

UNION STEEL HOLDINGS LIMITED

(Incorporated in the Republic of Singapore)
Company Registration Number 200410181W

HEADS OF TERMS – PROPOSED ACQUISITION

1 INTRODUCTION

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 entered into a non-binding heads of terms or term sheet dated 18 June 2013 (the “**Heads of Terms**”) with Chye Hup Heng Sdn Bhd (“**CHH**”) in respect of acquiring parcels of land situated in Malaysia (“**Land**”) and all the buildings, machinery, plant and equipment situated on such land (“**Buildings and Machinery**”) (the Land, Building and Machinery collectively the “**Assets**”) in respect of CHH’s metal recycling business in Malaysia (“**Proposed Acquisition**”).

2 About CHH

The information in this section relating to CHH is based on information provided by and/or representations made by CHH. The Directors have not conducted an independent review or verification of the accuracy of the statements and information below.

- 2.1 CHH is a private limited company that engages in businesses comprising the processing of ferrous metal scrap and trading of steel mill related products. It involves the segregation, reducing, shearing and compressing of ferrous scrap into manageable sizes to meet its customers’ requirements essentially known as metal recycling in Malaysia.
- 2.2 The directors of CHH are Mr. Sia Beng San and his brother Mr. Sia Beng Kwee, both of whom also own the entire shareholdings of CHH.
- 2.3 CHH is currently under a scheme of arrangement with its creditors (“**SOA**”) pursuant to Section 176 of the Malaysian Companies Act 1965 and has ceased its metal recycling business in January 2013.

3 DETAILS OF THE HEADS OF TERMS

- 3.1 Salient terms of the Heads of Terms are set out as follows:

- (a) Legal Effect

The Heads of Terms outlines the principle terms and conditions relating to the Proposed Acquisition and is not a legally binding agreement (except for the provisions relating to the

Earnest Deposit described below, exclusivity dealing between the parties involved and confidentiality obligations). The Heads of Terms forms the basis of a definitive acquisition agreement(s) ("**Definitive Agreements**") which may subsequently be entered into by the parties involved.

(b) Proposed Acquisition of Assets

Subject to the execution of the Definitive Agreements, the Company through a special purpose vehicle to be incorporated ("**SPV**") will purchase the Assets and CHH will sell the Assets at the Purchase Price referred and defined hereinafter.

(c) Purchase Price

Subject to the completion of an independent valuation of the Assets, the purchase price of the Assets is approximately in the region of between RM40,000,000 to RM48,000,000 ("**Purchase Price**"). The Purchase Price was arrived at based on *inter alia* a mutually agreed force sale value of the Assets and outstanding amounts owing to the hire-purchase creditors (in relation to the equipment and machinery forming part of the Assets) of CHH ("**HP Creditors**").

The Heads of Terms provides that the Purchase Price may be paid and satisfied by the Company either in a combination of cash payment, bank borrowings cum instruments, and/or settlement of outstanding amounts owing to the hire-purchase creditors (in relation to the equipment and machinery forming part of the Assets) of CHH. The exact settlement modes and amounts for each mode will be ascertained when the aforesaid independent valuation is completed and the Definitive Agreements signed.

(d) Earnest Deposit

To secure the exclusivity of the Proposed Acquisition, the Company will pay a mutually agreed earnest deposit of RM400,000 (or approximately SGD160,077 based on the exchange rate of SGD 1 to RM 2.4988).

The Earnest Deposit shall be immediately refunded with interests without demand should any one of the events occur any time after the date of the Heads of Terms and before the long-stop date of 18 months from the date of the Heads of Terms.

3.2 Funding for the Proposed Acquisition and Lease / Service Arrangement

The Group intends to finance the costs of the Proposed Acquisition by internal funds and bank borrowings.

3.3 Proposed Lease / Service Arrangements

- (a) Pending the completion of the Proposed Acquisition and subject to the execution of a formal lease and service agreement, the SPV may lease the Assets and obtain the services of CHH and commence metal recycling business operations as soon as practicably possible after the signing of this Heads of Terms ("**Proposed Lease / Service Arrangement**").

- (b) The Proposed Lease / Service Arrangement shall be for a fixed term of 18 months at the rental and fee for the Proposed Lease / Service to be agreed upon between the parties pending the signing of the definitive lease and service agreement.
- (c) Pursuant to Rule 1005 of the Listing Manual, the SGX-ST may aggregate separate transactions completed within the last 12 months as if it were one transaction for purposes of Rule 1004 and Rule 1006 and for this purpose, these transactions refer to Proposed Acquisition and Proposed Lease / Service Arrangement (the “**Proposed Transactions**”).

The Company has applied to SGX-ST for a waiver of the aforesaid Rule 1005 in respect of the aforementioned and received the approval from the SGX-ST on 11 June 2013 that it will not aggregate the Proposed Transactions subject to the following conditions:

- (i) The lease / service payments under the Proposed Lease / Service Arrangement will not be set-off against the Purchase Price and the Company has confirmed the same; and
 - (ii) The Proposed Lease / Service Arrangement and the Proposed Acquisition are separate transactions and each is not conditional upon the other.
- (d) The Company intends to execute the definitive lease and service agreement as soon as practicably possible after the date of this announcement.
- (e) CHH also agrees that it shall procure and provide all reasonable assistance to the Company, *inter alia*, on the following matters:
- (i) obtaining all necessary licences, permits and approvals required by the SPV to carry out metal recycling business operations in Malaysia; and
 - (ii) obtaining all requisite human resource and personnel reasonably required by the SPV to carry out the metal recycling business operations.

4 RATIONALE FOR THE PROPOSED ACQUISITION, PROPOSED ASSETS LEASE / SERVICE AND PROPOSED INCORPORATION OF SPV

The Proposed Acquisition and the Proposed Lease / Service Arrangement (collectively the “**Proposed Corporate Action**”) are part of the Group’s continuing effort to seek the expansion of its recycling businesses. The Group intends to carry out its existing recycling of ferrous and non-ferrous scrap metal in Malaysia as the Company is currently exporting and supplying the recycled metals from Singapore to its customers in Malaysia. The Company believes that the Proposed Corporate Action will allow the Company to expand its customer base in Malaysia and thereby increasing the Company’s market share and presence in Malaysia. Further, the Company will also be able to tap on the Malaysian market to source for scrap metals to increase the supply of scrap metal to meet the demands of its customers in Malaysia and in the region. The Proposed Corporate Action is therefore in line with Group’s business and expansion plans.

5 APPLICATION OF RULE 1006 OF THE LISTING MANUAL

Based on the unaudited financial statements of the Group for the 9-month period ended 31 March 2013 (“9M2013”) as announced on 13 May 2013, the relative figures of the Proposed Acquisition computed on the bases set out in Rule 1006(a) to (d) of the Listing Manual of the SGX-ST are as follows:

Rule 1006(a)	Net asset value of the assets to be disposed of	Net asset value of the Group	Relative Figures
	Not applicable as this is an acquisition		
Rule 1006(b)	Net profits attributable to the Proposed Acquisition	Net profits of the Group for 9M2013	Relative Figures
	n.a. ⁽²⁾	3,506,000	n.a. ⁽²⁾
Rule 1006(c)	Consideration for the Proposed Acquisition	The Company's market capitalisation ⁽¹⁾	Relative Figures
	19,209,220	43,320,000	44%
Rule 1006(d)	Maximum number of equity securities issued by the Company as consideration	Number of the Company's equity securities previously in issue	Relative Figures
	Not Applicable		

Note:

- (1) The market capitalisation of the Company as at 18 June 2013, being the date of the announcement of the Proposed Acquisition.
- (2) The Company is currently unable to provide relevant figures as the Company unable to obtain the relevant financial information of the CHH pertaining to their recycling business at this juncture. As such the relevant figures in relation to Rule 1006(b) are not available. The Company shall provide an update in an announcement as soon as such information is available to the Company.

As the 20% threshold under Rule 1006(c) of the Listing Manual will be exceeded, the Proposed Acquisition is classified as a “major transaction” and will be subject to the approval of shareholders in general meeting.

6 FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

6.1 Net Tangible Assets (“NTA”)

The financial effects of the Proposed Acquisition on the Group's NTA and NTA per share for FY2012, assuming that the Proposed Acquisition had been effected on 30 June 2012 are estimated as follows:

	Before the Proposed Acquisition	After the Proposed Acquisition
NTA (S\$'000)	76,004	76,004 ⁽¹⁾
No. of shares ('000)	393,781	393,781
NTA per share (S\$ cents)	19.30	19.30

Notes:

- (1) Based on the Group's NTA value as at 30 June 2012 of approximately S\$76,004,000, adding the assets value of CHH's as at transaction date of approximately S\$19,209,220 (RM48,000,000), and less the price consideration of the same amount.

6.2 Earnings per share ("EPS")

The financial effects of the Proposed Acquisition on the Group's EPS for FY2012, assuming the Proposed Acquisition had been completed on 1 July 2011 are as follows:

	Before the Proposed Acquisition	After the Proposed Acquisition
Net profit after tax (S\$ '000)	4,057	4,057 ⁽¹⁾
Weighted average number of shares ('000)	393,781	393,781
Earnings per share (S\$ cents)	1.03	1.03 ⁽¹⁾

Note:

- (1) The Company is currently unable to provide relevant figures as the Company unable to obtain the relevant financial information of the CHH pertaining to their recycling business at this juncture. As such the relevant figure in relation to net profit after tax is not available. The Company shall provide an update in an announcement as soon as such information is available to the Company.

6.3 Gearing⁽¹⁾

Assuming that the Group obtains loan financing for 80% of the Purchase Price at an average interest rate of 5% per annum, and finances the remaining expenditure with internal funds, the effect of the Proposed Acquisition on the Group's gearing, assuming the Proposed Acquisition had been completed on 30 June 2012, is as follows:

	Before the Proposed Acquisition	After the Proposed Acquisition
Proposed Borrowings (S\$ '000) ⁽³⁾	20,964	36,331 ⁽²⁾
Shareholders' Funds (S\$ '000) ⁽⁴⁾	76,005	75,237
Debt to Equity Ratio	0.28	0.48

Notes:

- (1) "Gearing" is computed based on the ratio of Proposed Borrowings to Shareholders' Funds.
- (2) The figure was computed based on the 80% of the price consideration at RM38,400,000 (S\$15,367,000) and interest bearing at 5% arriving at S\$768,000 as interest costs..

(3) The expression "Proposed Borrowings" refers to the amounts expressed in Singapore dollars of interest bearing debts arising from borrowings from shareholder(s), financial institutions and non-financial institution lenders less cash and cash equivalents.

(4) The expression "Shareholders' Funds" refers to the amounts expressed in Singapore dollars represented by the aggregate of the issued and paid-up capital, fair values reserves, translation reserves, reserve for own shares, share option reserves and revenues reserves of the Group.

7 ESTABLISHMENT OF SPV

The Company intends to establish the SPV in Malaysia to undertake the Proposed Transactions.

Further details thereof will be announced in due course.

8 DIRECTORS AND CONTROLLING SHAREHOLDERS' INTERESTS IN THE PROPOSED TRANSACTIONS

None of the Directors or Controlling Shareholders (as defined in the SGX-ST Listing Manual) or their respective Associates (as defined in the SGX-ST Listing Manual) of the Company has any interest, direct or indirect, in the Proposed Acquisition and Proposed Lease / Service Arrangement.

9 SERVICE AGREEMENTS

No person will be appointed to the Board in connection with the Proposed Acquisition and no service contracts in relation thereto will be entered by the Company.

10 DOCUMENTS FOR INSPECTION

The following documents are available for inspection during normal business hours at the Company's registered office at 33 Pioneer Road North, Singapore 628474 for a period of three (3) months from the date of this Announcement:

- (i) Heads of Terms dated 18 June 2013; and
- (ii) Annual Report of the Company for FY2012.

11 CIRCULAR AND TRADING CAUTION

A circular containing further details of the Proposed Acquisition, and enclosing the notice of EGM to be convened in connection therewith, will be despatched by the Company to shareholders in due course.

As the Proposed Transactions are subject to, *inter alia*, signing of the Definitive Agreements and the Proposed Acquisition is subject to shareholders' approval, there is presently no assurance or certainty that the Proposed Acquisition will materialise. The Company will keep shareholders updated on material developments on the Proposed Transactions as and when appropriate. **In the meantime, shareholders and other investors are advised to exercise caution when dealing or trading in the shares of the Company. Shareholders and other investors should consult their stockbrokers, bank managers, solicitors, accountants, or other professional advisers, if they have any doubt about the actions they should take.**

BY ORDER OF THE BOARD

Ang Yu Seng

Executive Chairman and Chief Executive Officer

18 June 2013