

THE PROPOSED ACQUISITION OF THE ENTIRE ISSUED AND PAID-UP SHARE CAPITAL OF JP NELSON HOLDINGS PTE LTD, PT JP NELSON EQUIPMENT, JP NELSON EQUIPMENT PTE LTD, JP NELSON OFFSHORE SERVICES PTE LTD (COLLECTIVELY, THE "NELSON GROUP")

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**1. INTRODUCTION**

The board of directors ("**Board**") of Union Steel Holdings Limited ("**Company**") wishes to announce that it has entered into a sale and purchase agreement ("**Agreement**") dated 22 January 2007 with Messrs Lim Eng Koo and Seh Yin Yoke (collectively known as the "**Vendors**") for the acquisition ("**Proposed Acquisition**") of all the issued and paid up share capital of the Nelson Group from the Vendors. The maximum aggregate purchase consideration for the Proposed Acquisition is **S\$45,500,000** (the "**Purchase Consideration**"). The Purchase Consideration shall be satisfied by the allotment and issue of 119,000,000 new ordinary shares to the Vendor (the "**Consideration Shares**") together with the payment of the sum of **S\$1.5 Million** by the Company upon the due completion of the Proposed Acquisition.

**2. INFORMATION ON THE PROPOSED ACQUISITION**

**2.1 Information on the Purchase Consideration**

The Purchase Consideration was determined based on arm's length negotiations on a willing-buyer willing-seller basis, after taking into account the following factors:

- (i) the consolidated audited net income after tax of the Nelson Group for the financial year ended 31 December 2005 of approximately S\$4.6 Million and the consolidated un-audited net income after tax of the Nelson Group for the financial year ended 31 December 2006 of S\$5.6 Million;
- (ii) profit guarantee by the Vendors to the Purchaser that the consolidated audited profit before tax of the Nelson Group for the financial years ending 31 December 2007 and 31 December 2008 shall not be less than **Singapore Dollars Eight point Five Million (S\$8,500,000)** and **Singapore Dollars Ten Million (S\$10,000,000)** respectively; and
- (iv) the competitive strengths and future business plans of Nelson Group set out in Section 3 of this Announcement.

**2.2 Principal Terms of the Proposed Acquisition**

**(a) Purchase Consideration**

The cash consideration portion of the Purchase Consideration comprising the sum of S\$1.5 Million will be funded from the Company's internal resources.

The Consideration Shares when allotted and issued to the Vendors will comprise approximately 25.5% of the enlarged issued share capital of the Company and will be issued as fully paid, and will rank *pari passu* in all respects with the existing ordinary shares of the Company, save that they shall not rank for, including without limitation, any entitlements, distributions, dividends or rights (if any), the record date in respect of which falls on or prior to the completion date for the Proposed Acquisition.

**(b) Conditions Precedent to the Proposed Acquisition**

The obligations of the parties to the Agreement to complete the Proposed Acquisition are conditional on, *inter alia*,:

- (i) approval of the Purchaser in general meeting as regards the Proposed Acquisition and the allotment and issue of the Consideration Shares to the Vendors;
- (ii) approval of the Singapore Exchange Securities Trading Limited ("SGX-ST") as regards the Proposed Acquisition and the allotment and issue and the listing of the Consideration Shares; and
- (iii) the due completion of all legal and/or financial due diligence verifications on the Group and related corporations, the results of which must be satisfactory to the board of directors and audit committee of the Company.

**(c) Profit Guarantee by the Vendors**

The Vendors have given a written guarantee to the Company that the consolidated audited profit before tax of the Nelson Group (the "Net PBT Income") for the financial years ending 31 December 2007 and 31 December 2008 shall not be less than **Singapore Dollars Eight point Five Million (\$8,500,000)** and **Singapore Dollars Ten Million (\$10,000,000)** respectively (the "Net PBT Income Guarantee").

Under the Agreement, "Net PBT Income" is defined to mean the audited consolidated profit before tax of the Group as at the end of that financial year which shall be adjusted to exclude:

- (i) any exceptional or extraordinary items (as provided for in the audited financial statements of the Nelson Group and without adjusting for related tax) which are not part of the ordinary course of business of the Nelson Group;
- (ii) any gain from discontinued operations or business;
- (iii) any gain or income from any new businesses entered into by the Nelson Group with the Company or any of its related corporations or associated companies following completion, and
- (iv) the execution of service contracts between the Company and the Vendors and certain key personnel from the Nelson Group, on such terms to be agreed between the Company and the Vendors.

and was achieved through the ordinary course of business of the Nelson Group and without undertaking any corporate action or business activity that would adversely affect the ability of the Nelson Group to generate stable recurrent income in the future or cause material changes to the capital expenditure plans of the Nelson Group

In the event of a shortfall in respect of the actual audited Net PBT Income vis-à-vis the Net PBT Income Guarantee for any of the financial years ending 31 December 2007 and 31 December 2008, the Vendors shall fully indemnify and compensate the Company the full sum constituting the shortfall amount (the "Net PBT Income Shortfall Compensation") within fourteen (14) days after the shortfall has been certified by the Company's auditors in writing. The Company may permit the Vendors to obviate payment of the Net PBT Income Shortfall Compensation for the financial year ending 31 December 2007 in the event the Vendors are able to substantiate evidence showing event(s) of *force majeure* restricting the proper business and/or financial performance of the Nelson Group during the financial year ending 31 December 2007, in which case, the Vendors shall achieve a Net PBT Income for the financial year

ending 31 December 2008 an amount comprising the aggregate sum of the Net PBT Income Shortfall Compensation for financial year ending 31 December 2007 and Singapore Dollars Ten Million (S\$10,000,000).

**(d) Shareholding of the Vendors**

Subject to Completion, the Vendors have unconditionally and irrevocably undertaken to maintain an aggregate equity interests comprising at all times not less than fifteen (15) per cent of the enlarged issued share capital of the Company (the "First Year Shareholding") after the allotment and issue of the Consideration Shares for a period of twelve (12) months following Completion (the "First Year") based on the issued share capital of the Company as at Completion. In the event there is an increase in the issued share capital of the Company during the First Year, the First Year Shareholding shall be adjusted proportionately with direct reference to the then enlarged issued share capital of the Company. The Vendors further unconditionally and irrevocably undertake to maintain an aggregate equity interests comprising at all times not less than twelve (12) per cent of the enlarged issued share capital of the Company (the "Second Year Shareholding") for a period of 12 months after the First Year (the "Second Year") based on the issued share capital of the Company as at the end of the First Year. In the event there is an increase in the issued share capital of the Company during the Second Year, the Second Year Shareholding shall be adjusted proportionately with direct reference to the then enlarged issued share capital of the Company. Subject to the Vendors at all times maintaining not less than 15 per cent. of the Purchaser's issued share capital during the First Year and not less than 12 per cent. during the Second Year, and subsequently not less than five (5) per cent. of the Purchaser's then issued share capital, the Vendors shall have the right to nominate one (1) executive director on the board of directors of the Company.

**2.3 Relative Figures Computed on the Bases Set Out in Rule 1006 of the Listing Manual**

Based on the latest audited consolidated financial statements of the Company for FY 2005, the relative figures computed on the bases set out in Rule 1006 of the Listing Manual are as follows:

(a)	Rule 1006(a) The net asset value of the assets to be disposed of, compared with the Group's net asset value. This basis is not applicable to an acquisition of assets.	Not applicable
(b)	Rule 1006(b) The net profits attributable to the assets acquired or disposed of, compared with the Group's net profits.	72.71%
(c)	Rule 1006(c) The aggregate value of the consideration given or received, compared with the issuer's market capitalisation.	34.05%
(d)	Rule 1006(d) The number of equity securities issued by the issuer as consideration for an acquisition, compared with the number of equity securities previously in issue <sup>(1)</sup> .	25.5%

**3. RATIONALE FOR THE PROPOSED ACQUISITION**

**3.1 Business of the Nelson Group**

The Nelson Group is a Singapore-based specialist in new, reconditioned and used industrial equipment, selling and leasing to end customers from various industries

such as the civil engineering, construction, oil and gas, and marine industries. It also has the expertise and facilities to provide support services such as equipment repair and supply of equipment spare parts.

### **3.2 Competitive Strengths of the Nelson Group**

The Company believes that the Proposed Acquisition will complement the existing businesses of Union Steel, and wishes to highlight the following competitive strengths of the Nelson Group that are envisaged to enhance the competitiveness of Union Steel subsequent to the Proposed Acquisition :-

- Good reputation as a reliable supplier of industrial equipment
- Strong relationships with its well-diversified customer base in various industries and in more than 20 countries
- Ability to hold sufficient inventory and provide a wide range of industrial equipment and services
- Ability to leverage off a common pool of maintenance and technical staff in reconditioning of used equipment and provide value added repair and maintenance services to its customers
- Led by experienced management team capably supported by a team of competent and committed employees
- Flexibility in supplying to its customers through sales and/or leasing quality equipment at short notice
- Strong relationships with its network of principals and suppliers

### **3.3 FUTURE BUSINESS PLANS OF THE NELSON GROUP**

The Nelson Group will embark on the following business expansion plans and strategic investments following completion of the Proposed Acquisition:-

- To intensify its penetration in supplying the relevant equipment to the offshore oil and gas, and marine services industries. The Group has recently acquired a new premise with waterfront facilities in Singapore and is now poised to establish a stronger foothold in these industries.
- To step up its business development efforts in markets like the Middle East and Indonesia.
- To establish overseas offices or subsidiaries in Asia and the Middle East to tap the growing opportunities
- To expand its businesses through acquisitions, joint ventures and strategic alliances that will complement its current and future businesses.

The Company is of the view that the future business plans of the Nelson Group will augment the spectrum of the Company's business. With the benefits to be derived from the economies of scale in the integration of the Nelson Group subsequent to the Proposed Acquisition, and the wider range of services, experiences and bigger pool of skilled expertise that the enlarged group can offer to its customers, the Company is positive about the long term higher profitability of the enlarged group.

## **4. FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION**

The details of the pro-forma financial effects of the Proposed Acquisition on the Company and its subsidiaries (the "Union Steel Group") for FY 2005 are set out below. The pro-forma financial effects of the Proposed Acquisition are for illustration purposes only and do not reflect the actual future financial situation of the enlarged Union Steel Group after the completion of the Proposed Acquisition. The pro-forma financial effects of the Proposed Acquisition are based on the audited consolidated financial statements of the Union Steel

Group for FY 2005 and the audited consolidated financial statements of the Nelson Group for the financial year ended 31 December 2005.

#### **4.1 Bases and Assumptions used in compiling the illustrative effect of the Proposed Acquisition on the earnings per Share ("EPS"), net tangible assets ("NTA") and Gearing of the Group**

The effects of the Proposed Acquisition have been prepared on the following bases and assumptions:

- (i) In respect of the Nelson Group, the balance sheet for the latest audited financial year ended 31 December 2005 and the audited operating results for the 12 months ended 31 December 2005 are used to combine with the consolidated balance sheet of the Union Steel Group as at 30 June 2006 and the consolidated operating results of the Union Group for the 12 months ended 30 June 2006 respectively.

This is for illustrative purposes only, using the latest audited financial statements for the latest completed financial year ends of each of the Nelson Group and the Union Steel Group.

An actual consolidation performed under International Financial Reporting Standards IFRS 3 (Business Combinations) ("**IFRS 3**") requires the balance sheets and the profit and loss statements of the Union Steel Group and Nelson Group to be consolidated with coterminous dates. It also requires the cost of acquisition to be measured at the aggregate of fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Union Steel Group in exchange for control of Nelson Group, plus any costs directly attributable to the business combination.

The Nelson Group's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are to be recognised at their fair values at the envisaged completion date. Goodwill arising on the completion date is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Union Steel's Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities (if any) recognized.

- (ii) In the calculation of EPS, for illustrative purposes, it is assumed that the Proposed Acquisition had been effected on 1 July 2005.
- (iii) In the calculation of NTA and gearing ratio, for illustrative purposes, it is assumed that the Proposed Acquisition has been effected on 30 June 2006.

#### **4.2 Illustrative effects of the Proposed Acquisition on the EPS, NTA and Gearing of the Union Steel Group**

The following illustrative financial effects of the Proposed Acquisition should be read in the context of the assumptions and bases set out in Section 5.1 of this Announcement above.

	<b>Before the Proposed Acquisition</b>	<b>After the Proposed Acquisition</b>
<b><u>Earnings</u></b>		
Consolidated profit after taxation and minority interests (S\$'000)	6,332	10,936
Basic EPS (S\$ cents)	1.86	2.35

	Before the Proposed Acquisition	After the Proposed Acquisition
<b><u>Net Tangible Assets</u></b>		
NTA (S\$'000)	41,367	62,985
Number of Shares	347,105,250	466,105,250
NTA per Share (S\$ cents)	11.92	13.51

## 5. FURTHER INFORMATION

### 5.1 Extraordinary General Meeting ("EGM") and Circular

The Circular to Shareholders in relation to the Proposed Acquisition, together with a notice of the EGM to approve the Proposed Acquisition and the issue of the Consideration Shares to be convened will be dispatched to Shareholders in due course.

No substantial Shareholder and Director have any interest, whether direct or indirect, in the Proposed Acquisition.

By Order of the Board  
**Union Steel Holdings Limited**

ANG YU SENG  
Chairman and Managing Director  
22 January 2007