdao Yijing Real Estate Development Limited*), a company incorporated in the PRC with limited liability
“Settlement Agreement”	the settlement agreement dated 24 June 2009 entered into between Beijing EB Real Estate, Qingdao Chongjie, Qingdao Yijing and Ms. Yuan Jie in respect of the settlement arising from the termination of the Co-operation Agreement
“Shares(s)”	ordinary share(s), currently with par value of HK\$0.50 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Termination Agreement”	the termination agreement dated 24 June 2009 entered into between Beijing EB Real Estate, Qingdao Chongjie and Mr. Wu Zu Hua in respect of termination of the Co-operation Agreement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

Amounts denominated in RMB in this announcement have been translated into HK\$ at a rate of RMB1.00 = HK\$1.13 for illustration purposes.

By Order of the Board
Billy K Yung
Group Chairman and Chief Executive

Hong Kong, 25 June 2009

As at the date of this announcement, the Board comprises eight Directors, of which four are executive Directors, namely Mr. Billy K YUNG, Madam YUNG HO Wun Ching, Mr. LEUNG Chun Wah and Mr. Eddie HURIP; one non-executive Director being Mr. Simon YUNG Kwok Choi and three independent non-executive Directors, namely Mr. Peter WONG Chung On, Mr. Peter LAM and Mr. Lawrence LEUNG Man Chiu.

* For identification purpose only