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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 TRANSACTION

ACQUISITION OF 51% REGISTERED CAPITAL IN

北京金華星置業有限公司

(BEIJING JIN HUA XING PROPERTIES COMPANY LIMITED*)

30 November 2006

* For identification purpose only

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	
Introduction	4
Parties involved in the Acquisition	5
Series of transactions contemplated and intention stated in the Agreements	9
The Agreements	9
Reasons for and benefits of the Acquisition and the financial assistance	16
Possible financial effects of the Acquisition on the Group	17
General	17
Appendix – General information	18

DEFINITIONS

In this document, the following expressions have the following meanings, unless the context requires otherwise:

“Acquisition”	the acquisition of the 51% registered capital in Jin Hua Xing from Jin Hai Cheng by the Purchaser under Agreement 1
“Agreement 1”	the sale and purchase agreement dated 3 August 2006 entered into by the Purchaser, Bai Cheng, Jin Hai Cheng, Jin Hua Xing, Zhong Shun and Madam Qu
“Agreement 2”	the agreement dated 3 August 2006 entered into by the Purchaser and Bai Cheng
“Agreement 3”	the supplemental agreement dated 3 August 2006 entered into by the Purchaser, Bai Cheng, Jin Hai Cheng, Jin Hua Xing, Zhong Shun and Madam Qu
“Agreements”	Agreement 1, Agreement 2 and Agreement 3
“associate(s)”	has the same meaning as ascribed in the Listing Rules
“Bai Cheng”	北京百城置業有限公司 (Beijing Bai Cheng Properties Company Limited*), a company incorporated in the PRC with limited liability
“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
“Directors”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“HK GAAP”	the Generally Accepted Accounting Principles of Hong Kong

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	person(s), or in the case of corporations, the corporation and their ultimate beneficial owner(s), who is(are) independent of and not connected with the Company and its subsidiaries, any of the connected persons or any of their respective associates
“Jin Hai Cheng”	北京金海誠投資顧問有限公司 (Beijing Jin Hai Cheng Investment Consultant Company Limited*), a company incorporated in the PRC with limited liability
“Jin Hua Xing”	北京金華星置業有限公司 (Beijing Jin Hua Xing Properties Company Limited*), a company incorporated in the PRC with limited liability
“Jodrell”	Jodrell Investments Limited, a company incorporated in the British Virgin Islands with limited liability. It is an investment holding company and the sole assets of which is its 70% interest in China EverBright Real Estate Development Company Limited
“Latest Practicable Date”	27 November 2006, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information for inclusion in this document
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Madam Qu”	Madam Qu Yung Luan, the holder of the 10% registered capital in Zhong Shun, an Independent Third Party
“Mr. Wei”	Mr. Wei Gong Quan, the holder of the 20% registered capital in Zhong Shun, an Independent Third Party. He is not a party to Agreement 1 or Agreement 2 or Agreement 3
“PRC”	the People’s Republic of China, which for the purpose of this document excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“PRC GAAP”	the Generally Accepted Accounting Principles of the PRC

DEFINITIONS

“Project”	the property development project located at Nos. 11-15 Xueyuan South Road, Haidian District, Beijing, the PRC
“Purchaser”	北京光大房地產開發有限公司 (Beijing EverBright Real Estate Development Company Limited*), a company incorporated in the PRC with limited liability
“SFO”	the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong)
“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
“Zhong Shun”	北京中順超科房地產開發有限公司 (Beijing Zhong Shun Chao Ke Property Development Company Limited*), a company incorporated in the PRC with limited liability
“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 document have been translated into HK\$ at a rate of RMB1.00=HK\$0.9748 for illustration purposes.

* For identification purpose only

LETTER FROM THE BOARD



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)

Directors:

Mr. Billy K YUNG

(Group Chairman and Chief Executive)

Dr. The Hon Leo Tung-Hai LEE, *GBM, GBS, Cav Gr Cr, OBE,*

Chev Leg d'Hon, Comm Leopold II, LLD, JP⁺

Mr. Shiu-Kit NGAI, *SBS, OBE, JP⁺*

Madam YUNG HO Wun Ching

Mr. LEUNG Chun Wah

Mr. Plato POON Chak Sang

Mr. Eddie HURIP

Mr. Simon YUNG Kwok Choi[#]

Mr. Peter WONG Chung On⁺

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Registered office:

Shell Industrial Building

12 Lee Chung Street

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Hong Kong

[#] *non-executive Director*

⁺ *independent non-executive Director*

30 November 2006

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION
ACQUISITION OF 51% REGISTERED CAPITAL IN
北京金華星置業有限公司
(BEIJING JIN HUA XING PROPERTIES COMPANY LIMITED*)

INTRODUCTION

The Board announced on 8 November 2006 that the Purchaser has entered into three separate agreements with Independent Third Parties. Details of the Agreements are set out below. The purpose of this document is to provide you with further information in respect of the Acquisition and the Agreements and other information as required under the Listing Rules.

* *For identification purpose only*

LETTER FROM THE BOARD

PARTIES INVOLVED IN THE ACQUISITION

(i) Bai Cheng

A company incorporated in the PRC with limited liability on 15 October 1999 with a registered capital of RMB70 million. It is principally engaged in property development, office rental, real estate consultancy.

(ii) Jin Hai Cheng

A company incorporated in the PRC with limited liability on 28 August 2003 with a registered capital of RMB500,000. It is principally engaged in investment consultancy, corporate image planning, and convention organiser.

(iii) Jin Hua Xing

A company incorporated in the PRC with limited liability on 12 September 2001 with a registered capital of RMB20 million. It is principally engaged in property development and sale of properties.

Immediately prior to the completion of the Acquisition, the shareholders comprised of Jin Hai Cheng holding 51% registered capital in this company and Bai Cheng holding 49% registered capital in this company.

The following are the consolidated financial information of Jin Hua Xing for the two years ended 31 December 2004 and 2005 and the seven months ended 31 July 2006 respectively (prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”)). The consolidated financial statements of Jin Hua Xing for 2004, including the income statement for the year ended 31 December 2004 and the balance sheet as at 31 December 2004, are unaudited. Auditor was engaged to perform audit of the consolidated financial statements of Jin Hua Xing for the year ended 31 December 2005 and the period from 1 January to 31 July 2006 only. As part of the audit, auditor has performed works on the opening balances of financial year 2005 in order to conclude that the opening balances do not contain misstatements. However, such works do not constitute an audit of the financial statements of 2004. Shareholders should note that the audited historical financial information of Jin Hua Xing for the year ended 31 December 2005 and the seven months ended 31 July 2006 are prepared after the publication of the announcement issued by the Company on 8 November 2006 with regard to the subject transaction.

LETTER FROM THE BOARD

	Year ended	Year ended	Seven months
	31/12/2004	31/12/2005	ended
	(unaudited)	(audited)	31/7/2006
	<i>Rmb'000</i>	<i>Rmb'000</i>	(audited)
			<i>Rmb'000</i>
Turnover	–	–	–
Gross profit/(loss)	–	–	–
Net (loss)	(22,104)	(18,738)	(6,212)
	As at	As at	As at
	31/12/2004	31/12/2005	31/7/2006
	(audited)	(audited)	(audited)
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Net (liabilities)	(1,833)	(20,118)	(26,330)

In the course of preparing for the audit for the year ended 31 December 2005 and for the seven months ended 31 July 2006, adjustments were made to the unaudited consolidated financial statements of Jin Hua Xing (prepared in accordance with PRC GAAP) to conform with HK GAAP. Such adjustments are mainly (i) impairment loss on other receivable of approximately RMB20 million for the year ended 31 December 2004 and (ii) written off of previously capitalised finance costs and other operating expenses totalling approximately RMB 18 million and RMB 6 million for the year ended 31 December 2005 and the seven months ended 31 July 2006 respectively.

According to Jin Hua Xing, it is solely an investment holding company. During the period mentioned above, Jin Hua Xing has not generated any revenue and gross profit/(loss) but has incurred finance costs and other operating expenses which resulted in net losses. Also during the period mentioned above, Zhong Shun is a 70% owned subsidiary of Jin Hua Xing and the only asset of Jin Hua Xing. The major assets and liabilities of Jin Hua Xing and its subsidiary were the development costs of the Project, the outstanding costs of the Project and the amounts due to shareholders.

(iv) Zhong Shun

A company incorporated in the PRC with limited liability on 14 November 2000 with a registered capital of RMB10 million. It is principally engaged in property development. Information of the Project is further described below.

Its current shareholders comprise of Jin Hua Xing which is interested in 70% registered capital in this company, Madam Qu who is interested in 10% registered capital in this company and Mr. Wei who is interested in 20% registered capital in this company.

LETTER FROM THE BOARD

The following are the financial information of Zhong Shun for the two years ended 31 December 2004 and 2005 and the seven months ended 31 July 2006 respectively (prepared in accordance with HKFRSs). The financial statements of Zhong Shun for 2004, including the income statement for the year ended 31 December 2004 and the balance sheet as at 31 December 2004, are unaudited. Auditor was engaged to perform audit of the financial statements of Zhong Shun for the year ended 31 December 2005 and the period from 1 January to 31 July 2006 only. As part of the audit, auditor has performed works on the opening balances of financial year 2005 in order to conclude that the opening balances do not contain misstatements. However, such works do not constitute an audit of the financial statements of 2004. Shareholders should note that the audited historical financial information for Zhong Shun for the year ended 31 December 2005 and the seven months ended 31 July 2006 are prepared after the publication of the announcement issued by the Company on 8 November 2006 with regard to the subject transaction.

	Year ended	Year ended	Seven months
	31/12/2004	31/12/2005	ended
	(unaudited)	(audited)	31/7/2006
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Turnover	–	–	–
Gross profit/(loss)	–	–	–
Net (loss)	(1,972)	(19,559)	(6,181)
	As at	As at	As at
	31/12/2004	31/12/2005	31/7/2006
	(audited)	(audited)	(audited)
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Net assets/(liabilities)	8,028	(11,531)	(17,712)

According to Zhong Shun, its sole asset is the Project which has yet to be developed. According to the audited financial statement of Zhong Shun for the two years ended 31 December 2004 and 2005 and the seven months ended 31 July 2006, Zhong Shun has not generated any revenue or gross profit/(loss) but has incurred finance costs and other operating expenses which resulted in net losses during the abovementioned period and the major assets and liabilities were the development costs of the Project, the outstanding development costs of the Project and the amounts due to shareholders. The audited carrying value of the Project in the book of Zhong Shun as at 31 July 2006 (under HKFRSs) was approximately RMB278.6 million (approximately

LETTER FROM THE BOARD

HK\$271.5 million). Zhong Shun recorded an audited total liabilities of approximately RMB300.9 million (approximately HK\$293.3 million) as at 31 July 2006 and, accordingly, the audited net liabilities of Zhong Shun as at 31 July 2006 was RMB17.7 million (approximately HK\$17.3 million).

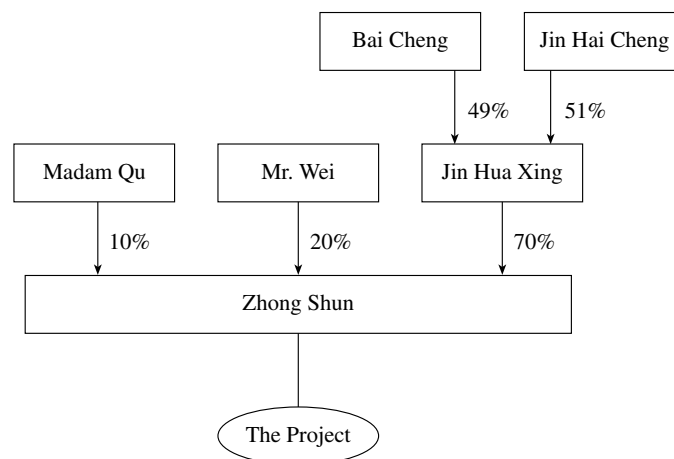
(v) The Project

The Project held by Zhong Shun is a piece of land having a site area of approximately 14,150 square metres located at Nos. 11-15 Xueyuan South Road, Haidian District, Beijing, the PRC. It is on the Northwestern corner of the entrance of Ming Guang Cun, between Xizhimen Bridge of the North No. 2 Ring Road in Haidian District of Beijing and Jimen Bridge of the North No. 3 Ring Road.

It is planned to develop into a residential and commercial building/complex with gross floor area of approximately 114,940 square metres for sale and/or rental.

The Project is expected to commence in the forth quarter of 2006 and complete around July 2008. As at the Latest Practicable Date, the Project has not yet commenced.

In summary, set out below is the simplified shareholding structure of Zhong Shun and the Project immediately prior to the completion of the Acquisition:



LETTER FROM THE BOARD

SERIES OF TRANSACTIONS CONTEMPLATED AND INTENTION STATED IN THE AGREEMENTS

Summarised below are the transactions related to the Acquisition (items (i) to (iii) below) and the intention (item (iv) below) stated in the Agreements:

- (i) the Purchaser acquired 51% registered capital in Jin Hua Xing from Jin Hai Cheng at a consideration of RMB125 million (approximately HK\$121.9 million) as described in Agreement 1;
- (ii) the Purchaser will provide an interest-free and unsecured loan of RMB10 million (approximately HK\$9.7 million) to Zhong Shun as described in Agreement 1;
- (iii) following completion of item (i) above, the Purchaser paid Bai Cheng an amount of RMB25 million (approximately HK\$24.4 million) in return for Bai Cheng's co-operation to enable the Acquisition made by the Purchaser as described in Agreement 2; and
- (iv) the Purchaser and Bai Cheng stated their intention to acquire the remaining 30% registered capital in Zhong Shun at a maximum consideration of RMB155 million (approximately HK\$151.1 million).

There is no long stop date for any of the Agreements. Completion of the Acquisition took place on 21 August 2006.

THE AGREEMENTS

Summarised below are the principal terms of the Agreements.

(a) Agreement 1

(i) *Date*

3 August 2006

LETTER FROM THE BOARD

(ii) *Parties*

Vendor:

- (1) Jin Hai Cheng

Other parties to Agreement 1, apart from the Purchaser:

- (2) Jin Hua Xing
- (3) Madam Qu
- (4) Bai Cheng
- (5) Zhong Shun

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Jin Hai Cheng, Jin Hua Xing, Bai Cheng, Zhong Shun and their ultimate beneficial owners and Madam Qu are Independent Third Parties.

Purchaser:

- (6) The Purchaser is a wholly-owned subsidiary of China EverBright Real Estate Development Limited. China EverBright Real Estate Development Limited is a 70% owned subsidiary of Jodrell and the remaining 30% is held by an Independent Third Party. Jodrell is an 80% owned subsidiary of the Company and will become a wholly-owned subsidiary of the Company following the completion of the discloseable and connected transaction as announced by the Company on 26 October 2006.

The Purchaser is an investment holding and property development company. As at the Latest Practicable Date, the Purchaser has 3 projects/land reserves on hand located in Beijing and Guangzhou.

China EverBright Real Estate Development Limited is an investment holding and property development company. As at the Latest Practicable Date, China EverBright Real Estate Development Limited has 9 projects/land reserves (including the abovementioned 3 projects) on hand located in Beijing, Guangzhou, Shanghai, Guilin, Hefei and Hohhot.

Jodrell is an investment holding company and its sole asset is its 70% interest in China EverBright Real Estate Development Limited.

LETTER FROM THE BOARD

(iii) Subject of Agreement 1

1. Pursuant to Agreement 1, Jin Hai Cheng transferred its interest in 51% registered capital in Jin Hua Xing to the Purchaser.

The change of shareholdings/shareholders of Jin Hua Xing took place on 21 August 2006 (when the 工商變更登記手續 (Business Administration Registration*) was filed). The Purchaser becomes the holder of 51% registered capital in Jin Hua Xing.

The Purchaser agreed to pay RMB125 million as consideration for the Acquisition under the terms set out in Agreement 1.

2. Also under Agreement 1, the Purchaser will provide an unsecured and interest free loan of RMB10 million (approximately HK\$9.7 million) to Zhong Shun which will be repaid on demand.

Bai Cheng has not entered into any agreement to agree to contribute proportionate amount of loan to Zhong Shun. So far revealed from the audited accounts of Zhong Shun as at 31 July 2006, a sum of approximately RMB2 million (accounts payable) was contributed by Bai Cheng.

3. Apart from the Acquisition and the provision of a loan, the Purchaser stated in Agreement 1 its intention to acquire 51% of the remaining 30% registered capital in Zhong Shun from Madam Qu and Mr. Wei.

The terms relating to the acquisition of 51% of the remaining 30% registered capital in Zhong Shun from Madam Qu and Mr. Wei by the Purchaser are yet to be finalised. The above intention statement is not legally binding and is not enforceable by any of the parties to Agreement 1.

The Purchaser stated in Agreement 1 its intention to acquire 51% of the remaining 30% registered capital in Zhong Shun from Madam Qu and Mr. Wei. According to Agreement 3 as described below, the Purchaser and Bai Cheng intended to acquire the remaining 30% registered capital in Zhong Shun. As soon as the Purchaser and Bai Cheng acquire (as intended) the remaining 30% registered capital in Zhong Shun from Madam Qu and Mr. Wei, the Purchaser and Bai Cheng intended to direct Jin Hua Xing to distribute Jin Hua Xing's interest in 70% registered capital in Zhong Shun to the Purchaser and

* For identification purpose only

LETTER FROM THE BOARD

Bai Cheng in the ratio of 51:49. As a result, the Purchaser and Bai Cheng will (as intended) be directly interested in the entire registered capital of Zhong Shun in the ratio of 51:49. In the event that the intended distribution in specie was made, the Purchaser and Bai Cheng would remain as directly holding the entire registered capital in Jin Hua Xing in the ratio of 51:49.

Shareholders should note that if the transaction with regard to the acquisition of the remaining 30% registered capital in Zhong Shun by the Purchaser and Bai Cheng happens to consummate as intended under Agreement 1 and Agreement 3, separate sale and purchase agreements will have to be entered into in the future and such transaction may constitute another notifiable and/or connected transaction under the Listing Rules. Accordingly, the Company will issue another announcement (as and when appropriate) and comply with the relevant requirements of the Listing Rules.

4. The Purchaser and Bai Cheng stated their intention in Agreement 1, that following completion of the Acquisition and the intended acquisition of the remaining 30% registered capital in Zhong Shun from Madam Qu and Mr. Wei by the Purchaser and Bai Cheng, the Purchaser and Bai Cheng intended to transfer the entire interest in the registered capital in Jin Hua Xing to Jin Hai Cheng or an independent third party designated by Jin Hai Cheng. According to the Purchaser, the terms of the transfer is intended to base on another agreement to be entered into in the future.

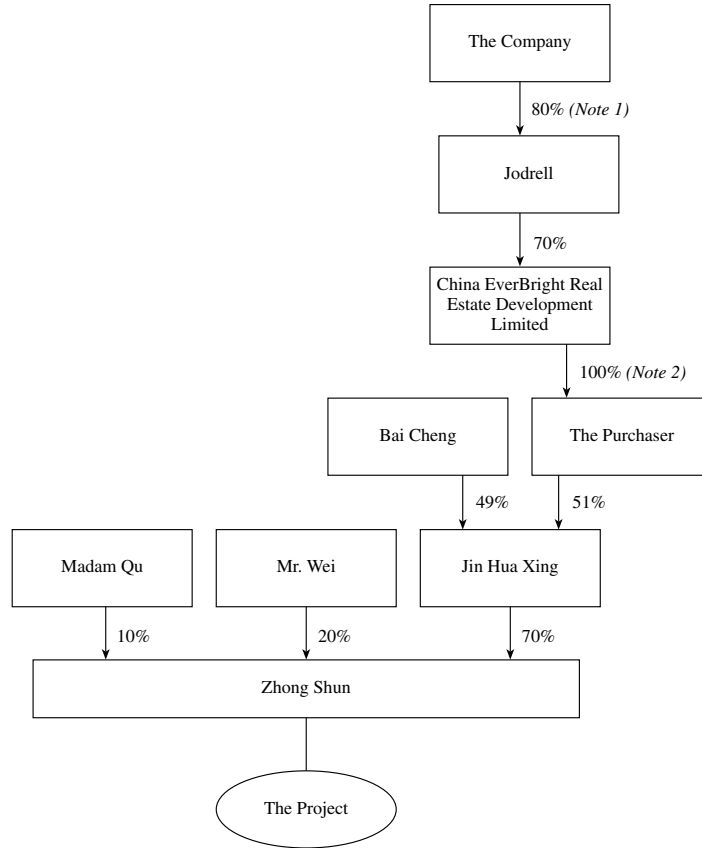
The terms relating to the above transfer are yet to be finalised. The above transfer is only an intention, which is not legally binding and is not enforceable by Jin Hai Cheng. The transfer may constitute a notifiable transaction under the Listing Rules. Accordingly, the Company will issue an announcement (as and when appropriate) and comply with the relevant requirements of the Listing Rules.

Since it is not possible to predict whether and when the intention statements as mentioned in paragraphs 3 and 4 above will occur, the management of the Company is not possible to predict the expected date of completion for those events and the identity of the abovementioned independent third party designated by Jin Hai Cheng. When those events occur, the Company will comply the relevant reporting, disclosure and independent approval requirements of the Listing Rules.

Shareholders should note that the transaction with regard to the acquisition of the remaining 30% registered capital in Zhong Shun by the Purchaser and Bai Cheng did not occur. As at the Latest Practicable Date, neither the Company nor Bai Cheng has decided as to whether to continue to pursue the acquisition of the remaining 30% registered capital in Zhong Shun. If a transaction related to the acquisition of the remaining 30% registered capital in Zhong Shun by the Purchaser and Bai Cheng is consummated in the future, the Company will comply with the relevant requirements of the Listing Rules, including the issue an announcement (as and when appropriate).

LETTER FROM THE BOARD

On completion of the Acquisition, the simplified shareholding structure of Zhong Shun and the Project is as follows:



Notes:

1. Jodrell is an indirectly held 80% owned subsidiary of the Company and will become a wholly-owned subsidiary of the Company following the completion of the discloseable and connected transaction as announced by the Company on 26 October 2006.
2. The Purchaser is an indirectly held wholly-owned subsidiary of China EverBright Real Estate Development Limited.

(iv) Consideration

The consideration of RMB125 million of the Acquisition was determined, based on the Directors' knowledge and experience with regard to the property development projects in the PRC and their expectation to the potentials to be generated from this transaction, after arm's length negotiations between the parties.

LETTER FROM THE BOARD

During the board meeting of the Company held on 21 September 2006, the Directors noted that based on the management account of Jin Hua Xing prepared in accordance with PRC GAAP, the unaudited net assets value of Zhong Shun as at 31 July 2006 was approximately RMB10,000,000. However, when they considered ratifying the transactions contemplated under the Agreements (including the consideration payable for the Acquisition), they have also taken into account, among other things, the Directors' assessment of the future business potential of Zhong Shun (i.e. the underlying value of the Project and the estimated value of the Project when it is completed).

Of the consideration of RMB125 million (approximately HK\$121.9 million) for the Acquisition, RMB120 million (approximately HK\$117.0 million) was paid on 21 August 2006 and the balance RMB5 million (approximately HK\$4.9 million) will be payable to Jin Hai Cheng within 5 Business Days following the completion of the necessary filing and registration procedures in the PRC for the acquisition of Mr. Wei's remaining 20% registered capital in Zhong Shun by the Purchaser and Bai Cheng. The entire amount of RMB125 million is satisfied in cash from the internal resources of the Group. Since the Purchaser and Bai Cheng cannot acquire the remaining 30% registered capital in Zhong Shun as intended on or before 21 November 2006, the Purchaser agrees to pay the balance of RMB5 million (approximately HK\$4.9 million) to Jin Hai Cheng on or about 30 November 2006.

Following the completion of the Acquisition, the Purchaser will provide an unsecured and interest-free loan in the amount of RMB10 million (approximately HK\$9.7 million) to Zhong Shun which will be applied for its general working capital. Such amount was satisfied in cash from the internal resources of the Group. As at the Latest Practicable Date, the Purchaser has paid RMB2 million (approximately HK\$1.9 million) to Zhong Shun as part of such loan. The Purchaser and Bai Cheng will discuss as to whether additional unsecured and interest free loan will be provided to Zhong Shun in proportion to their shareholding ratio in Jin Hua Xing. Accordingly, the Purchaser does not expect to be required to pay any additional amount in the near future.

(b) Agreement 2

(i) Date

3 August 2006

(ii) Parties

- (1) the Purchaser; and
- (2) Bai Cheng

LETTER FROM THE BOARD

(iii) Subject of Agreement 2

Pursuant to Agreement 2, the Purchaser has on 12 September 2006 paid Bai Cheng an amount of RMB25 million (approximately HK\$24.4 million) in cash in return for Bai Cheng's co-operation to enable the Acquisition made by the Purchaser. Such amount was settled in cash from internal resources of the Group. Such amount of RMB25 million (approximately HK\$24.4 million) was the result of a negotiation between the Purchaser and Bai Cheng without any particular reference/benchmark. However, taking into account the Directors' knowledge and experience with regard to the property development projects in the PRC, the independent valuation of the Project prepared by Knight Frank Petty Limited, an independent valuer and their expectation to the potentials to be generated from the Project, the Directors consider this amount of RMB25 million (approximately HK\$24.4 million) as part of the overall cost payable for the Acquisition, and is fair and reasonable.

(c) Agreement 3

(i) Date

3 August 2006

(ii) Parties

All parties involved in Agreement 1.

(iii) Subject of Agreement 3

It stated the intention of the Purchaser and Bai Cheng to acquire the remaining 30% registered capital in Zhong Shun at a maximum consideration of RMB155 million (approximately HK\$151.1 million).

The terms (including the consideration) relating to the acquisition of the remaining 30% registered capital in Zhong Shun from Madam Qu and Mr. Wei by the Purchaser and Bai Cheng are yet to be finalised. The above intention statement is not legally binding and is not enforceable by any of the parties to Agreement 3. Shareholders should note that if the transaction with regard to the acquisition of the remaining 30% registered capital in Zhong Shun by the Purchaser and Bai Cheng happens to consummate as intended under Agreement 1 and Agreement 3, separate sale and purchase agreements will have to be entered into in the future and such transaction may constitute another notifiable and/or connected transaction under the Listing Rules. Accordingly, the Company will issue another announcement (as and when appropriate) and comply with the relevant requirements of the Listing Rules.

Shareholders should note that the transaction with regard to the acquisition of the remaining 30% registered capital in Zhong Shun by the Purchaser and Bai Cheng did not occur.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE ACQUISITION AND THE FINANCIAL ASSISTANCE

The Group is principally engaged (i) in the manufacturing and marketing of electric fans, vacuum cleaners, electric cables and other electrical household appliances, (ii) in EMS (Electronic Manufacturing Services) business and (iii) property development and investment in the PRC. It also trades in securities, operates a taxi company and invests in technology companies.

With the expected continuing growth of the economy of the PRC and the upcoming 2008 Beijing Olympics, the Directors are optimistic about the growth potential for the property market in Beijing. In addition, the Acquisition helps to enhance the Group's interest in a portfolio of property development projects which the Directors are of the view that it is in the interests of the Company and Shareholders as a whole.

The Directors noted that based on (i) the unaudited management account of Jin Hua Xing and Zhong Shun prepared in accordance with PRC GAAP as described above and (ii) the audited account of Jin Hua Xing and Zhong Shun prepared in accordance with HKFRSs as described above, both Jin Hua Xing and Zhong Shun recorded net loss and net liabilities during the period under reviewed. However, taking into account:

- (i) the future prospect and growth potential for the property market in Beijing, the PRC;
- (ii) the stated business strategy of the Group to expand its property development and investment business; and
- (iii) the consideration of RMB125 million payable for the Acquisition and the amount of RMB25 million paid to Bai Cheng are made with reference to an independent valuation of the Project prepared by Knight Frank Petty Limited, an independent valuer, having an open market value (i.e. the basis of valuation is "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion") on the existing state of development of RMB389 million (approximately HK\$379.2 million) as at 31 August 2006,

the Directors are of the view that the Acquisition is in the interests of the Company and the Shareholders as a whole and the terms of the Acquisition, including the consideration for the Acquisition, are fair and reasonable and on normal commercial terms.

Given the success of Zhong Shun to develop the Project will in turn benefit Jin Hua Xing, which will further benefit the Purchaser (as a holder of 51% registered capital in Jin Hua Xing), the Purchaser will provide an unsecured and interest-free loan of RMB10 million (approximately HK\$9.7 million) to Zhong Shun for its working capital needs. Taking into account the abovementioned reasons for and benefits of the Acquisition, the RMB10 million loan is part and

LETTER FROM THE BOARD

partial of the Acquisition under Agreement 1, the loan is to be applied by Zhong Shun as general working capital and the loan is repayable on demand, the Directors are of the view that the provision of the RMB10 million loan is in the interests of the Company and the Shareholders as a whole. As Bai Cheng has so far up to the Latest Practicable Date provided a sum of approximately RMB2 million to Zhong Shun (see section headed “the Agreements (a) (iii) 2.” above) and the Purchaser has also provided RMB2 million to Zhong Shun (see section headed “the Agreements (a) (iv)” above), the Directors believe that the loan provided by the Purchaser to Zhong Shun is fair and reasonable.

Given that the Acquisition will enhance the Group’s interest in a portfolio of property development projects, the Directors believe the amount of RMB25 million (approximately HK\$24.4 million) paid to Bai Cheng helps to incentivize it to be willing and co-operative to work with the Purchaser for the benefit of Zhong Shun which holds the Project, and is therefore in the interests of the Company and the Shareholders as a whole and the terms of which are fair and reasonable.

POSSIBLE FINANCIAL EFFECTS OF THE ACQUISITION ON THE GROUP

The Board believes that the Acquisition will not give rise to any material effect on the earnings, working capital, gearing ratio and the assets and liabilities of the Group.

GENERAL

The Acquisition constitutes a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules. Your attention is also drawn to the additional information set out in the appendix to this document.

Jin Hua Xing has a board of 7 persons. The Purchaser has 4 representatives on the board of Jin Hua Xing. According to the articles of association of Jin Hua Xing, all resolutions of the board of Jin Hua Xing shall be approved by a 2/3 majority. Although the Purchaser is the holder of 51% registered capital in Jin Hua Xing, the Purchaser does not control the board of Jin Hua Xing. Accordingly, Jin Hua Xing will not be consolidated as a subsidiary of the Purchaser. However, Jin Hua Xing and Zhong Shun will be accounted for in the consolidated financial statements of the Company under the equity method of accounting as an investment in jointly controlled entity.

Yours faithfully,

For and on behalf of

Shell Electric Mfg. (Holdings) Company Limited

Billy K YUNG

Group Chairman and Chief Executive

1. RESPONSIBILITY STATEMENT

This document 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 document 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) As at the Latest Practicable Date, the interest of the Directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (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 or 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 maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”) were as follows:

(i) Long position in shares of the Company

Name of Director	Capacity	Nature of interests	Number of Shares beneficially owned	Aggregate long position	Percentage of aggregate long position in Shares to the issued share capital of the Company
Mr. Billy K Yung	Beneficial owner	Personal	26,098,000	227,427,084	45.44%
	Interest of child under 18 or spouse (<i>note 1</i>)	Other	191,329,084		
	Interest held jointly with another person (<i>note 2</i>)	Other	10,000,000		
Dr. Leo Tung-Hai Lee	Beneficial owner	Personal	5,306,382	5,306,382	1.06%

Name of Director	Capacity	Nature of interests	Number of Shares beneficially owned	Aggregate long position	Percentage of aggregate long position in Shares to the issued share capital of the Company
Mr. Peter Lam	Beneficiary of a trust (<i>note 3</i>)	Other	1,300,000	1,300,000	0.26%
Madam Yung Ho Wun Ching	Beneficial owner Interest of spouse (<i>note 4</i>)	Personal Family	53,196,300 10,000,000	63,196,300	12.63%
Mr. Leung Chun Wah	Beneficial owner	Personal	1,799,400	1,799,400	0.36%
Mr. Plato Poon Chak Sang	Beneficial owner	Personal	739,200	739,200	0.15%
Mr. Simon Yung Kwok Choi	Beneficial owner Interest of controlled corporation (<i>note 5</i>) Interest of spouse (<i>note 6</i>)	Personal Corporate Family	39,147,911 3,529,440 1,000,000	43,677,351	8.73%

Notes:

- (1) These Shares are held by a trust for the benefit of Mr. Billy K Yung's family members.
- (2) These Shares are held jointly with his wife, Madam Hsu Vivian.
- (3) These Shares are held by a trust for the benefit of Mr. Peter Lam.
- (4) This interest represents the holding of Shares held by the late Dr. Yung Yau.
- (5) These Shares are held by Konvex Enterprises Limited, which is wholly-owned by Mr. Simon Yung Kwok Choi.
- (6) This interest represents the holding of Shares held by Mr. Simon Yung Kwok Choi's spouse, Madam Chiu Man.

(ii) Share options scheme

Details of the share options of the Company's subsidiaries held by the Directors as at the Latest Practicable Date were as follows:

(1) Share options to subscribe for shares in Appeon Corporation ("Appeon")

Name of Director	Date of grant	Period during which options are exercisable	Subscription price per share US\$	Number of share options held as at Latest Practicable Date	Percentage to the issued share capital of Appeon as at the Latest Practicable Date
Mr. Billy K Yung	09.06.2003	09.06.2003 – 10.11.2012	2.50	6,750	
	09.06.2003	01.10.2003 – 10.11.2012	2.50	3,375	
	09.06.2003	01.04.2004 – 10.11.2012	2.50	3,375	
	09.06.2003	01.10.2004 – 10.11.2012	2.50	3,375	
	09.06.2003	01.04.2005 – 10.11.2012	2.50	3,375	
	09.06.2003	01.10.2005 – 10.11.2012	2.50	3,375	
	09.06.2003	01.04.2006 – 10.11.2012	2.50	3,375	
Total number of share options held by Director				<u>27,000</u>	<u>0.74%</u>

Appeon is a company incorporated in January 2002 with limited liability and engaged in investment holding and computer software development. As at the Latest Practicable Date, the Company indirectly held 89.33% of the issued share capital of Appeon and the remaining balance of 10.67% of the issued share capital of Appeon are held by Independent Third Parties.

(2) Share options to subscribe for shares in Galactic Computing Corporation ("Galactic")

Name of Director	Date of grant	Period during which options are exercisable	Subscription price per share US\$	Number of share options held as at Latest Practicable Date	Percentage to the issued share capital of Galactic as at the Latest Practicable Date
Mr. Billy K Yung	09.06.2003	09.06.2003 – 10.11.2012	0.45	25,000	
	09.06.2003	01.12.2003 – 10.11.2012	0.45	25,000	
	09.06.2003	01.06.2004 – 10.11.2012	0.45	25,000	
	09.06.2003	01.12.2004 – 10.11.2012	0.45	25,000	
	09.06.2003	01.06.2005 – 10.11.2012	0.45	25,000	
	09.06.2003	01.12.2005 – 10.11.2012	0.45	25,000	
	09.06.2003	01.06.2006 – 10.11.2012	0.45	25,000	
	09.06.2003	01.12.2006 – 10.11.2012	0.45	25,000	
Total number of share options held by Director				<u>200,000</u>	<u>0.84%</u>

Galactic is a company incorporated in November 2001 with limited liability and engaged in investment holding and computer software and hardware development. As at the Latest Practicable Date, the Company indirectly held 100% of the issued share capital of Galactic.

- (b) As at the Latest Practicable Date, so far as was known to the Directors, the interest of the Shareholders in the Shares which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO were as follows:

(i) **Shares in the Company**

Name of substantial Shareholder	Capacity	Nature of interests	Number of Shares held	Aggregate long position	Percentage of Shares held to the issued share capital of the Company
UBS Trustees (BVI) Limited	Trustee of a trust <i>(note 1)</i>	Other	199,437,334	199,437,334	39.85%
Diamond Key Enterprises Inc.	Beneficial owner <i>(note 1)</i>	Beneficial	118,612,287	118,612,287	23.70%
On Fat Profits Corporation	Beneficial owner <i>(note 1)</i>	Beneficial	72,716,797	72,716,797	14.53%
Madam Chiu Man	Beneficial owner Interest of spouse <i>(note 2)</i>	Personal Family	1,000,000 42,677,351	43,677,351	8.73%
Madam Hsu Vivian	Interest of spouse Interest held jointly with another person <i>(note 3)</i>	Family Other	26,098,000 10,000,000	36,098,000	7.21%
Madam Yung Siu Chee Margaret <i>(note 4)</i>	Beneficial owner	Personal	28,154,604	28,154,604	5.63%

Notes:

- (1) 118,612,287 Shares and 72,716,797 Shares form part of the 199,437,334 Shares held by UBS Trustees (BVI) Limited. Of which, the aggregate of 118,612,287 Shares and 72,716,797 Shares (i.e. 191,329,084 Shares) are disclosed in the sub-paragraph headed “(a)(i) Long position in shares of the Company” above as being held under a trust with Mr. Billy K Yung’s family members as the beneficiaries. None of the Directors are directors or employees of On Fat Profits Corporation and Diamond Key Enterprises Inc.
- (2) Madam Chiu Man’s Shares under personal and family interest are in fact the same block of Shares already disclosed respectively under family interest, personal and corporate interests of her husband, Mr. Simon Yung Kwok Choi as disclosed in the sub-paragraph headed “(a)(i) Long position in shares of the Company” above.
- (3) Madam Hsu Vivan’s Shares held under family interest and other interest are in fact the same block of shares already disclosed respectively under personal interest and other interests of her husband, Mr. Billy K Yung as disclosed in the sub-paragraph headed “(a)(i) Long position in shares of the Company” above.
- (4) Madam Yung Siu Chee Margaret is daughter of Madam Yung Ho Wun Ching. She also is a sister of Mr. Billy K Yung and Mr. Simon Yung Kwok Choi.

(ii) Shares in the Company’s subsidiaries

Name of substantial shareholder	Name of subsidiary	Percentage of equity interest
APD Semiconductor, Inc.	Phoenix Atlantic Limited	35.00%
Honwise International Limited	Brentwood Ventures Limited	12.50%
Wyler Investments Limited	Brentwood Ventures Limited	12.50%
Poly Bright Holdings Limited	Brentwood Ventures Limited	12.50%
Richwood Trading Limited	Jodrell Investments Limited	20.00%
Assure Win Investments Limited	China EverBright Real Estate Development Limited	30.00%
呼和浩特繞城公路建設開發有限責任公司 (Hohhot Rao Cheng Gong Lu Construction and Development Company Limited*)	呼和浩特光大環城建設開發有限公司 (Hohhot Guang Da Huan Cheng Construction and Development Company Limited*)	20.00%
青海賢成實業股份有限公司 (Qing Hai Xian Cheng Enterprise Company Limited*)	廣州市光大花園房地產開發有限公司 (Guangzhou City Guang Da Hua Yuan Real Estate Development Company Limited*)	42.00%

* For identification purpose only

- (c) Save as disclosed above, as at the Latest Practicable Date:
- (i) so far as was known to the Directors, none of the Directors or chief executives of the Company had any interest or short positions in any Shares or underlying shares or interests in debentures of the Company or any of its associated corporations (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 or short positions which they are 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, to be notified to the Company and the Stock Exchange; and
 - (ii) there was no person known to the Directors or Chief Executive who had an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, was, directly or indirectly, interested in 10% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meeting of the Company, or any options in respect of such capital.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter into a service contract with any member of the Group which is not terminable by the Group within one year without payment of compensation, other than statutory compensation.

4. LITIGATION

So far as the Directors are aware, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or arbitration of material importance was pending or threatened against the Company or any of its subsidiaries as at the Latest Practicable Date.

5. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in businesses, which are considered to compete or are likely to compete, either directly or indirectly, with the business of the Group as required to be disclosed pursuant to the Listing Rules.

6. MISCELLANEOUS

- (a) The head office and registered office of the Company is at Shell Industrial Building, 12 Lee Chung Street, Chai Wan Industrial District, Hong Kong.
- (b) The share registrar and transfer office of the Company is Standard Registrars Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (c) The secretary of the Company is Mr. Peter Lee Yip Wah, a qualified solicitor practising in Hong Kong.
- (d) The qualified accountant of the Company appointed pursuant to Rule 3.24 of the Listing Rules is Mr. Chu Ka Loy, the Group Financial Controller, who is an associate member of both the Institute of Chartered Secretaries and Administrators and the Chartered Institute of Management Accountants of the United Kingdom and is also an associate member of the Hong Kong Institute of Certified Public Accountants.
- (e) The translation into Chinese language of this document is for reference only. In the event of any inconsistency, the English text of this document shall prevail over the Chinese language text.