UNION STEEL HOLDINGS LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration No. 2004010181W)

ANNOUNCEMENT OF THE PROPOSED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF HOCK ANN METAL SCAFFOLDING PTE LTD (THE "PROPOSED ACQUISITION")

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1. INTRODUCTION

1.1 The Board of Directors (the "**Board**") of Union Steel Holdings Limited (the "**Company**" and together with its subsidiaries, the "**Group**") wishes to announce that the Company has, on 26 July 2011 (the "**Signing Date**"), entered into a binding term sheet (the "**Term Sheet**") with the shareholders of Hock Ann (the "**Vendors**") to acquire 100% of the total issued shares (the "**Sale Shares**") of Hock Ann Metal Scaffolding Pte Ltd ("**Hock Ann**" or the "**Target**").

1.2 The Term Sheet sets out in broad terms the salient terms and conditions in respect of the Proposed Acquisition which will form the basis of the definitive agreement relating to the Proposed Acquisition (the "**Definitive Agreement**").

1.3 Ernst & Young Corporate Finance Pte Ltd has been appointed as financial advisor to the Company in respect of the Proposed Acquisition.

1.4 The Board wishes to advise shareholders of the Company (the "**Shareholders**") to read this Announcement in its entirety, in particular the Cautionary Statement set out in paragraph 9 of this Announcement.

2. INFORMATION ON HOCK ANN

2.1 Hock Ann is a company incorporated in Singapore. It is principally engaged in the provision of scaffolding works and general construction. The Vendors, collectively, hold 100% shareholding interests in Hock Ann.

2.2 As at the date of this Announcement, the Vendors do not hold, directly or indirectly, any shares in the capital of the Company (the "**Shares**"). Neither the Vendors nor Hock Ann's directors have any connection with any director or substantial shareholder of the Company.

3. TERMS OF THE TERM SHEET

The following is a summary of the principal terms of the Term Sheet:-

3.1 <u>Proposed Acquisition</u>

The Proposed Acquisition will be carried out in three tranches as follows:-

Tranche 1 - Company acquires 60% equity stake of the Target;

Tranche 2 - Company acquires 20% equity stake of the Target; and

Tranche 3 - Company acquires the remaining 20% equity stake of the Target.

3.2 Purchase Consideration

The Vendors shall sell, and the Company shall, either through itself or a wholly-owned subsidiary, acquire, the Sale Shares based on four (4) times the Target's audited consolidated Profit After Tax ("**PAT**") (the "**Target P/E Ratio**") with the following benchmarks (the "**Purchase Consideration**"):-

(1) Tranche 1 shall be based on the audited consolidated PAT for the financial year ended 31 December 2011 ("**FY11**");

(2) Tranche 2 shall be based on the audited consolidated PAT for the financial year ended 31 December 2012 ("**FY12**"); and

(3) Tranche 3 shall be based on the audited consolidated PAT for the financial year ended 31 December 2013 ("**FY13**").

The total Purchase Consideration for Tranches 1, 2 & 3 shall be capped at S$24.0 million.

The Purchase Consideration was arrived at on a willing seller-willing buyer basis after arms' length negotiations between the parties. The Company proposes to fund the Purchase Consideration from internal proceeds and bank borrowings.

3.3 Other Principal Terms

(1) The two (2) existing executive directors of the Target agreeing to enter into a Service Agreement with Hock Ann (subject to terms being satisfactory to both parties);

(2) The Board of Directors of Hock Ann (the "**Hock Ann Board**") shall comprise two (2) existing executive directors and two (2) other directors to be nominated by the Company (of whom one shall be the Chairman). The Hock Ann Board composition shall remain until Hock Ann becomes a wholly-owned subsidiary of the Company or by 30 June 2014, whichever is later;

(3) Each of the Vendors shall give their shareholder voting proxies to the Company until Hock Ann becomes a wholly-owned subsidiary of the Company, provided the Company remains a shareholder of Hock Ann;

(4) Any dividends declared by Hock Ann and payable to the Vendors shall be fully utilised to purchase new shares of the Company under their respective names, at a price per share equivalent to the Company's last audited consolidated Net Asset Value per share for the period prior to the purchase, subject to a maximum 10% discount to the weighted average price for trades done on the Singapore Exchange Securities Trading Limited ("**SGX-ST**") for the full market day on which the issuance takes place. Such shares of the Company bought by the Vendors shall be placed under moratorium until 30 June 2014;

(5) The Vendors, its affiliates and its extended families, shall not for a period of four (4) years following the completion of the Proposed Acquisition, enter into any businesses that compete with the businesses of Hock Ann;

(6) The Definitive Agreement shall incorporate representations and warranties from the Parties that are regarded as reasonable and customary for transactions of similar nature; and

(7) The Vendors shall indemnify the Company from and against any losses and liabilities (including legal fees and expenses) which the Company may incur or suffer as a result of, or arising out of, any breach of any representations, warranties or covenants of the

Vendors. In addition, indemnities will be required in respect of any tax claims and other potential liabilities which arise in relation to the period prior to the Proposed Acquisition for which no provision has been made.

3.4 Conditions Precedent

The closing of the Proposed Acquisition shall be conditional upon:

(1) The completion to the Company's satisfaction of commercial, financial, accounting and legal due diligence of Hock Ann, provided that the Vendors have made available all requested due diligence documents to the Company and its advisers in a timely manner;

(2) Obtaining the necessary approvals, consents and waivers by the relevant regulatory authorities and third parties for the Proposed Acquisition;

(3) No material adverse changes in Hock Ann's business, operations, assets, financial condition or prospects from the date of execution of the Term Sheet until the signing of the Definitive Agreement;

(4) Hock Ann has no litigation, tax, work safety or environmental issues; and

(5) Obtaining the necessary approvals from the board and shareholders of the Company for the Proposed Acquisition.

3.5 Exclusivity

The Vendors agree to give the Company an exclusivity period of three (3) months from the date of execution of the Term Sheet (the "**Exclusivity Period**"). During the Exclusivity Period, the Vendors will not, either by itself or by or through any affiliates or representative, directly or indirectly engage in any discussion or negotiation with any other parties in relation to the Proposed Acquisition, except with the written consent of the Company.

3.6 Costs

Each party to the Term Sheet shall bear its own legal, professional and other costs and expenses incurred in connection with the Proposed Acquisition.

3.7 Target Completion Date

The Parties agree to work towards the completion of the Proposed Acquisition by 1 November 2011.

4. RATIONALE FOR THE PROPOSED ACQUISITION

The Proposed Acquisition presents an opportunity for the Group that is in line with the Company's strategic intent to acquire new businesses that will improve the performance of the Group and also enlarge its range of products and services and penetrate into new markets.

Through the Proposed Acquisition, the Group intends to provide its existing customers, particularly those in the construction and engineering industries, with Hock Ann's core service offerings. At the same time, the Group expects to provide Hock Ann's existing customers with the Group's wide range of products and services. By leveraging on each other's strengths, the Proposed Acquisition is expected to generate synergies for the Group and create cross-selling opportunities to an enlarged customer base.

Further, Hock Ann is expected to provide the Group with a relatively more stable income stream compared to the capricious nature of the Group's metal trading business. Following the Proposed Acquisition, Hock Ann will be able to extract synergies from the metal recycling expertise of the Group.

5. RELATIVE FIGURES IN RULE 1006 OF THE LISTING MANUAL

5.1 The relative figures computed on the bases set out in Rule 1006 of the listing manual of the SGX-ST ("**Listing Manual**") in relation to the Proposed Acquisition are as follows:-

Listing Rule	Bases	Relative Figures (%)
1006 (a)	Net asset value of the assets to be disposed of, compared with the Group's net asset value	Not applicable to an acquisition of assets
1006 (b)	Net profits attributable to the assets acquired, compared with the Group's net profits	196% (1)
1006 (c)	Aggregate value of consideration compared with the Company's market capitalisation	52% (2)
1006 (d)	Number of equity securities issued by the Company as consideration for the Proposed Acquisition, compared with the number of equity securities previously in issue	Not applicable (3)

Notes:-

(1) The figure was computed based on the profit before tax of Hock Ann's audited full year ended 31 December 2010 of approximately S$7,904,000 divided by the Group's audited net profit before tax for the financial year ended 30 June 2010 of approximately S$4,023,000.

(2) Based on the maximum Purchase Consideration of S$24,000,000 and the market capitalisation of the Company of S$46,072,387 as at 22 July 2011 (being the last trading day preceding the Signing Date). The market capitalisation of the Company of S$46,072,387 is calculated based on 393,781,089 Shares in issue multiplied by S$0.117 being the volume weighted average price of such Shares transacted on 22 July 2011.

(3) Not applicable as the Company will not be issuing equity securities as consideration for the Proposed Acquisition.

5.2 Having regard to the above, if the Definitive Agreement in respect of the Proposed Acquisition are entered into by the Company (on the indicative terms as set out in the Term Sheet) as at the date of this Announcement, the Proposed Acquisition would constitute a "Major Transaction" pursuant to Rule 1014 of the Listing Manual. Rule 1015 (Very Substantial Acquisitions) does not apply in the case of an acquisition of profitable asset(s) if the only limit breached is Rule 1006(b). Accordingly, the Proposed Acquisition is therefore subject to and conditional upon the approval of Shareholders pursuant to Rule 1014(2).

6. FINANCIAL EFFECTS

6.1 Assumptions

The pro forma financial effects of the Proposed Acquisition set out below are purely for illustration purposes only and do not reflect the actual future financial situation of the Company or the Group after the Completion of the Proposed Acquisition.

The pro forma financial effects of the Proposed Acquisition presented below:-

(1) assume that the Definitive Agreement in respect of the Proposed Acquisition has been entered into by the Company based on the indicative terms as set out in the Term Sheet as at the date of this Announcement;

(2) have been calculated based on the maximum Purchase Consideration of S$24,000,000;

(3) have been prepared based on the audited consolidated financial statements of the Group for the financial year ended 30 June 2010 and on the audited consolidated financial statements of Hock Ann for the financial year ended 31 December 2010;

(4) has not taken into account the expenses for the Proposed Acquisition; and

(5) assume that the Proposed Acquisition had been completed on (a) 1 July 2009 for illustrating the financial effects on the consolidated earnings of the Group, and (b) 30 June 2010 for illustrating the financial effects on the net tangible assets ("**NTA**") of the Group.

6.2 Share Capital

There would be no change in the share capital of the Company as a result of the Proposed Acquisition.

6.3 NTA

Assuming that the Proposed Acquisition had been effected on 30 June 2010 (the end of FY2010), the effect of the Proposed Acquisition on the NTA of the Group is as follows:-

	Before the Proposed Acquisition	**After the Proposed Acquisition**
NTA (S$'000)	57,860	37,036 (1)
Total number of shares in issue ('000)	351,480	351,480
NTA per Share (cents)	16.46	10.54

Note:-

(1) Based on the Group's net tangible asset value as at 30 June 2010 of approximately S$57,860,000, adding the net tangible asset value of Hock Ann's as at 31 December 2010 of approximately S$3,176,000, and less the maximum Purchase Consideration of S$24,000,000. The book value and the net tangible asset value of Hock Ann as at 31 December 2010 are the same figure.

6.4 EPS

Assuming that the Proposed Acquisition had been effected on 1 July 2009 (the beginning of FY2010), the effect of the Proposed Acquisition on the EPS of the Group is as follows:-

	Before the Proposed Acquisition	**After the Proposed Acquisition**
Net profit attributable to equity holders of the Company (S$'000)	4,043	10,632 (1)
Weighted average number of ordinary shares outstanding for basic earnings per share ('000)	351,478	351,478
Adjustments for warrants ('000) (2)	2,602	2,602
Weighted average number of ordinary shares outstanding for diluted earnings per share ('000)	354,080	354,080

Basic EPS (cents)	1.15	3.02
Diluted EPS (cents)	1.14	3.00

Notes:-

(1) Based on the Group's audited net profit after tax for the financial year ended 30 June 2010 of approximately S$4,043,000 and adding the net profit after tax of Hock Ann's audited full year ended 31 December 2010 of approximately S$6,589,000.

(2) For the purpose of calculating diluted earnings per share, profit attributable to equity holders of the Company and the weighted average number of ordinary shares outstanding are adjusted for the effects of all dilutive potential ordinary shares. The Company had warrants (which expired on 14 April 2011) as dilutive potential ordinary shares in FY2010.

7. INTEREST OF THE DIRECTORS AND CONTROLLING SHAREHOLDERS

None of the directors, and to the best of the director's knowledge, there are no controlling shareholders of the Company who have an interest, direct or indirect, in the Proposed Acquisition.

8. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the Term Sheet will be made available for inspection at the registered office of the Company at 33 Pioneer Road North, Singapore 628474 during normal business hours for a period of three (3) months from the date of this Announcement.

9. CAUTIONARY STATEMENT

9.1 The Term Sheet is not intended to be complete and is qualified in its entirety by the terms of the Definitive Agreement to be entered into by the Company and the Vendors.

9.2 The Board would like to caution that there is no assurance that any transaction will materialise from the Term Sheet or that the Definitive Agreement will be entered into in relation to the Proposed Acquisition. Shareholders and investors are therefore advised to exercise caution in their dealings in Shares.

By Order of the Board

Ang Yu Seng
Chairman and Chief Executive Officer
Union Steel Holdings Limited
26 July 2011