



COSMOSTEEL HOLDINGS LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration Number 200515540Z)

- (A) PROPOSED ISSUANCE OF 26,400,000 NEW ORDINARY SHARES IN THE CAPITAL OF COSMOSTEEL HOLDINGS LIMITED (THE "COMPANY") TO HANWA CO., LTD. ("HANWA")**
 - (B) PROPOSED STRATEGIC ALLIANCE BETWEEN THE COMPANY AND HANWA**
-

1. INTRODUCTION

- 1.1 The Board of Directors of the Company (the "**Directors**") wishes to announce that the Company had on 1 December 2014 entered into a conditional subscription agreement (the "**Subscription Agreement**") with Hanwa to allot and issue 26,400,000 new ordinary shares in the capital of the Company (the "**Subscription Shares**") to Hanwa at an issue price of S\$0.58 (the "**Subscription Price**") for each Subscription Share ("**Proposed Subscription**"). A summary of the salient terms of the Subscription Agreement is set out in **paragraph 3** of this Announcement.
- 1.2 The Subscription Shares represent approximately 10.00% of the total number of issued ordinary shares in the Company ("**Shares**") as at the date of this Announcement and will represent approximately 9.09% of the total number of issued Shares immediately following the completion of the Proposed Subscription.
- 1.3 Pursuant to the terms of the Subscription Agreement, the Company and Hanwa have also on 1 December 2014 entered into a strategic alliance agreement (the "**Strategic Alliance Agreement**") pursuant to which the Company and Hanwa have agreed to, *inter alia*, cooperate and enter into mutually beneficial arrangements on the terms and subject to the conditions set out in the Strategic Alliance Agreement ("**Proposed Strategic Alliance**"). A summary of the salient terms of the Strategic Alliance Agreement is set out in **paragraph 5** of this Announcement.
- 1.4 The Directors also understand that Mr. Ong Chin Sum ("**OCS**"), who is a director and shareholder of the Company, has entered into a sale and purchase agreement (the "**Sale and Purchase Agreement**") with Hanwa, pursuant to which OCS has agreed to sell and Hanwa has agreed to purchase an aggregate of 56,217,982 Shares ("**Sale Shares**"), representing approximately 21.29% of the total number of issued Shares as at the date of this Announcement, held by OCS at a consideration of S\$0.58 per Share (being the same price as the Subscription Price) (the "**Proposed Vendor Sale**"). The completion of the Proposed Vendor Sale shall be conditional upon, *inter alia*, the completion of the Proposed Subscription.

- 1.5 The Sale Shares, together with the Subscription Shares, will represent in aggregate approximately 28.45% of the total number of issued Shares immediately following the completion of the Proposed Subscription.
- 1.6 The Directors understand that OCS and his sons, Mr Ong Tong Yang and Mr Ong Tong Hai, will continue to remain in their current roles as Directors for the immediate future, following the completion of the Proposed Subscription and the Proposed Vendor Sale.
- 1.7 The Company will make an application to the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") for the listing of and quotation for the Subscription Shares in due course (the "**Application**"). The Company also intends to seek specific approval from the shareholders of the Company at an extraordinary general meeting ("**EGM**") to be convened for, *inter alia*, the Proposed Subscription and the Proposed Strategic Alliance.

2. **RATIONALE FOR THE PROPOSED SUBSCRIPTION AND INFORMATION ON HANWA**

2.1 Rationale

The Company considers the Proposed Subscription and the Proposed Strategic Alliance to be in the interests of the Company for the following reasons:

- (a) The Proposed Subscription will result in an injection of funds to, *inter alia*, uplift the value of the Company and strengthen the financial position and reduce bank leverage of the Company and its subsidiaries (the "**Group**"), by increasing the Group's capital base significantly and improving its cash flow. Moreover, given that the Subscription Shares are proposed to be issued to Hanwa at a significant premium to the last trading price of the Shares immediately prior to this Announcement, this corporate action should result in a positive impact on the resulting Share price and enterprise value of the Company.
- (b) The Proposed Subscription will align Hanwa's interest with those of the Company and the Proposed Strategic Alliance will allow the Company to leverage on Hanwa's customer network, global outreach, as well as expertise and know-how as a "distribution specialist". Hanwa and the Company have complementary strengths to each other because of their different focus in terms of specific markets and products.
- (c) With Hanwa as a strategic partner, the Company will be better positioned to contemplate future organic and inorganic growth as and when opportunities arise.

2.2 Information on Hanwa

Hanwa is incorporated in Japan and is listed on the Tokyo Stock Exchange. Hanwa is one of the leading trading companies in Japan, supplying a broad range of products, including steel, metals and alloys, non-ferrous metals, food products, petroleum and chemicals, lumber, machinery and many other items to an equally diverse range of customers. Steel is Hanwa's major product, accounting for about half of its total sales. Hanwa sells steel bars, building materials, sheets, pipes, wires, and many other steel products. With some of Japan's largest steel distribution centres and a network of overseas coil centres, Hanwa ranks among the leaders in terms of inventories and steel processing volume.

Hanwa was identified and introduced to the Company as a strategic investor and partner by Daiwa

Capital Markets Singapore Limited, the financial adviser to the Company in respect of the Proposed Subscription. Daiwa Capital Markets Singapore Limited is also the financial adviser for the Proposed Vendor Sale.

3. SALIENT TERMS OF THE SUBSCRIPTION AGREEMENT

The following is a summary of the salient terms of the Subscription Agreement:

3.1 Subscription Shares

The Subscription Shares shall be issued free from all and any encumbrances and shall rank *pari passu* in all respects with existing Shares provided that subject to completion of the Proposed Subscription, the Subscription Shares shall rank for, including, without limitation, any entitlements, distributions, dividends or rights, at or after the completion date of the Proposed Subscription (the "**Subscription Completion Date**").

3.2 Subscription Price

The Subscription Price represents a premium of approximately 48.70% to the volume weighted average trading price of the Shares of S\$0.3901 on the SGX-ST on 28 November 2014 (being the full market day before the Subscription Agreement was signed). The Subscription Price of S\$0.58 for each Subscription Share was arrived at after arm's length negotiations between the Company and Hanwa and on a willing buyer willing seller basis.

3.3 Conditions Precedent

Completion of the Proposed Subscription is conditional upon, *inter alia*, the following:

- (a) the Sale and Purchase Agreement and the Strategic Alliance Agreement having been entered into;
- (b) the in-principle approval for the Application being obtained from the SGX-ST and not having been revoked or amended and, where such approval is subject to conditions, such conditions for the listing and quotation of the Subscription Shares on the Main Board of the SGX-ST are acceptable to the Company and Hanwa, and to the extent that such conditions are required to be fulfilled on or before the Subscription Completion Date, they are so fulfilled;
- (c) the allotment, issue and subscription of the Subscription Shares not being prohibited by any statute, order, rule, regulation or directive promulgated or issued after the date of the Subscription Agreement by any legislative, executive or regulatory body or authority of Singapore which is applicable to the Company or Hanwa;
- (d) the shareholders of the Company ("**Shareholders**") approving, at an EGM of the Company:
 - (i) the Proposed Subscription;
 - (ii) the Proposed Strategic Alliance; and
 - (iii) the general mandate for the Company, its subsidiaries and associated companies that

are entities at risk to enter into recurrent transactions of a revenue or trading nature or those necessary for their day-to-day operations with Hanwa or any of its associates, on such terms as may be agreed between the Company and Hanwa, pursuant to Rule 920 of the SGX-ST Listing Manual (the "**Proposed Adoption of the IPT Mandate**"); and

- (e) there not having been, at any time, any changes from that set forth in the audited accounts of the Company for the year ended 30 September 2013 which may have a material adverse effect.

4. USE OF PROCEEDS

4.1 Based on the Subscription Price, the net proceeds arising from the Proposed Subscription is approximately S\$14.2 million (after deducting all costs and expenses payable in relation to the Proposed Subscription) ("**Net Proceeds**").

4.2 The Company intends to use the Net Proceeds as follows:

Use of Proceeds	Estimated Percentage Allocation of Net Proceeds
Financing the construction of a new building and acquisition of machinery and equipment at 90 Second Lok Yang Way	24%
Acquisition of machinery and equipment at 36 Tuas Crescent	8%
Repayment of short term loans	35%
General working capital purposes	33%
Total	100%

Prior to deployment, the Net Proceeds may be deposited with financial institutions, invested in short-term money market instruments or used for any other purposes on a short-term basis, as the Directors may deem fit.

5. SALIENT TERMS OF THE STRATEGIC ALLIANCE AGREEMENT

The following is a summary of the salient terms of the Strategic Alliance Agreement:

5.1 Objective

The objectives of the Proposed Strategic Alliance are to co-operate to (a) create synergies by working together; and (b) reinforce market and sales efforts relating to the Company's and Hanwa's respective products.

5.2 Duration and Conditions

The Strategic Alliance Agreement will take effect from the Subscription Completion Date and shall terminate on the date on which Hanwa holds less than 9.09% of the total number of issued Shares at the relevant point in time.

The terms of the Strategic Alliance Agreement are also subject to the approval of Shareholders at an EGM of the Company.

5.3 General Operational Matters

Given the objectives of the Proposed Strategic Alliance and to facilitate the Proposed Strategic Alliance, the Company and Hanwa have agreed that for the duration of the Strategic Alliance Agreement, they shall observe the terms of, *inter alia*, the following operational matters:

(a) *Certain Management Positions*

Subject to the Directors' approval, Hanwa shall be entitled to nominate for appointment certain key management personnel such as the chief operations officer and the sales director of the Company. Mr Ong Tong Yang and Mr Ong Tong Hai, who are both currently Executive Directors of the Company, shall remain in the Company's employment in accordance with the terms of their existing service agreements, and any renewal of their service agreements will be subject to the mutual agreement of each of Mr Ong Tong Yang and Mr Ong Tong Hai and the Directors.

(b) *Sales & Marketing*

The Company and Hanwa are to use reasonable endeavours to promote the products of the other party.

(c) *Procurement Source*

Hanwa shall highlight to the Company what products and services it can potentially provide to the Company, and conversely, the Company shall treat Hanwa as one of its procurement sources. In the event that the Group requires any products or services that may be supplied by Hanwa, Hanwa shall be notified and given the opportunity to submit its quotation to the Group. At the Company's assessment and subject to applicable rules in the SGX-ST listing manual, Hanwa shall be awarded the supply contract if Hanwa's quotation is the most competitive compared to those offered by the Group's suppliers or sub-contractors on its approved suppliers/sub-contractors list.

(d) *Shared Information*

To the extent permitted under applicable laws and rules, Hanwa and the Company shall share customer name lists and information on credit limits granted to their customers on an aggregated basis.

5.4 Board Seats

Hanwa shall be entitled to nominate:

- (a) two (2) persons for appointment as directors of the Company, out of which one (1) will be a non-executive Director and the other will be an executive Director; and
- (b) such number of additional persons as Directors in proportion to any future increase in Hanwa's shareholdings in the Company.

5.5 No Further Alliance and Rights of Consultation

The Company has agreed not to enter into any partnership, joint venture, strategic alliance or other similar arrangements with any other person, which is similar in any way to the Strategic Alliance Agreement, without first seeking the approval of Hanwa.

Taking into consideration the potential benefits which the Company may have by leveraging on Hanwa's customer network, global outreach as well as expertise and know-how as a "distribution specialist" as part of the Proposed Strategic Alliance, the Company has also agreed to grant consultation rights to Hanwa in respect of, *inter alia*, certain specified transactions by the Group which are above a specified monetary threshold.

5.6 Pre-emption and Lock-Up

During a period of two (2) years after the Subscription Completion Date (or such later date as Hanwa and the Company may agree):

- (a) Hanwa will not be allowed to sell any Shares which it owns or controls without the Company's consent; and
- (b) Hanwa will have a pre-emption right in respect of any future proposed issues of Shares (other than on a *pro-rata* basis to all Shareholders).

6. **FINANCIAL EFFECTS**

The financial effects of the Proposed Subscription set out below are purely for illustrative purposes only and do not reflect or represent the actual financial effects of the Proposed Subscription on the NTA per Share or EPS of the Group, or the actual financial position of the Group after completion of the Proposed Subscription.

The financial effects of the Proposed Subscription below have been prepared based on the audited consolidated financial statements of the Group for the financial year ended 30 September 2013 ("**FY2013**") and the unaudited consolidated financial statements of the Group for the financial year ended 30 September 2014 ("**FY2014**"), and subject to the following assumption:

- (a) in relation to the financial effects based on the audited consolidated financial statements of the Group for FY2013, that the Proposed Subscription was completed on: (i) 30 September 2013 for the purposes of illustrating the financial effects on the NTA per Share; and (ii) 1 October 2012 for the purposes of illustrating the financial effects on the EPS; and
- (b) in relation to the financial effects based on the unaudited consolidated financial statements of the Group for FY2014, that the Proposed Subscription was completed on: (i) 30 September 2014 for the purposes of illustrating the financial effects on the NTA per Share; and (ii) 1 October 2013 for the purposes of illustrating the financial effects on the EPS.

6.1 Effect on Share Capital

	Number of Shares
Number of issued Shares as at the date of this Announcement	263,999,997
Add: Issue of the Subscription Shares	26,400,000
Number of issued Shares immediately after the Proposed Subscription	290,399,997

6.2 Effect on NTA per Share

The financial effects of the Proposed Subscription on the NTA per Share are as follows:

	FY2013 (Audited) (S\$'000)	FY2014 (Unaudited) (S\$'000)
NTA of the Group before the Proposed Subscription	99,364	107,084
Number of Shares before the Proposed Subscription	263,999,997	263,999,997
NTA per Share before the Proposed Subscription (cents)	37.64	40.56
Add: Gross proceeds from the issue of Subscription Shares	16,038	15,312
Less: Estimated expenses for the Proposed Subscription	891	1,065
NTA of the Group after the Proposed Subscription	114,511	121,331
Number of Shares after the Proposed Subscription	290,399,997	290,399,997
NTA per Share after the Proposed Subscription (cents)	39.43	41.78

6.3 Effect on EPS

	FY2013 (Audited) (S\$'000)	FY2014 (Unaudited) (S\$'000)
Profit attributable to Shareholders	6,364	5,540
Number of Shares before the Proposed Subscription	263,999,997	263,999,997
EPS before the Proposed Subscription (cents)	2.41	2.10
Number of Shares after the Proposed Subscription	290,399,997	290,399,997
EPS after the Proposed Subscription (cents)	2.19	1.91

7. CIRCULAR TO SHAREHOLDERS

A circular, together with a notice of EGM to be convened for the purpose of obtaining Shareholders' approval for, *inter alia*, the Proposed Subscription, the Proposed Strategic Alliance and the Proposed Adoption of the IPT Mandate will be despatched to Shareholders in due course.

8. INTERESTS OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

Save as disclosed in this Announcement:

- (a) none of the Directors has any interest, direct or indirect, in the Proposed Subscription or the Proposed Strategic Alliance; and
- (b) as far as the Directors are aware, none of the substantial shareholders of the Company has any interest, direct or indirect, in the Proposed Subscription or the Proposed Strategic Alliance.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the Subscription Agreement and Strategic Alliance Agreement are available for inspection during normal business hours at the registered office of the Company at 50 Raffles Place, #06-00 Singapore Land Tower, Singapore 048623 for a period of three (3) months from the date of this Announcement.

Shareholders are advised to exercise caution in their dealings in the Shares. There is no certainty or assurance as at the date of this Announcement that the Proposed Subscription will be completed, the Proposed Strategic Alliance will be effective or that no changes will be made to the terms thereof. The Company will make the necessary announcements when there are further developments on the Proposed Subscription or the Proposed Strategic Alliance.

Shareholders are advised to read this Announcement and any further announcements by the Company carefully. Shareholders 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 of Directors

Ong Chin Sum
Chief Executive Officer and Executive Director
1 December 2014