MFS TECHNOLOGY LTD
(Company Registration Number: 200009562R)
(Incorporated in Singapore)
(the "**Company**")

PROPOSED DISPOSAL OF THE ASSETS AND LIABILITIES OF THE COMPANY

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1. INTRODUCTION

1.1 The board of directors ("Board") of the Company wishes to announce that the Company has on 5 August 2014 entered into a legally binding letter of offer ("Offer Letter") with Novo Tellus PE Fund 1, L.P., a fund advised by Novo Tellus Capital Partners ("Novo Tellus") and Navis Asia VII Management Company Limited (on behalf of Navis Asia Fund VII, L.P. and Navis Capital Partners) ("Navis") for the sale by the Company, and the acquisition by Novo Tellus and Navis (through their special purpose vehicle, collectively with Novo Tellus and Navis, the "Purchasers"), of the Disposed Assets and Liabilities (as defined below) (the "Proposed Transaction").

The "Disposed Assets and Liabilities" comprises of all of the assets and liabilities identified on the Company's balance sheet in the Company's audited financial statements for the period ended 31 December 2013 and existing as at the completion of the Proposed Transaction ("Completion"), which shall include the entire issued share capital of MFS Technology (S) Pte Ltd ("MFSS") (together with all of the subsidiaries of MFSS) (collectively with MFSS, the "Target Group" and collectively with the Company, the "Group", and each a "Group Company"). All costs and expenses incurred by the Company in relation to the Proposed Transaction shall be borne by the Company and shall not form part of the Disposed Assets and Liabilities.

1.2 Subject to the satisfaction of the conditions precedent set out in paragraph 3.2 below, the Company and the Purchasers will enter into a definitive sale and purchase agreement in relation to the Proposed Transaction ("SPA").

2. INFORMATION ON NOVO TELLUS, NAVIS AND THE TARGET GROUP

2.1 Novo Tellus

Novo Tellus was established in 2010 by seasoned private equity executives to invest in small and medium sized companies in Asia across sectors that include technology, industrials, and business services. Novo Tellus has made several control investments including the privatization of a Singapore Exchange Securities Trading Limited ("SGX-ST") mainboard listed company. Novo Tellus often invests in collaboration with other private equity funds and works closely with management teams to grow their businesses.

2.2 Navis

Founded in 1998, Navis focuses on private and public equity investments in Southeast Asia. Navis contributes both capital and management expertise to a limited number of well-positioned companies with the objective of directing strategic, operational and financial improvements. The firm manages approximately US$5 billion in equity capital and has made 60 control investments in the region. Navis has one of the largest private equity professional teams in

Asia, comprising 62 individuals, supported by 32 administrative staff, in seven (7) offices across the region.

2.3 Target Group

MFSS was incorporated in Singapore on 11 October 1988 and is the holding company of the Target Group and a wholly-owned subsidiary of the Company. The Target Group is principally engaged in the design, manufacture and distribution of flexible printed circuits ("FPC"), rigid printed circuit boards ("PCB") and assembly. The Target Group is also involved in the provision of turnkey component assembly services for FPCs, and provides value-added design and application engineering services in respect of FPCs to meet customers' requirements. The Company's entire business is conducted through the Target Group.

2.4 Value of Disposed Assets and Liabilities

The value of the Disposed Assets and Liabilities based on the latest consolidated financial results of the Group for the six (6)-month period ended 30 June 2014 is as follows:

	S$'000
Book value	110,648
Net tangible asset value	110,648

3. PRINCIPAL TERMS OF THE OFFER LETTER

3.1 The Consideration

The aggregate consideration payable by the Purchasers to the Company for 100% of the Disposed Assets and Liabilities is S$124,152,000, to be satisfied in cash ("Consideration"), provided that if (a) any cash on the Company's balance sheet as at Completion is retained by the Company following Completion; or (b) since 11 June 2014 and at any time on or prior to Completion, any cash is distributed by the Company to its shareholders ("Shareholders"), the aggregate amount of such retention or distributions (as the case may be) shall be deducted from the Consideration.

95% of the Consideration will be paid by the Purchasers to the Company on Completion and the balance 5% of the Consideration (the "Deferred Consideration") will be paid by the Purchasers to the Company on the date falling 12 months after Completion, without any deductions, withholding or set-off on any ground whatsoever other than as set in paragraph 4(d)(i) below.

The Consideration was arrived at pursuant to arm's length negotiations between the Company and the Purchasers on a willing-buyer willing-seller basis, after taking into account the book value of the Disposed Assets and Liabilities, the valuation of other comparable publicly-listed companies and the performance of the Company over the past three (3) years.

3.2 Conditions of the Offer Letter

The entry into the SPA is conditional upon the following:

(a) final approval of the Proposed Transaction by the Purchasers' investment committee(s);

(b) none of the representations of the Company set out in the Offer Letter, so far as the Company is aware, is untrue in any material respects;

(c) the results of the agreed scope of legal, tax, financial, human resource, compliance, insurance and environmental due diligence on the Target Group to be conducted after execution of the Offer Letter being reasonably satisfactory to the Purchasers;

(d) the negotiation and finalisation of the SPA and related ancillary documents for the Proposed Transaction on terms satisfactory to the parties; and

(e) the execution of an irrevocable undertaking from Wearnes Technology (Private) Limited to vote in favour of the Proposed Transaction at the extraordinary general meeting of the Company to be convened to approve the Proposed Transaction ("EGM") in accordance with the listing manual ("Listing Manual") of the SGX-ST and the Companies Act (Chapter 50 of Singapore).

3.3 Exclusivity

The Company agreed to grant the Purchasers an exclusivity period commencing from the date of the Offer Letter and ending on the earlier of 5 September 2014 or the execution of the SPA (or such later date as the parties agree in writing) ("Exclusivity Period"). If at any time during the Exclusivity Period the Purchasers give notice in writing of their intention not to proceed with the Proposed Transaction, the Exclusivity Period shall immediately lapse.

During the Exclusivity Period, the Company shall not, directly or indirectly:

(a) induce, solicit or procure a Corporate Activity[1] from a Third Party[2];

(b) enter into, re-start, solicit, or initiate any Third Party Negotiations[3];

(c) seek any approach that might lead to any Third Party Negotiations;

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[1] "Corporate Activity" means:

(a) any investment exceeding S$5 million in MFSS or any of its subsidiaries;

(b) the disposal (whether by way of sale, offer, transfer or otherwise) of all or a substantial part of the issued share capital (or any interest in such share capital) of MFSS or any of its subsidiaries; or

(c) the disposal (whether by way of sale, offer, transfer or otherwise) of all or a substantial part of the business or (other than in the ordinary course of business) the assets of MFSS or any of its subsidiaries,

save for the sale by MFS Technology (PCB) Co Ltd of the factory/land located at No. 161, Yuhua Road, Yuhua District, Changsha, People's Republic of China and any other disposal of any assets the value of which does not exceed 10% of the consolidated net asset value of the Target Group.

[2] "Third Party" means anyone other than the Purchasers (or a company which is a subsidiary or affiliate or co-investor or financier of a Purchaser or any of their respective officers, agents, employees, advisors or other representatives).

[3] "Third Party Negotiations" means any discussions or negotiations between the Company or the Company's shareholders (or any of their respective officers or advisors) and a Third Party relating to a Corporate Activity

(d) enter into any term sheet or agreement (whether or not legally binding) relating to a Corporate Activity, whether pursuant to any Third Party Negotiations or otherwise; or

(e) supply or otherwise disclose any information about MFSS or a Group Company to a Third Party that wishes to enter into Third Party Negotiations (unless that information is publicly available or save where required by or pursuant to any and all applicable laws, rules or regulations).

The Company shall notify the Purchasers in writing as soon as practicable if, during the Exclusivity Period, the Company or its shareholders (to the extent that the Company is made aware of the same) receives an indication from any Third Party (including any Third Party with whom any of the Company or its shareholders were having Third Party Negotiations prior to the date of the Offer Letter) that such Third Party wishes to have discussions with a view to a possible Corporate Activity.

In the event that parties do not execute the SPA by the expiry of the Exclusivity Period (or such later date as the Parties shall agree in writing), the Offer Letter shall (save for, inter alia, provisions relating to the break fee (as referred to in paragraph 3.4 below) and confidentiality) terminate and cease to be of any further legal force and effect.

3.4 Break Fee

The Company and the Purchasers agree to pay the other party the sum of S$500,000 as a break fee if the SPA is not executed as contemplated due to certain stipulated events set out in the Offer Letter.

4. THE SPA

The SPA shall, inter alia, provide for the following:

(a) warranties on title to and capacity of the Company in respect of the Disposed Assets and Liabilities (including title to the entire issued share capital of the MFSS) provided that the Company shall have no further liability to the Purchasers in respect of such warranties from the date falling 12 months after Completion;

(b) commercial warranties and indemnities to be provided on the basis and to the extent that such warranties and indemnities shall be covered by warranty and indemnity insurance to be taken out by the Purchasers (the "W&I Insurance"). The parties agree that:

(i) the cost and expenses (including premium) of the W&I Insurance shall be borne as follows:

(A) S$500,000 by the Company; and

(B) the remainder by the Purchasers;

(ii) subject to laws, the W&I Insurance shall provide that the insurer shall not be entitled to subrogate against the Company in respect of any payment under the W&I Insurance; and

(iii) the sole and exclusive remedies of the Purchasers with respect to any and all payments or claims arising out of or related to such warranties and indemnities will be (A) prior to Completion, the termination of the SPA or a claim under the

W&I Insurance, and (B) following Completion, a claim under the W&I Insurance;

(c) a locked box mechanism to deal with any unauthorised cash extraction from the Target Group which is not in the ordinary course of business for the period from 30 June 2014 to the date of Completion (the "Cash Leakage");

(d) the Deferred Consideration to be paid, subject to deductions, on the date falling 12 months after Completion. In relation to the Deferred Consideration:

(i) subject to any deductions made pursuant to paragraphs 4(d)(ii) and 4(d)(iii) below, the Deferred Consideration is to be paid by the Purchasers to the Company without any set-off, deduction or withholding on any ground whatsoever;

(ii) up to S$1,250,000 of the Deferred Consideration may be used to cover:

(A) any insurance deductibles payable by the Purchasers for any tax related claims made under the W&I Insurance; and

(B) any pre-Completion tax related liabilities, fines, costs and expenses incurred by the Target Group that are not covered by the W&I Insurance; and

(iii) any Cash Leakage shall be deducted from the Deferred Consideration.

Completion of the Proposed Transaction under the SPA will be subject to the approval of the Proposed Transaction by a majority of the Shareholders at the EGM.

5. MAJOR TRANSACTION UNDER CHAPTER 10 OF THE LISTING MANUAL

5.1 Based on the latest consolidated financial results of the Group for the six (6)-month period ended 30 June 2014, the relative figures of the Proposed Transaction computed on the basis set out in Rule 1006(a) to (d) of the Listing Manual are as follows:

Relative figures under Rule 1006:

Rule 1006	Base	Figure (S$'000)
(a)	**The net asset value of the Disposed Assets and Liabilities, compared with the Group's net asset value.**	
	Net asset value of the Disposed Assets and Liabilities:	110,648
	Net asset value of the Group:	111,168
	Size of relative figure:	99.5%
(b)	**The net profits attributable to the assets acquired or disposed of, compared with the Group's net profits.**	

Rule 1006	Base	Figure (S$'000)
	Net profits (attributable to the Disposed Assets and Liabilities):	6,598
	Net profits of the Group:	6,391
	Size of relative figure:	103.2%
(c)	**The aggregate value of the consideration given or received, compared with the issuer's market capitalisation based on the total number of issued shares excluding treasury shares.**	
	Aggregate value of the maximum consideration to be received:	123,632
	Company's market capitalisation as at 1 August 2014 being the market day immediately preceding the date of the Offer Letter on which the shares of the Company were traded:	98,015
	Size of relative figure:	126.1%
(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.**	Not applicable

5.2 As the relative figures under Rules 1006(a), (b) and (c) of the Listing Manual exceed 20% as set out above, the Proposed Transaction constitutes a "major transaction" as defined in Chapter 10 of the Listing Manual. Accordingly, the Proposed Transaction is subject to the approval of the shareholders at the EGM of the Company to be convened.

6. NET PROCEEDS

As mentioned in paragraph 2.4, the book value of the Disposed Assets and Liabilities is S$110,648,000. The excess of the proceeds of the Proposed Transaction over the book value of the Disposed Assets and Liabilities is expected to be S$12,984,000 and the net proceeds from the Proposed Transaction ("Net Proceeds"), after deducting transaction related costs, is S$122,750,000. The Company is expected to record a net gain on the Proposed Transaction of S$7,067,000 after deducting foreign currency translation reserves arising from consolidation of S$5,035,000.

7. FINANCIAL EFFECTS

7.1 The financial effects of the Proposed Transaction on the Group as set out below are based on the audited consolidated financial statements of the Group for financial year ended 31 December 2013 ("FY2013") and the following assumptions:

(a) the financial effects are purely for illustrative purposes only and do not represent any projection of the actual future financial performance or financial position of the Company after the Proposed Transaction;

(b) in relation to balance sheet items, the Proposed Transaction had been completed at the end of FY2013, being 31 December 2013;

(c) in relation to the profit and loss items, the Proposed Transaction had been completed at the beginning of FY2013, being 1 October 2012;

(d) the Consideration is S$124,152,000; and

(e) the issued share capital of the Company comprises 653,430,497 shares (excluding 7,000,000 treasury shares) as at 31 December 2013.

Note:

During the financial period, the Company changed its financial year-end from 30 September to 31 December. Consequently, the reporting period for the financial statements of FY2013 cover a period of 15 months from 1 October 2012 to 31 December 2013.

7.2 Net tangible assets

Assuming the Proposed Transaction had been completed on 31 December 2013, the Proposed Transaction would have the following impact on the net tangible assets ("NTA") of the Group for FY2013:

	Before the Proposed Transaction	**After the Proposed Transaction**
NTA as at 31 December 2013 (S$'000)	112,746	123,270
Number of issued shares of the Company[4]	653,430,497	653,430,497
NTA per share as at 31 December 2013 (cents)	17.3	18.9

7.3 Earnings per share

Assuming the Proposed Transaction had been completed on 1 October 2012, the Proposed Transaction would have the following impact on the earnings per share ("EPS") of the Group for FY2013:

	Before the Proposed Transaction	**After the Proposed Transaction**
Profit attributable to the shareholders of the Company for FY2013 (S$'000)	5,878	6,425 *
Number of issued shares of the Company[4]	653,430,497	653,430,497
EPS for FY2013 (cents)	0.90	0.98

** This represents the net gains on the Proposed Transaction computed assuming that the Proposed Transaction had been completed on 1 October 2012.*

[4] Excluding 7,000,000 treasury shares.

7.4 Gearing

Assuming the Proposed Transaction had been completed on 31 December 2013, the Group's gearing would be nil instead of 0.12 times.

8. RATIONALE FOR THE PROPOSED TRANSACTION AND USE OF PROCEEDS

The Board believes that the Proposed Transaction is in the best interests of the Company and the Shareholders. As the FPC and PCB business becomes increasingly competitive, the Company may need to invest substantially to grow its production capacity and technology capabilities in order to compete effectively against competitors. Additional equity from Shareholders and/or debt facilities may be required. The Proposed Transaction presents the Company an immediate opportunity to unlock value, eliminating the need for future additional equity and/or debt financing in connection with such investments.

If the SPA is executed and Completion takes place, pursuant to Rule 1018 of the Listing Manual, 10% of the Company's cash and short-dated securities (including existing cash balance and the Consideration arising from the Proposed Transaction) may be retained by the Company for its daily operating expenses and the remaining 90% will be placed in an account opened with and operated by an escrow agent which is part of any financial institution licensed and approved by the Monetary Authority of Singapore. The amount that is placed in the escrow account cannot be drawn down until the completion of the acquisition of a business which is able to satisfy the SGX-ST's requirements for a new listing, except for payment of expenses incurred in a reverse takeover approved by shareholders and pro-rata distributions to shareholders. The Board will after Completion explore and evaluate potential new business opportunities and investments that may present themselves before deciding on the next course of action that is in the best interests of Shareholders.

9. CASH COMPANY

In the event that the SPA is executed and Completion takes place, (a) MFSS will cease to be a subsidiary of the Company, (b) the Target Group will also cease to be subsidiaries of the Company, and (c) the Company will cease to have any operating business and its assets will consist wholly of cash. The Company will become a cash company under Rule 1018 of the Listing Manual.

The Company will make further announcements regarding the Company's intentions and status as a cash company once the SPA is executed.

10. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

None of the directors or controlling shareholders has any interest, direct or indirect, in the Proposed Transaction, other than through their respective shareholdings in the Company.

11. DIRECTORS' SERVICE CONTRACTS

No person is proposed to be appointed as a director of the Company in connection with the Proposed Transaction. Accordingly, no service contract is proposed to be entered into between the Company and any such person.

12. SPA, EGM AND CIRCULAR TO SHAREHOLDERS

The Company will make further announcements in compliance with the Listing Manual if and when there is any material development, including if and when the SPA is executed. In the event that the SPA is executed, a circular to Shareholders containing, inter alia, the details in relation to the Proposed Transaction, together with the notice of EGM, will be despatched by the Company to the Shareholders to seek the Shareholders' approval for the Proposed Transaction.

13. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the Offer Letter will be available for inspection during normal business hours at the Company's registered office at 801 Lorong 7 Toa Payoh, #02-01 Wearnes Building, Singapore 319319 for a period of three (3) months from the date of this Announcement.

By Order of the Board

Submitted by Ronnie Chia, Company Secretary on 5 August 2014 to SGX