

## SGXNET Announcement



AEM Holdings Ltd  
(Registration No. 200006417D)

### INVESTMENT IN SMARTFLEX TECHNOLOGY PTE LTD AND SMARTFLEX INNOVATION PTE. LTD. THROUGH INVESTMENT IN NOVOFLEX PTE. LTD.

#### 1. INTRODUCTION

- 1.1. AEM Holdings Ltd (“**AEM**” or the “**Company**” and the Company and its subsidiaries, the “**Group**”) is pleased to announce that the Company has entered into an investment partnership in Novoflex Pte. Ltd. (“**Novoflex**”), a newly created investment holding company, to acquire the shares and full control of Smartflex Technology Pte. Ltd (“**SFT**”) and Smartflex Innovation Pte. Ltd. (“**SFI**”).
- 1.2. SFT is a leading outsourced assembly & test company for smart card modules used in banking. SFI has developed proprietary manufacturing equipment, processes and intellectual property for producing very low cost SIM card modules for telecommunications and smart card modules for banking.
- 1.3. AEM believes that the investment partnership can provide both immediate and long term benefits to the Company and our shareholders, including diversification of risk away from the cyclical semiconductor industry, lower business concentration with one key AEM customer, earnings accretion, positive synergies with the Novoflex’s holding companies, and complementary growth opportunities.
- 1.4. AEM has identified potential business synergies with SFT and SFI related to (a) the provision of customized equipment to support SFT’s and SFI’s sophisticated precision manufacturing process, and (b) the shared interest of both companies in complex precision manufacturing.

#### 2. THE PARTNERSHIP

- 2.1. AEM has entered into a shareholders’ agreement dated 6 May 2016 (the “**Shareholders’ Agreement**”) between the Company, NTCP SPV III (“**NTSPV**”), First Partnership Pte. Ltd. (“**FP**”), and Novoflex Pte. Ltd. (“**Novoflex**”) to regulate their rights between them as shareholders of Novoflex and certain aspects of the affairs of and their dealings with Novoflex.

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- 2.2. Novoflex was incorporated in Singapore on 12 April 2016 and its main business is to hold investments in such other companies as may be agreed between its shareholders. As at the date of this announcement, Novoflex is a company with a current paid up share capital of S\$10, comprising ten (10) ordinary shares held by Loke Wai San (1 share) and Lim Kee Way Irwin (9 shares). Mr. Loke and Mr. Lim are both senior executives of Novo Tellus Capital Partners Pte. Ltd. The principal activity of Novo Tellus Capital Partners Pte. Ltd. is to provide fund advisory services. Upon completion of the subscription described in paragraph 3.2 below, the shareholding in Novoflex held by Mr. Lim and Mr. Loke will be disposed at cost to the new shareholders of Novoflex. Mr Loke's indirect interests in Novoflex are set out in paragraph 9.2 below.
- 2.3. NTSPV is a company incorporated in the Cayman Islands and its main business is that of an investment holding company. NTSPV's shareholders consist of Novo Tellus PE Fund 1, L.P. ("NTPF1") and other investors. Further information on NTSPV is set out in Sections 8 and 9 below.
- 2.4. FP is a company incorporated in Singapore and its main business is that of an investment holding company. Ng Eng Seng Eric, who is a director of Smartflex Holdings Ltd. ("**SFH**"), and CEO of SFT and SFI, has a majority shareholding interest in FP.
- 2.5. On 6 May 2016, Novoflex entered into a sale and purchase agreement with SFH (the sale and purchase agreement, the "**SPA**") for the acquisition (the "**Acquisition**") of (i) the entire issued and paid-up capital of SFT, and (ii) shares constituting 70% of the issued and paid-up share capital of SFI (the shares of SFT and SFI, collectively, the "**Sale Shares**"). SFT holds all of the remaining shares in the issued and paid-up capital of SFI, constituting 30% of the issued and paid-up capital of SFI.
- 2.6. SFT was incorporated in Singapore on 23 May 1994 and its principal activities are in the assembly and testing of smart card IC modules.
- 2.7. SFI was incorporated in Singapore on 8 February 2012 and its principal activities are in the development, assembly and testing of smart card solution.
- 2.8. SFH is a company listed on the Catalist Board of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**"). SFT and SFI are the operating subsidiaries of SFH.

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### **3. THE SHAREHOLDERS' AGREEMENT**

- 3.1. Pursuant to the Shareholders' Agreement, the shareholders of Novoflex shall subscribe in cash for the aggregate number of shares of Novoflex as set out below:

<b>Name of Shareholder</b>	<b>Subscription Amount paid (S\$)</b>	<b>% Stake</b>
<b>NTCP SPV III</b>	13,885,000	73.1%
<b>AEM Holdings Ltd.</b>	4,000,000	21.1%
<b>First Partnership Pte. Ltd.</b>	1,100,000	5.8%
<b>Total Number</b>	18,985,000	100.0%

- 3.2. Novoflex shall, no later than the date of completion of the sale and purchase pursuant to the SPA ("**Completion**"), (a) issue and allot the above shares to the relevant shareholders as set out above and (b) redeem at cost the Novoflex shares held by Loke Wai San and Lim Kee Way Irwin as described in paragraph 2.2 above.
- 3.3. In the event the Completion does not take place on or before 31 July 2016 (being the "Long Stop Date" under the SPA), or the SPA is terminated in accordance with the terms thereof, Novoflex shall refund to the relevant shareholders the portion of the amount paid to the Company as at that relevant point in time, less certain costs or legal expenses and any amount paid as a deposit by Novoflex to SFH pursuant to the SPA and which is not refunded by SFH.

### **4. THE SPA**

- 4.1. Subject to the terms and conditions of the SPA, SFH shall sell, and Novoflex shall purchase, the Sale Shares, free from all encumbrances together with all rights attaching thereto as at Completion.
- 4.2. The aggregate consideration payable for the Sale Shares shall be S\$ 26,080,000 (the "**Consideration**"), payable by Novoflex to SFH, in the following manner:

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- 4.2.1. a deposit of S\$2,608,000 shall be paid upon the signing of the SPA, which shall be refundable in accordance with the SPA;
  - 4.2.2. the amount of S\$21,516,000 less any amount permitted to be set off pursuant to the SPA, if any, shall be paid upon Completion; and
  - 4.2.3. the amount of S\$1,956,000, less any amount permitted to be set off pursuant to the SPA, shall be paid to SFH in parts on or before the expiry of the periods of six (6) months and twelve (12) months commencing on the date immediately after the date of Completion.
- 4.3. Completion is conditional upon, *inter alia*, the following conditions having been fulfilled or waived:
- 4.3.1. receipt of all consents and approvals required under any and all applicable laws or from any governmental agency, regulatory authority or third party (including the SGX-ST) which may be necessary or desirable in respect of the Acquisition and any other matter contemplated under this Agreement, each on terms and conditions reasonably satisfactory to Novoflex;
  - 4.3.2. if required, the approval of the shareholders of SFH for the sale and purchase of the Sale Shares;
  - 4.3.3. receipt of all consents and approvals from certain relevant customers and suppliers;
  - 4.3.4. Novoflex shall have an issued and paid-up share capital of not less than S\$2,000,000; and
  - 4.3.5. there being no material adverse change; and
  - 4.3.6. the representations and warranties of the Company being true, accurate and not misleading in all material respects.
- 4.4. Following Completion, Novoflex will hold directly or indirectly the entire issued and paid-up capital of SFT and SFI.
- 4.5. The proposed transaction will be funded by the Group's internal resources.

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- 4.6. The Consideration was arrived at after arm's length negotiations between Novoflex and SFH, and on a willing buyer and willing seller basis, after taking into account, *inter alia*, the net asset value and NTA per share of SFT and SFI.
- 4.7. The audited aggregate net asset value and audited net tangible asset value attributable to the shares in SFT and SFI as recorded in the audited financial statements of the Company as at 31st December 2015 was S\$21.47 million and S\$15.18 million, respectively.

### **5. RATIONALE**

- 5.1. The acquisition of SFT and SFI provides both positive strategic and financial benefits to the Company. The Company has identified potential business synergies with SFT stemming from future licensing of SFT's manufacturing process which may require customized equipment, and interests of both companies in sophisticated precision manufacturing.
- 5.2. Strategic benefits
- 5.2.1 *Growth potential* – SIM and Banking smart cards are a large, global, growing market. SFI and SFT's core products represent growing businesses.
- 5.2.2 *Competitive differentiation* – SFT's business model is competitively differentiated as its core services are focused on serving the high-end of the banking and mobile phone segments. SFI has competitive differentiation based on its proprietary low-cost SIM and SmartCard products and protected by a portfolio of patents spanning product definition, manufacturing processes and manufacturing equipment.
- 5.2.3 *Specialized manufacturing* – both the core SFI and SFT's business and its emerging eco.SIM business require specialized manufacturing equipment and services. We believe the Company is well positioned to explore commercial equipment solutions with SFI and SFT.
- 5.3. Financial benefits
- 5.3.1 *Earnings diversification* – the investment can provide the Company with the benefit of earnings diversification in a growth market. This should help diversify the Company's risk away from the cyclical semiconductor industry, and help reduce the concentration of our business with our largest customer.

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5.3.2 *Earnings accretion* – the investment is projected to be accretive to the AEM's earnings.

## 6 FINANCIAL EFFECTS

6.1 The financial effects of the above transactions on the Group were prepared based on the audited consolidated accounts of the Company AEM for the financial year ended 31 December 2015 (“**FY2015**”) and subject to the following main assumptions:-

6.1.1 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.

6.1.2 For the purpose of computing the consolidated earnings and consolidated earnings per share (“**EPS**”) of the Company after the above transactions, it is assumed that the proposed transaction was effected on 1 January 2015; and

6.1.3 For the purpose of calculating the consolidated net tangible asset (“**NTA**”) per share of the Company after the proposed transaction, it is assumed that the proposed transaction was completed on 31 December 2015.

	<b>Earnings attributable to Shareholders (S\$)</b>	<b>Weighted average number of Shares</b>	<b>Earnings per Share (Cents)</b>
<b>Before the proposed transaction</b>	5,782,000	44,513,937	13.0
<b>After the proposed transaction</b>	6,624,000	44,513,937	14.9

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	NTA (S\$)	Number of Shares as at 31 December 2015	NTA per Share (cents)
<b>Before the proposed transaction</b>	24,285,000	44,360,529	54.7
<b>After the proposed transaction <sup>(1)</sup></b>	24,927,000	44,360,529	56.2

Note:

(1) NTA after proposed transaction is calculated based on NTA before the proposed transaction of S\$24,285,000 add the profit attributable to AEM of S\$842,000 less estimated proposed transaction cost of S\$200,000.

## **7 CHAPTER 10 OF THE LISTING MANUAL**

7.1 The relative figures for the proposed sale using the applicable bases of comparison under Rule 1006 of the Listing Manual based on the unaudited consolidated accounts of the Company for the period ended 31 December 2015 are as follows:

Rule 1006(a)	The net asset value of the assets to be disposed of, compared with the Company's net asset value.	Not applicable
Rule 1006(b)	The net profits attributable to the proposed transaction of S\$842,000, compared with the Company's net profits of S\$5,782,000 in FY2015.	14.6%
Rule 1006(c)	The aggregate value of the subscription amount to be paid to Novoflex of S\$4,000,000 compared	19.3%

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	with the Company's market capitalization of S\$20,677,241 as at 5 May 2016.	
Rule 1006(d)	The number of equity securities issued by the Company as consideration for an acquisition, compared with the number of equity securities previously in issue.	Not applicable
Rule 1006(e)	The aggregate volume or amount of proved and probable reserves to be disposed of, compared with the aggregate of the Company's proved and probable reserves. This basis is applicable to a disposal of mineral, oil or gas assets by a mineral, oil and gas company, but not to an acquisition of such assets.	Not applicable

- 7.2 As the relative figures computed under Rule 1006(b) and Rule 1006(c) of the Listing Manual exceed 5% but do not exceed 20%, the proposed transaction is considered a “discloseable transaction” under Chapter 10 of the Listing Manual.

## 8 INTERESTED PERSON TRANSACTIONS

- 8.1 As at the date of this Announcement, Orion Phoenix is considered a “controlling shareholder” of the Company as defined in the Listing Manual. Novo Tellus PE Fund 1, L.P. (“**NTPF1**”) is the sole member of Orion Phoenix. NTPF1 has a shareholding interest of approximately 47% in NTSPV. Further information on Orion Phoenix is set out at Section 9 below. Accordingly, the proposed transaction is considered an “interested person transaction” as defined under Chapter 9 of the Listing Manual.
- 8.2 For the purpose of Rule 916(2) of the Listing Manual, the Company confirms that its Audit Committee is of the view that the risks and rewards of the joint venture pursuant to the Shareholders' Agreement are in proportion to the equity of each shareholder of Novoflex and the terms of the joint venture are not prejudicial to the interests of the Company and its minority shareholders.



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Accordingly, Rule 906 will not apply and shareholders' approval for the interested person transaction will not be required.

- 8.3 The current total of all transactions between the Group and Orion Phoenix and/or its associates (excluding transactions less than S\$100,000 and the proposed transaction) for the current financial year up to the date of this Announcement is S\$67,000, and the current total of all "interested person transactions" of the Group (excluding transactions less than S\$100,000 and the proposed transaction) for the current financial year up to the date of this Announcement is S\$67,000.

## 9 INTEREST OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

- 9.1 As at the date of this announcement the shareholdings of the directors and substantial shareholders of the Company, in the Company are as follows:

Name of directors	Direct interest		Deemed interest	
	No. of shares	%	No. of shares	%
Cher Lew Siang Charles	275,500	0.63	-	-
<b>Name of substantial shareholders</b>				
Orion Phoenix	12,018,312	27.32%	-	-
Novo Tellus PE Fund 1, L.P. <sup>(1)</sup>	-	-	12,018,312	27.32%
Tok Kian You	2,946,116	6.70%	-	-

Note:

- (1) NTPF1, an exempted limited partnership organized under the laws of the Cayman Islands, is the sole member of Orion Phoenix. NTPF1 is managed by New Earth Group, the general partner for NTPF1. The substantial interest holders of NTPF1 are Toh Ban Leng, James, ACT Holdings Pte. Ltd., Emerging Markets Private Equity Fund, L.P., and Munich Investment Group Inc.

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- 9.2 As at the date of this announcement, Mr Loke Wai San, the Non-Executive Chairman and Non-Independent Director of the Company, is a director of Novoflex and a director of NTSPV. He is also a director of New Earth Group which manages NTPF1, the sole member of Orion Phoenix. Mr Loke also owns less than 5% of NTPF1.
- 9.3 Save as disclosed in this Announcement, none of the directors or substantial shareholders of the Company have any interest, direct or indirect in the proposed transaction (other than through their respective shareholdings in the Company).

### **10 DIRECTORS' SERVICE CONTRACT**

- 10.1 No person is proposed to be appointed as Director in connection with the proposed transaction. Accordingly, no service contract is proposed to be entered into between the Company and any such person.

### **11 DOCUMENTS AVAILABLE FOR INSPECTION**

- 11.1 A copy of the Shareholders' Agreement will be made available for inspection during normal business hours at the registered office of the Company at 52 Serangoon North Avenue 4 Singapore 555853 for a period of three (3) months from the date of this Announcement.

By Order of the Board

Charles Cher Lew Siang  
Chief Executive Officer  
8 May 2016