

NATSTEEL LTD

## Proposed Sale of Entire Shareholding Interest in NatSteel Broadway Ltd

### 1 Introduction

The Board of Directors of NatSteel Ltd ("NSL" or the "Company") wishes to announce that it has today signed a letter of undertaking in which it has given an irrevocable undertaking to accept, in respect of the Company's entire 51.63 per cent. shareholding interest in NatSteel Broadway Ltd ("NBL") held through a wholly-owned subsidiary, a voluntary conditional take-over offer ("Offer") to be made by Salomon Smith Barney Singapore Pte. Ltd. ("SSB"), for and on behalf of Flextronics International Limited ("Flextronics" or the "Offeror"), to acquire all the issued and paid-up ordinary shares of S\$0.25 each in the capital of NBL ("NBL Shares").

### 2 Terms of the Offer

In accordance with Rule 15 of The Singapore Code on Take-overs and Mergers (as revised with effect from 1 January 2002), the Offeror will make a voluntary conditional take-over offer for all the NBL Shares ("Offer Shares"), on the following basis:-

#### **Offer Price : S\$3.23 in cash for each Offer Share**

The Offer Shares are to be acquired free from all charges, liens, pledges and other encumbrances, and together with all rights attached thereto as at the date hereof and hereafter (including all dividends, rights and other distributions (if any) which may be declared, paid or made by NBL on or after the date of this announcement).

Details of the terms of the Offer is set out in the announcement of the Offer released by SSB for and on behalf of the Offeror ("Offer Announcement") which can be found on the Singapore Exchange Securities Trading Limited's ("SGX-ST") website at [www.sgx.com](http://www.sgx.com).

### 3 Conditions to the Offer

The Offer is conditional upon:-

#### *i) Minimum Acceptance Condition*

The Offeror having received, by the close of the Offer, valid acceptances in respect of such number of Offer Shares which, when taken together with the number of NBL Shares owned, controlled or agreed to be acquired by the Offeror or any party acting in concert with it (either before or during the Offer and pursuant to the Offer or otherwise), will result in the Offeror and parties acting in concert with it holding such number of NBL Shares carrying 90 per cent. or more of the voting rights attributable to the issued share capital of NBL as at the close of the Offer.

#### *ii) NSL Shareholders' Approval*

All resolutions as may be necessary or incidental to approve the acceptance of the Offer by NSL pursuant to the irrevocable undertaking (as described below) having been passed at an extraordinary general meeting ("EGM") of NSL to be convened (or any adjournment thereof).

The acceptance of the Offer by NSL constitutes a major transaction by the Company under the Listing Manual of the SGX-ST and accordingly, is subject to the approval of the shareholders of NSL ("Shareholders").

#### **4 Irrevocable Undertakings**

##### *i) The Offer*

Each of NSL and Ockham Holdings Limited ("Ockham") (another substantial shareholder of NBL) has given an irrevocable undertaking to the Offeror to accept the Offer in respect of its entire holding of 104,389,500 NBL Shares and 42,935,000 NBL Shares respectively (in aggregate 147,324,500 NBL Shares) representing in aggregate approximately 72.86 per cent. of the issued share capital of NBL as at the date of this announcement.

The irrevocable undertaking given by NSL to accept the Offer is subject to approval being obtained from Shareholders at the EGM as mentioned above.

##### *ii) The EGM*

The substantial Shareholders of the Company, being Temasek Holdings (Private) Limited ("Temasek") and The Development Bank of Singapore Ltd ("DBS Bank"), have each given an irrevocable undertaking to the Offeror, to the extent permitted by law and applicable rules and regulations (including rulings and determinations of the SGX-ST and the Securities Industry Council), to vote its entire holding of 29,300,000 and 43,905,915 ordinary shares of S\$0.50 each in the capital of NSL respectively in favour of the Company accepting the Offer at the EGM in respect of all the NBL Shares held by NSL.

If, prior to the EGM, a competing bid is made for NBL at a consideration greater than that offered pursuant to the Offer and Shareholders' approval for NSL's acceptance of the Offer is not obtained at the aforesaid EGM, the Offeror is entitled to a sum of US\$2 million to be paid by the Company in cash representing reimbursement of costs and expenses incurred by the Offeror as full and final settlement of all claims which the Offeror may have against NSL.

The irrevocable undertaking from NSL shall lapse if for whatever reason, other than a breach by NSL of any of its obligations therein, the Offer is withdrawn or lapses, or fails to become or be declared to be unconditional for any reason, or the approval of Shareholders is not obtained at the EGM.

Each of the irrevocable undertakings from Ockham, Temasek and DBS Bank shall lapse if for whatever reason, other than a breach by Ockham, Temasek or DBS Bank (as the case may be) of any of its obligations therein, the Offer is withdrawn or lapses, or fails to become or be declared to be unconditional for any reason.

In the event that the irrevocable undertaking from any of NSL, Ockham, Temasek or DBS Bank shall lapse, it shall be without prejudice to any rights which NSL, Ockham, Temasek or DBS Bank (as the case may be) may have against the Offeror or the Offeror may have against NSL, Ockham, Temasek or DBS Bank (as the case may be) for claim for costs, damages, specific performance or otherwise whatsoever.

#### **5 Consideration to be received by NSL**

The aggregate consideration to be received by the Company for accepting the Offer (assuming the Offer becomes unconditional) is approximately S\$337.2 million.

The Offer Price was determined at arms-length and on a willing buyer-willing seller basis, taking into consideration, the control premium in the Company's majority stake in NBL. Based on the Offer Price and NBL's audited consolidated financial statements as at 31 December 2001, the price-earnings ratio ("PER") and price-to-net tangible assets ratio ("P/NTA") for NBL implied in the Offer Price are as follows:-

- PER of approximately 19.1 times
- P/NTA of approximately 3.4 times

The Offer Price of S\$3.23 for each NBL Share represents:-

- (i) a premium of approximately 21 per cent. over the last transacted price of S\$2.67 per NBL Share on the SGX-ST on 15 May 2002, being the latest trading date in NBL Shares prior to the date of this announcement;
- (ii) a premium of approximately 29 per cent. over the last transacted price of S\$2.51 per NBL Share on the SGX-ST on 14 May 2002, being the latest trading date in NBL Shares prior to the occurrence of significant fluctuations in the transacted price of the NBL Shares on the SGX-ST;
- (iii) a premium of approximately 32 per cent. over the average of the last transacted prices of an NBL Share on the SGX-ST of S\$2.45 over the last one month prior to but including 14 May 2002, being the latest trading date in NBL Shares prior to the occurrence of significant fluctuations in the transacted price of the NBL Shares on the SGX-ST; and
- (iv) a premium of approximately 38 per cent. over the average of the last transacted prices of an NBL Share on the SGX-ST of S\$2.34 over the last six months prior to but including 14 May 2002, being the latest trading date in NBL Shares prior to the occurrence of significant fluctuations in the transacted price of the NBL Shares on the SGX-ST.

## **6 Information on NBL**

NBL was listed on the Main Board of the SGX-ST in 1996. As at 15 May 2002, it had a market capitalisation of approximately S\$540 million.

NBL is the largest contract manufacturer in Southern China, offering comprehensive vertically-integrated solutions from mould design and fabrication, plastic injection, metal stamping, printed circuit board assembly, box build and support services. With its headquarters in Hong Kong, NBL has more than two million square feet of manufacturing operations in six China locations: Shenzhen, Dongguan, GuShu, Shajing, ZhongShan and QingDao; with a smaller operation in Sárbogárd, Hungary.

NBL serves customers in the consumer electronics, communications, office equipment, computer peripherals and automotive industries. Its major clients include Philips, Funai, Siemens VDO, LGE and Haier.

## **7 Information on Flextronics**

The Offeror is a leading global provider of electronics manufacturing and design services, primarily in the telecommunications and networking, consumer electronics and computer industries.

The Offeror was incorporated on 31 May 1990. The shares in the capital of the Offeror are traded on NASDAQ. As at 17 May 2002, the Offeror has an authorised share capital of S\$15 million divided into 1,500,000,000 ordinary shares of S\$0.01 each and an issued and paid-up share capital of S\$5,097,888.30 divided into 509,788,830 ordinary shares of S\$0.01 each. As at 17 May 2002, the Offeror's market capitalisation was approximately S\$14.35 billion (or US\$8 billion based on an

exchange rate of S\$1.7937 = US\$1).

The directors of the Offeror are Michael J. Moritz, Patrick Foley, Michael E. Marks, Tommie Goh Thiam Poh, Chuen Fah Alain Ahkong and Richard L. Sharp.

## **8 Rationale for accepting the Offer**

The proposed divestment of the Company's entire shareholding interest in NBL represents another step towards realising NSL's overall restructuring objectives to:-

(a) enhance shareholder value; and

(b) focus management resources on NSL's core steel and industrial businesses.

The global electronics industry has experienced increasing competition and undergone significant consolidation. Global demands of multinational Original Equipment Manufacturers ("OEMs") presently favour large electronic contract manufacturing companies that have the requisite economies of scale and the scope of manufacturing capabilities to deliver the full range of services demanded by such global OEMs as they increase the pace and level of outsourcing in their production. Faced with such challenges, the Directors recognise the need for NBL to be part of a major global electronic contract manufacturer so that it is better able to capitalise on the growth opportunities in the industry, especially with China's entry into the World Trade Organisation. By joining forces with Flextronics, one of the world's largest electronic contract manufacturers, NBL would have access to Flextronics' extensive global customer base as well as its operating and financial resources to compete more effectively. In addition, NBL would be able to draw on Flextronics' management expertise and resources to strengthen its management team and ensure management continuity.

Assuming the Offer becomes unconditional and based on the Offer Price, the aggregate consideration to be received by the Company is approximately S\$337.2 million. This represents a significant gain on disposal of approximately S\$245.3 million, based on the NSL group's ("Group") audited consolidated financial statements for the financial year ended 31 December 2001.

Taking into account the above, the Directors of the Company are of the view that the terms of the Offer are attractive.

## **9 Use of Proceeds**

The proceeds from the proposed disposal of the Company's entire shareholding interest in NBL will, together with the proceeds to be received by NSL on completion of the sale of NatSteel Brasil Ltda announced in January this year ("NatSteel Brasil Sale"), result in NSL being in a net cash position for approximately S\$263 million after providing for repayment of bank borrowings, other commitments and potential liabilities. NSL will review the possibility of returning the surplus cash to Shareholders in due course, after taking into account NSL's medium-term investment and funding requirements. However, the cash distribution, if any, is likely to be effected from January 2003 onwards when the one-tier corporate taxation system takes effect.

## **10 Financial Effects**

The proforma effects of the proposed divestment of the Company's shareholding interest in NBL on the share capital, earnings and net tangible assets ("NTA") of the Group are set out below.

In March 2002, the Company obtained Shareholders' approval for the NatSteel Brasil Sale. The proforma financial effects as set out below have been prepared after taking into consideration the effects of the NatSteel Brasil Sale.

For illustrative purposes, the proforma effects of the income arising from the NatSteel Brasil Sale and

the proposed divestment of NSL's shareholding interest in NBL have not been included in the calculations below.

#### Share Capital

The proposed divestment of NSL's shareholding interest in NBL will not have any impact on the issued and paid-up share capital of the Company.

#### Earnings

Assuming the Offer and the NatSteel Brasil Sale had been completed on 1 January 2001 and based on the Group's audited consolidated financial statements for the financial year ended 31 December 2001, the proforma effects on the consolidated earnings of the Group, net of estimated expenses, are as follows:-

	Before the completion of the Offer and the NatSteel Brasil Sale	Before the completion of the Offer but after the NatSteel Brasil Sale	After the completion of the Offer and the NatSteel Brasil Sale
Consolidated profit/(loss) after tax and minority interests (S\$'000)	(129,633)	(73,030)	172,306
Earnings/(loss) per share (cents)	(35.74)	(20.13)	47.50

#### NTA

Assuming the Offer and the NatSteel Brasil Sale had been completed on 1 January 2001 and based on the Group's audited consolidated financial statements for the financial year ended 31 December 2001, the proforma financial effects on the consolidated NTA of the Group, net of estimated expenses, are as follows:-

	Before the completion of the Offer and the NatSteel Brasil Sale	Before the completion of the Offer but after the NatSteel Brasil Sale	After the completion of the Offer and the NatSteel Brasil Sale
NTA (S\$'000)	919,875	976,478	1,213,220
NTA per share (S\$)	2.53	2.69	3.34

### **11 Interests of Directors and Substantial Shareholders**

Messrs Ang Kong Hua and Thai Chee Ken are directors of both NSL and NBL.

Save as disclosed above and in paragraph 4(ii), none of the Directors or substantial Shareholders has any direct or indirect interest in NBL or the Offer.

### **12 Shareholders' Circular and Extraordinary General Meeting**

DBS Bank is the financial adviser to the Company on the proposed divestment of the Company's shareholding interest in NBL.

A circular setting out the details of the Company's proposed acceptance of the Offer and the EGM for the purpose of seeking Shareholders' approval for the same will be despatched to Shareholders in

due course.

**In the meantime, Shareholders are advised to refrain from taking any action in relation to their NSL shares which may be prejudicial to their interests.**

By Order of the Board

Lim Su-Ling (Ms)  
Company Secretary  
Singapore, 21 May 2002

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[Submitted by](#) Lim Su-Ling, Company Secretary [on 21/05/2002 to the SGX](#)