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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

**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**

25 January 2007

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DEFINITIONS

In this circular, unless the context otherwise requires, the following words and expressions have the following meanings:

“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

DEFINITIONS

“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 circular
“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))
“Independent Third Party(ies)”	person(s), or in the case of corporations, the corporation(s) 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
“Latest Practicable Date”	19 January 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein

DEFINITIONS

“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 circular
“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 circular
“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 Subscription Monies as set out in the paragraph headed “Release Conditions Precedent” in this circular
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“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

DEFINITIONS

“Subscription Conditions Precedent”	the conditions precedent in relation to the Subscription as set out in the paragraph headed “Subscription Conditions Precedent” in this circular
“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 seven 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, being an aggregate amount of S\$2,000,000
“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 seven 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, being an aggregate amount of S\$12,000,000
“Tranche C Issue Price”	the principal value of the Tranche C Non-Convertible Notes, being an aggregate amount of S\$3,000,000

DEFINITIONS

“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 circular 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.

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. 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 (**)

Mr. Peter LAM (**)

Registered office and head office:

Shell Industrial Building

12 Lee Chung Street

Chai Wan Industrial District

Hong Kong

() Non-executive Director*

*(**) Independent non-executive Directors*

25 January 2007

To the Shareholders,

Dear Sir or Madam,

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

INTRODUCTION

The Board announced on 4 January 2007 that the Company entered into a legally binding MOU with Korvac and the Original Shareholders on 27 December 2006, pursuant to which Korvac proposed to issue and the Company proposed to subscribe for the Tranche A Convertible Notes,

LETTER FROM THE BOARD

the Tranche B Convertible Notes and the Tranche C Non-Convertible Notes in an aggregate principal amount of S\$17,000,000 (equivalent to approximately HK\$85,850,000) in cash in accordance with the terms and conditions of the MOU and the Agreement.

The Subscription constituted a discloseable transaction of the Company under Chapter 14 of the Listing Rules. The purpose of this circular is to provide you with further information relating to the Subscription.

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.

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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 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**”).

LETTER FROM THE BOARD

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).

LETTER FROM THE BOARD

Dividends	<p>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 <i>pari passu</i> with all ordinary shares of Korvac then in issue.</p> <p>Korvac shall not declare any dividends at any time without the prior written consent of the holder(s) of the Tranche A Convertible Notes.</p>
Redemption	<p>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.</p> <p>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.</p>
Transfer	<p>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 the 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.</p>

LETTER FROM THE BOARD

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. As at the Latest Practicable Date, Subscription Condition Precedent (d) has been fulfilled.

LETTER FROM THE BOARD

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

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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 circular. 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:

- (a) 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 Korvac Group and Holdco; and
- (b) 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 circular, 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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

INFORMATION ON KORVAC GROUP

Korvac is a company incorporated in Singapore on 31 December 1999. As at the date of this circular, 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 Board believes that the Subscription will not give rise to any material effect on the earnings, working capital, gearing ratio and the assets and liabilities of the Group.

LETTER FROM THE BOARD

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 Deposit was paid by the Company by wire transfer on 28 December 2006 and was solely financed by the Company's internal resources. The Tranche B and Tranche C Subscription Monies 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.

Your attention is drawn to the additional information set out in the Appendix to this circular.

Yours faithfully,

For and on behalf of the Board of

Shell Electric Mfg. (Holdings) Company Limited

Billy K Yung

Group Chairman and Chief Executive

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DIRECTORS' AND CHIEF EXECUTIVES' INTEREST

As at the Latest Practicable Date, the interests of the Directors and the chief executives of the Company in the Shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the SFO), as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions, if any, which they are taken or deemed to have under such provisions of the SFO), as recorded in the register required to be maintained by the Company under Section 352 of the SFO or as required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

(a) Long position in the Shares

Name of Directors	Capacity	Nature of Interests	Number of ordinary Shares held	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	26,602,000	252,931,084	48.13%
	Interest of child under 18 or spouse (Note 1)	Other	216,329,084		
	Interest held jointly with another person (Note 2)	Other	10,000,000		
Dr Leo Tung-Hai Lee	Beneficial Owner	Personal	5,306,382	5,306,382	1.01%
Mr Peter Lam	Beneficiary of a trust (Note 3)	Other	1,300,000	1,300,000	0.25%
Madam Yung Ho Wun Ching	Beneficial Owner	Personal	53,196,300	63,196,300	12.03%
	Interest of spouse (Note 4)	Family	10,000,000		

Name of Directors	Capacity	Nature of Interests	Number of ordinary Shares held	Aggregate long position	Percentage of aggregate long position in Shares to the issued share capital of the Company
Mr Leung Chun Wah	Beneficial Owner	Personal	1,799,400	1,799,400	0.34%
Mr Plato Poon Chak Sang	Beneficial Owner	Personal	739,200	739,200	0.14%
Mr Simon Yung Kwok Choi	Beneficial Owner	Personal	39,147,911	43,677,351	8.31%
	Interest of controlled corporation (<i>Note 5</i>)	Corporate	3,529,440		
	Interest of spouse (<i>Note 6</i>)	Family	1,000,000		

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.

(b) Share options scheme

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

(i) Share options to subscribe for shares in Appeon Corporation (“Appeon”)

Name	Date of grant	Period during which options are exercisable	Subscription price per share US\$	Number of share options held as at the Latest Practicable Date	Percentage to the issued share capital of Appeon as at the Latest Practicable Date
Mr Billy Kwok	09.06.2003	09.06.2003-10.11.2012	2.50	6,750	
Kee Yung	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				27,000	0.74%

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 issued share capital of Appeon is held as to 89.33% by the Company indirectly, 0.82% by an employee of Appeon and 9.85% by Independent Third Parties.

(ii) *Share options to subscribe for shares in Galactic Computing Corporation (“Galactic”)*

Name	Date of grant	Period during which options are exercisable	Subscription price per share US\$	Number of share options held as at the Latest Practicable Date	Percentage to the issued share capital of Galactic as at the Latest Practicable Date
Mr Billy Kwok	09.06.2003	09.06.2003-10.11.2012	0.45	25,000	
Kee Yung	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				200,000	0.84%

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.

(c) **Disclosure of other interests**

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors and chief executives of the Company was interested in the equity or debt securities of the Company or any associated corporations (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by the Directors of Listed Companies to be notified to the Company and the Stock Exchange.

3. DISCLOSEABLE INTEREST UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, according to the register kept by the Company pursuant to Section 336 of the SFO and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, the Shareholders, other than a Director or chief executive of the Company, 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 under the provisions of Division 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each of such person's interest in such securities or in any options in respect of such capital were as follows:

(a) Shares in the Company

Name of Substantial Shareholder	Capacity	Nature of Interests	Number of ordinary Shares held	Aggregate long position	Percentage of ordinary shares held to the issued share capital of the Company
UBS Trustee (BVI) Limited	Trustee of a Trust (Note 1)	Other	224,437,334	224,437,334	42.71%
Diamond Key Enterprises Inc.	Beneficial Owner (Note 1)	Beneficial	143,612,287	143,612,287	27.33%
On Fat Profits Corporation	Beneficial Owner (Note 1)	Beneficial	72,716,797	72,716,797	13.84%
Madam Chiu Man	Beneficial Owner	Personal	1,000,000	43,677,351	8.31%
	Interest of spouse (Note 2)	Family	42,677,351		
Madam Hsu Vivian	Interest of spouse	Family	26,602,000	36,602,000	6.97%
	Interest held jointly with another person (Note 3)	Other	10,000,000		
Yung Siu Chee Margaret (Note 4)	Beneficial Owner	Personal	28,154,604	28,154,604	5.36%

Notes:

- (1) 143,612,287 Shares and 72,716,797 Shares form part of the 224,437,334 Shares held by UBS Trustee (BVI) Limited. Of which, the aggregate of 143,612,287 Shares and 72,716,797 Shares (i.e. 216,329,084 Shares) are disclosed in the sub-paragraph headed “(a) Long position in the Shares” under the paragraph headed “Directors’ and Chief Executives’ Interests” above as being held under a trust with Mr. Billy K Yung’s family 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 held 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) Long position in the Shares” under the paragraph headed “Directors’ and Chief Executives’ Interests” above.
- (3) Madam Hsu Vivian’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) Long position in Shares” under the paragraph headed “Directors’ and Chief Executives’ Interests” above.
- (4) Madam Yung Siu Chee Margaret is daughter of Madam Yung Ho Wun Ching. She is also a sister of Mr. Billy K Yung and Mr. Simon Yung Kwok Choi.

(b) 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%
Wylar Investments Limited	Brentwood Ventures Limited	12.50%
Poly Bright Holdings Limited	Brentwood Ventures Limited	12.50%
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%

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors, none of the Shareholders, other than a Director or chief executive of the Company, had any interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or had, directly or indirectly, any interests in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

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. SERVICE CONTRACTS

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

6. COMPETING BUSINESS

None of the Directors and their respective associates have any interests in a business or are interested in any business which competes or is likely to compete either directly or indirectly with, or is similar to, the business of the Group as at the Latest Practicable Date.

7. GENERAL

- (a) The head and registered office of the Company is Shell Industrial Building, 12 Lee Chung Street, Chai Wan Industrial District, Hong Kong.
- (b) The secretary of the Company is Mr. Peter Lee Yip Wah, a qualified solicitor practising in Hong Kong.

- (c) The qualified accountant of the Company appointed pursuant to Rule 3.24 of the Listing Rules is Mr. Chu Ka Loy, the Group's 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.
- (d) 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.
- (e) The translation into Chinese language of this circular is for reference only. The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

* *For identification purpose only*