

## **MENCAST HOLDINGS LTD.**

(Incorporated in the Republic of Singapore)

(Company registration no.: 200802235C)

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## **THE PROPOSED ACQUISITION OF 2,100,000 ORDINARY SHARES IN THE CAPITAL OF VAC-TECH ENGINEERING PTE LTD**

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### **1. THE ACQUISITION**

The board of directors (the “**Board**”) of Mencast Holdings Ltd. (the “**Company**”) is pleased to announce that the Company has on 7 May 2012 entered into a sale and purchase agreement (the “**Agreement**”) with Ho Gim Hai and Tat Lee Holdings Pte. Ltd. (collectively the “**Vendors**”) in relation to the proposed acquisition of 2,100,000 ordinary shares in the capital of Vac-Tech Engineering Pte Ltd (“**Vac-Tech**”), comprising 70.0% of the entire capital of Vac-Tech (the “**Vac-Tech Shares**”) (the “**Vac-Tech Acquisition**”).

### **2. INFORMATION ON THE PARTNERSHIPS**

Vac-Tech is a company incorporated in Singapore on 14 June 1995. It is principally engaged in the provision of (i) industrial services comprising specialised services, hydro jetting, tank desludging with semi-robotic or man-less entry, robotic heat exchanger cleaning, air fin cooler cleaning, decontamination and pipeline cleaning; and (ii) environmental services comprising tank desludging with sludge or slop treatment, sludge dewatering, on site sludge treatment for solid liquid treatment and soil stabilization.

### **3. THE PURCHASE CONSIDERATION**

#### **3.1 Details of the Purchase Consideration**

The aggregate consideration for the Vac-Tech Acquisition will be S\$8.4 million (the “**Purchase Consideration**”), of which S\$5.0 million will be satisfied in cash and the balance S\$3.4 million will be satisfied by the allotment and issuance by the Company to the Vendors, of new ordinary shares in the capital of the Company (the “**Consideration Shares**”), *via* 2 payment tranches.

The issue price for each of the Consideration Shares (the “**Issue Price**”) shall be determined based on the weighted average price of the shares of the Company (the “**Shares**”) for trades done on the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) for the ten (10) Business Days period after the date of completion of the Vac-Tech Acquisition (the “**Completion Date**”), or S\$0.55, whichever is higher, subject to a maximum Issue Price of S\$0.65.

The Purchase Consideration was arrived at pursuant to arms’ length negotiations between the Company and the Vendors (collectively, the “**Parties**” and each a “**Party**”) on a willing-buyer willing-seller basis, after taking into consideration, *inter alia*:

- (i) the valuation on the Vac-Tech’s industrial and environmental cleaning plant and

machinery (the “**Valuation**”), which the Company had, on 28 March 2012, commissioned Robert Khan & Co Pte Ltd (the “**Valuers**”) to provide. As stated in the valuation report dated 24 April 2012 (the “**Valuation Report**”), Vac-Tech’s industrial and environmental cleaning plant and machinery was valued at approximately S\$4.4 million. The Valuation was conducted taking into account the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion and the estimated amount in terms of money that may be reasonably expected for assets in exchange between a willing buyer and a willing seller with equity to both, neither being under any compulsion to sell or buy, both fully aware of all relevant facts and including installation as of on appraisal date, and assuming that the earnings support the value reported; and

- (ii) the rationale for the Vac-Tech Acquisition (as further described hereinafter).

The terms of payment of the Purchase Consideration shall be as follows:

- (a) a 1<sup>st</sup> payment tranche of S\$4.2 million, of which S\$2.5 million shall be payable in cash on the Completion Date and the balance S\$1.7 million shall be fully satisfied by the allotment and issuance by the Company to the Vendors of the Consideration Shares at the Issue Price (the “**1st Tranche Consideration Shares**”) credited as fully paid-up, within twenty (20) business days from the day the Issue Price is determined.

The amount of cash and the value of the 1st Tranche Consideration Shares which the Vendors shall receive under the 1<sup>st</sup> payment tranche are as follows:

	<b>Amount of cash to be received</b>	<b>Value of 1st Tranche Consideration Shares to be received</b>
Ho Gim Hai	S\$238,000	S\$161,840
Tat Lee Holdings Pte. Ltd.	S\$2,262,000	S\$1,538,160
<b>Total</b>	<b>S\$2,500,000</b>	<b>S\$1,700,000</b>

- (b) a 2<sup>nd</sup> payment tranche of S\$4.2 million, of which S\$2.5 million shall be payable in cash on the day falling 12 months from the Completion Date and the remaining S\$1.7 million shall be fully satisfied by the allotment and issuance by the Company to the Vendors of the Consideration Shares at the Issue Price (the “**2nd Tranche Consideration Shares**”), credited as fully paid-up, within ten (10) business days from the day falling 12 months from the Completion Date.

The amount of cash and the value of 2nd Tranche Consideration Shares which the Vendors shall receive under the 2<sup>nd</sup> payment tranche are as follows:

	<b>Amount of cash to be received</b>	<b>Value of 1st Tranche Consideration Shares to be received</b>
Ho Gim Hai	S\$238,000	S\$161,840
Tat Lee Holdings Pte. Ltd.	S\$2,262,000	S\$1,538,160
<b>Total</b>	<b>S\$2,500,000</b>	<b>S\$1,700,000</b>

### **3.2 Funding of the Purchase Consideration**

It is the current intention of the Company to fund the cash component of the Purchase Consideration through internal sources of funds and bank borrowings.

### **3.3 Consideration Shares**

An application will be made to the SGX-ST for the listing of and quotation for the Consideration Shares on the Official List of the SGX-ST. An appropriate announcement will be made by the Company upon receipt of the in-principle approval from the SGX-ST for the listing of and quotation for the Consideration Shares on the SGX-ST.

The 1<sup>st</sup> Tranche Consideration Shares and the 2<sup>nd</sup> Tranche Consideration Shares, when allotted and issued, shall rank *pari passu* in all respects with the then existing issued Shares as at their respective date of allotment and issuance.

### **3.4 Moratorium**

Each of the Vendors jointly and severally undertakes to the Company that he shall not, for a period of 12 months, from the respective dates of issuance of the 1<sup>st</sup> Tranche Consideration Shares and the 2<sup>nd</sup> Tranche Consideration Shares (or such longer period if imposed by the SGX-ST), transfer, sell, dispose or realise any of such Consideration Shares that he holds (the "**Moratorium**").

## **4. MATERIAL CONDITIONS OF THE AGREEMENT**

### **4.1 Conditions Precedent**

The Vac-Tech Acquisition is conditional upon, *inter alia*, the

- (a) the completion of a legal, financial and tax due diligence exercise by the Company and its advisers on Vac-Tech, which shall include, without limitation, (i) the review of the business and operations of Vac-Tech; (ii) the review of the historical figures of Vac-Tech; and (iii) the review of any and all documents relating to legal and taxation matters of Vac-Tech, the results of such exercise being satisfactory to the Company, in its sole and absolute discretion;
- (b) approval in-principle being granted by the SGX-ST (the "Approval In-Principle") for the listing of and quotation for the Consideration Shares on SGX-ST, and

such approval not having been revoked or amended, and if the approval is granted subject to conditions, (i) such conditions being reasonably acceptable to the Parties and, if any such condition shall be required to be fulfilled on or before Completion, the fulfilment of such condition on or before Completion and (ii) such conditions being satisfied or waived by the SGX-ST, and the SGX-ST not having made any ruling the effect of which is to restrict or impede the listing of and quotation for the Consideration Shares;

- (c) all approvals, consents and/or waivers as may be necessary from any third party, governmental or regulatory body or relevant competent authority, including, but not limited to, the SGX-ST, the Monetary Authority of Singapore, the Securities Industry Council and the Accounting and Corporate Regulatory Authority of Singapore, having jurisdiction over the transactions contemplated under this Agreement or to the entry into and completion of this Agreement by the Parties, being granted or obtained, and being in full force and effect and not having been withdrawn, suspended, amended or revoked, and if such approvals, consents and/or waivers are granted or obtained subject to any conditions, and where such condition(s) affect any of the Parties, such condition(s) being acceptable to the Party concerned and if such condition(s) are required to be fulfilled before Completion, such condition(s) being fulfilled before Completion;
- (d) the approval of the board of directors of the Vac-Tech for the proposed transfer of the Sale Shares from the Vendors to the Company having been obtained;
- (e) the approval of the board of directors and the shareholders (if necessary) of the Company for the transactions contemplated in the Agreement upon the terms and conditions set out in the Agreement (or upon such other terms and conditions as may be agreed between the Parties) having been obtained;
- (f) the net tangible assets of Vac-Tech, as shown in the management accounts of the Vac-Tech as at 31 March 2012, to be at least S\$4,000,000;
- (g) no material adverse change in the prospects, operations or financial conditions of Vac-Tech occurring on or before the Completion Date;
- (h) all Warranties provided by the Company and the Vendors (as the case may be) under the Agreement being complied with, true, accurate and correct as at the date of the Agreement and each day up to and including the Completion Date;
- (i) the Purchaser being satisfied in its reasonable discretion, that Vac-Tech has been carried on in a satisfactory manner, and all approvals and consents (including any governmental, regulatory and/or corporate approvals and consents) required for the Vac-Tech's business have been obtained, and are and shall remain on Completion valid and effective and not withdrawn or amended;
- (j) the execution and performance of the Agreement by the Parties hereto not being prohibited, restricted, curtailed, hindered, impaired or otherwise adversely affected by any relevant statute, order, rule, directive or regulation promulgated by any legislative, executive or regulatory body or authority;
- (k) the sale and purchase of all the Consideration Shares being completed simultaneously under this Agreement; and
- (l) Ho Gim Hai entering into a 3-year service agreement (the "**Service Agreement**") with the Company on such terms that may be mutually agreed between Ho Gim Hai and the Company and that are at least equivalent to Ho Gim Hai's latest

service agreement with the Vac-Tech, provided always that the Service Agreement shall be subject to (i) the relevant laws and regulations of the Listing Manual that are for the time being in force; (ii) the review and recommendation by the Company's remuneration and nominating committees and (iii) the approval by the Company's board of directors, such recommendation and approval not to be unreasonably withheld.

#### **4.2 Completion**

The completion of the Vac-Tech Acquisition is expected to occur within five (5) business days from the date of satisfaction of all the conditions precedent set out in the Agreement (unless waived by the relevant Party) or such other date as the Parties may mutually agree.

#### **4.3 Effect of Non-Fulfilment of Conditions Precedent**

In the event that any of the conditions precedent set out in the Agreement is not fulfilled by the relevant Party or is not waived by the other Party by 31 July 2012, the Agreement shall ipso facto cease and determine and none of the Parties shall have any claim against the other for costs, damages, compensation or otherwise, save for any claim by a Party against the other arising from antecedent breaches of the terms hereof and save that the Parties' obligation in relation to confidentiality under the Agreement shall survive the termination of the Agreement.

#### **4.4 First Right of Refusal**

In the event Tat Lee Holdings Pte. Ltd. decides to sell or distribute all or any part of its remaining shareholding in Vac-Tech, Tat Lee Holdings Pte. Ltd. agrees to grant to the Company the first right of refusal to purchase from Tat Lee Holdings Pte. Ltd., on such terms and subject to such conditions as Tat Lee Holdings Pte. Ltd. and the Company may agree, such shareholding in Vac-Tech (the "**First Right of Refusal**"). This First Right of Refusal shall apply for a period of two (2) years commencing from the date of this Agreement. In addition to the foregoing, Tat Lee Holdings Pte. Ltd. further agrees that it shall not, whether during the period of two (2) years commencing from the date of the Agreement or after the expiry of such period, dispose any of its remaining shareholding in Vac-Tech to any third party which undertakes a similar or competing business to that undertaken by the Group.

#### **4.5 Profit Warranty**

The Vendors jointly and severally warrant to the Company that the aggregate audited net profit after tax (the "**NPAT**") of Vac-Tech for the period from 1 January 2012 to 31 December 2013 shall be at a minimum of S\$5.0 million (the "**Profit Warranty**"). For the avoidance of doubt, once Vac-Tech achieves the NPAT of a minimum of S\$5.0 million at any time within the 2-year period, it shall be deemed that the Vendors have discharged their obligations in relation to the Profit Warranty. NPAT shall be determined in accordance with the Singapore Financial Reporting Standards and shall exclude asset sales and other non-operational gains.

For the avoidance of doubt, the tabulation of the Profit Warranty shall include only 60.0% of the profits after tax accrued from the contract between the Vac-Tech and ExxonMobil Asia Pacific Pte. Ltd. dated 16 February 2012 (the "**Exxon Contract**").

In the event that Vac-Tech fails to achieve the NPAT of a minimum of S\$5.0 million within the 2-year period, the Vendors shall pay the Company the shortfall in cash (the "**Cash Compensation**"). The Cash Compensation, if any, shall be payable by the Vendor to the Company within 6 months from 31 December 2013.

For the avoidance of doubt, if Vac-Tech achieves the NPAT of a minimum of S\$5.0 million within the 2-year period, there shall be no need for the Vendors to make any Cash Compensation to the Company.

#### **4.6 Sharing of Profit from Exxon Contract**

Further and in consideration of the Vendors procuring and entering into the Exxon Contract, the Company agrees and undertakes to pay to the Vendors a profit share (the "**Profit Share Payment**").

For the avoidance of doubt, the Profit Share Payment is payable by the Company to the Vendors in addition to the Purchase Consideration and the Profit Share Payment shall be payable by the Purchaser to the Vendors within 30 days of such profit after tax arising from the Exxon Contract being recorded in the accounts of Vac-Tech in accordance with generally accepted accounting principles consistently applied (the "**Recorded Profit**"), or within 30 days of the Purchaser receiving payment of the Recorded Profit, whichever date is later.

Notwithstanding the terms of the Agreement and the sale and purchase of the Sale Shares, the Parties agree that the profits accrued from the Exxon Contract shall be shared by the Parties in the following proportions:

	<b>Percentage of Profits (%)</b>
<b>Tat Lee Holdings Pte. Ltd.</b>	<b>40.0</b>
<b>Company</b>	<b>60.0</b>
<b>Total</b>	<b>100.0</b>

#### **5. RATIONALE FOR THE VAC-TECH ACQUISITION**

The current core business of the Company and its subsidiaries (the "**Group**") is in marine maintenance, repair and overhaul ("**Marine MRO**"), focusing on high precision, time sensitive and mission critical work. The Group is one of the leading players in the manufacturing and servicing of sterngear equipment and propellers segment of the Marine MRO industry, with both offshore and marine clients.

The marine and offshore sectors are both expected to have a positive long term growth outlook. As well as organic growth, the Group has a strategy of growth through acquisitions from the marine and offshore sectors and the Vac-Tech Acquisition represents an opportunity for the Group to leverage the good client base, industry reputation and accreditations developed over our three decades in operation to increase our revenue base with a fuller range of Marine MRO services. This will allow us to create positive synergies, economies of scale and strengthen our value proposition to attract and retain new clientele.

## 6. FINANCIAL EFFECTS OF THE VAC-TECH ACQUISITION

The net profits attributable to the proposed assets being acquired are S\$1.5 million.

Purely for illustrative purposes, the financial effects of the Vac-Tech Acquisition on the Group, as set out below are prepared based on the audited financial statements of the Group and the unaudited financial statements of Vac-Tech for FY2011 and assuming that:

- (i) completion of the Vac-Tech Acquisition took place, in respect of profit and loss statements on 1 January 2011, and in respect of balance sheets on 31 December 2011;
- (ii) the amount of goodwill arising from the Vac-Tech Acquisition is estimated to be approximately S\$4.5 million and there is no impairment made for this goodwill;
- (iii) the cash component of the Purchase Consideration of S\$5.0 million in aggregate is financed using the Group's internal source of funds and bank borrowings; and
- (iv) all the Consideration Shares are issued to the Vendors at the minimum Issue Price of S\$0.55 per Consideration Share on 1 January 2011, in respect of profit and loss statements, and on 31 December 2011 in respect of balance sheets.

### 7.1 Share capital

	Before the Proposed Acquisitions and the Placement <sup>(1)</sup> , and before the Vac-Tech Acquisition		After the Proposed Acquisitions and the Placement <sup>(1)</sup> , but before the Vac-Tech Acquisition		After the Proposed Acquisitions and the Placement <sup>(1)</sup> , and after the Vac-Tech Acquisition	
	No. of Shares ('000)	S\$'000	No. of Shares ('000)	S\$'000	No. of Shares ('000)	S\$'000
Issued share capital as at 31 December 2011	187,491	33,538	233,952	57,876	240,134	61,276

### 7.2 Net tangible assets ("NTA")

	Before the Proposed Acquisitions and the Placement <sup>(1)</sup> , and before the Vac-Tech Acquisition		After the Proposed Acquisitions and the Placement <sup>(1)</sup> , but before the Vac-Tech Acquisition		After the Proposed Acquisitions and the Placement <sup>(1)</sup> , and after the Vac-Tech Acquisition	
	No. of Shares ('000)	S\$'000	No. of Shares ('000)	S\$'000	No. of Shares ('000)	S\$'000
NTA as at 31 December 2011 (S\$'000)	18,599		42,937		41,845	
No. of Shares as at 31 December 2011	187,491		233,952		240,134	

	Before the Proposed Acquisitions and the Placement <sup>(1)</sup> , and before the Vac-Tech Acquisition	After the Proposed Acquisitions and the Placement <sup>(1)</sup> , but before the Vac-Tech Acquisition	After the Proposed Acquisitions and the Placement <sup>(1)</sup> , and after the Vac-Tech Acquisition
(‘000)			
NTA per Share as at 31 December 2011 (cents)	9.92	18.35	17.43

### 7.3 Earnings per Share (“EPS”)

	Before the Proposed Acquisitions and the Placement <sup>(1)</sup> , and before the Vac-Tech Acquisition	After the Proposed Acquisitions and the Placement <sup>(1)</sup> , but before the Vac-Tech Acquisition	After the Proposed Acquisitions and the Placement <sup>(1)</sup> , and after the Vac-Tech Acquisition
Profits after tax attributable to equity holders of the Company for FY2011 (S\$’000)	10,236	10,236	11,780
Weighted average no. of Shares for FY2011 (‘000)	177,475	216,539	222,721
EPS for FY2011 (cents)	5.77	4.73	5.29

### 7.4 Gearing

	Before the Proposed Acquisitions and the Placement <sup>(1)</sup> , and before the Vac-Tech Acquisition	After the Proposed Acquisitions and the Placement <sup>(1)</sup> , but before the Vac-Tech Acquisition	After the Proposed Acquisitions and the Placement <sup>(1)</sup> , and after the Vac-Tech Acquisition
Net borrowings as at 31 December 2011 (S\$’000)	29,892	29,892	33,452
Shareholders’ equity as at 31 December 2011 (S\$’000)	57,158	81,496	84,896
Net gearing as at 31 December 2011 (times)	0.52	0.37	0.39



**Notes:**

- (1) The Proposed Acquisitions refer to (i) the proposed acquisition of the entire issued and paid-up share capital of Top Great Engineering & Marine Pte Ltd, as announced on 18 May 2011, (ii) the proposed acquisition of the entire issued and paid-up share capital of Unidive Marine Services Pte Ltd, as announced on 21 June 2011 and (iii) the proposed acquisition of certain assets of Team Precision Engineering and Team International Development, as announced on 28 November 2011. The Placement refers to the proposed issuance of 22,500,000 new shares, representing approximately 11.8% of the total existing issued share capital of the Company, as announced on 19 March 2012.

**7. RELATIVE FIGURES COMPUTED UNDER LISTING RULE 1006 OF THE LISTING MANUAL**

The Company hereby sets out the relative figures for the Vac-Tech Acquisition computed according to Rule 1006 (a) to (d) of the listing manual of the SGX-ST (the “**Listing Manual**”), based on the audited consolidated financial statements of the Company for the financial year ended 31 December 2011:

<b>Rule 1006 (a)</b>	The net asset value of assets to be disposed of, compared with the Group’s net asset value. This basis is not applicable to an acquisition of assets <sup>(1)</sup>	Not applicable.
<b>Rule 1006 (b)</b>	The net profits attributable to the assets to be acquired, compared with the Group’s net profits <sup>(2)</sup>	16.0%
<b>Rule 1006 (c)</b>	The aggregate value of consideration given, compared with the Company’s market capitalisation as at 4 May 2012, being the market day immediately preceding the date of the Agreement <sup>(3)</sup>	7.3%
<b>Rule 1006 (d)</b>	The number of equity securities issued by the Company as consideration for an acquisition, compared with the number of equity securities previously in issue <sup>(4)</sup>	3.2%

**Notes:**

- (1) Rule 1006(a) of the Listing Manual is not applicable as the Vac-Tech Acquisition relates to an acquisition and not a disposal.
- (2) Calculated based on the net profits attributable to the assets to be acquired of \$1,674,000 and the net profits of the Group of \$10,488,000.
- (3) The “market capitalisation” of the Company is determined by multiplying the 191,012,000 shares in issue as at the date of announcement by the weighted average price of the shares of approximately S\$0.600 transacted on 4 May 2012, being the market day immediately preceding the date of the Agreement.
- (4) Calculated based on 6,181,818 Consideration Shares are issued to the Vendors compared with 191,012,000 shares in issue as at the date of announcement.

As the relative figure computed under Listing Rule 1006(a) to Rule 1006(d) as computed above exceeds 5.0% but does not exceed 20.0%, the sale constitutes a discloseable

transaction within the meaning of Chapter 10 of the Listing Manual and as such, the Company is releasing this announcement pursuant to Rule 1010 of the Listing Manual.

### **7.1 Disclosure under Rule 1013 of the Listing Manual**

Rule 1013(1) of the Listing Manual provides, *inter alia*, that where an issuer enters into a discloseable transaction and accepts a profit guarantee (or any covenant which quantifies the anticipated level of future profits) from a vendor of assets/business, the issuer's announcement in Rule 1010 must contain information on the profit guarantee, including the following:

- (a) the views of the board of directors of the issuer in accepting the profit guarantee and the factors taken into consideration and basis for such a view;
- (b) the principal assumptions including commercial bases and assumptions upon which the quantum of the profit guarantee is based;
- (c) the manner and amount of compensation to be paid by the vendor in the event that the profit guarantee is not met and the conditions precedent, if any, and the detailed basis for such a compensation; and
- (d) the safeguards put in place (such as the use of a banker's guarantee) to ensure the issuer's right of recourse in the event that the profit guarantee is not met, if any.

The Board is of the view that the Profit Warranty is achievable as it was arrived at based on reasonable assumptions from past results and current year's performance of the partnerships.

As stated in paragraph 4.5 above, under the Agreement, in the event that Vac-Tech fails to achieve the Profit Warranty, the Vendors shall pay the Company the shortfall in cash within 6 months from 31 December 2013.

There are no safeguards to put in place to ensure the Company's right of recourse in the event the profit guarantee is not met because the Company is satisfied with the Vendors' financial standing and therefore does not see the need for any additional safeguards.

## **8. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS**

As at the date of this announcement, none of the directors of the Company (the "**Directors**") has any interest, direct or indirect, in the Vac-Tech Acquisition (other than by reason only of being a Director). In addition, as far as the Directors are aware, none of the Company's Controlling Shareholders (as defined in the Listing Manual) has any interest, direct or indirect, in the Vac-Tech Acquisition (other than by reason of their shareholding interest in the Company).

No person is proposed to be appointed the Board in connection with the Vac-Tech Acquisition.

**9. DOCUMENTS FOR INSPECTION**

Copies of the Agreement and the Valuation Report will be made available for inspection during normal business hours at the registered office of the Company at No. 7 Tuas View Circuit Singapore 637642, for a period of three (3) months from the date of this announcement.

**BY ORDER OF THE BOARD**

**SIM SOON NGEE GLENDLE**

Executive Chairman and Chief Executive Officer

7 May 2012