

PROPOSED RENOUNCEABLE RIGHTS ISSUE OF SHARES WITH WARRANTS

1. INTRODUCTION

The Board of Directors (the “**Directors**”) of MAE Engineering Ltd (the “**Company**”) wishes to announce a proposed renounceable rights issue by the Company (“**Rights Issue**”) of up to 415,045,060 new ordinary shares in the capital of the Company (the “**Rights Shares**”), at an issue price of S\$0.03 (“**Issue Price**”) for each Rights Share, with up to 207,522,530 free warrants (the “**Warrants**”), on the basis of 2 Rights Shares with 1 free Warrant for every 2 existing ordinary shares in the capital of the Company (“**Shares**”) held as at a books closure date to be determined by the Directors (the “**Books Closure Date**”), fractional entitlements to be disregarded. Each Warrant will carry the right to subscribe for one new Share (“**New Share**”) at an exercise price of S\$0.05 for each New Share (the “**Exercise Price**”).

2. CERTAIN PROPOSED TERMS OF THE RIGHTS ISSUE

(a) Rights Shares

The Rights Issue is proposed to be made on a renounceable basis to the shareholders of the Company (“**Shareholders**”) whose registered addresses with the Company or The Central Depository (Pte) Limited (“**CDP**”), as the case may be, are in Singapore as at the Books Closure Date, or who have, at least five market days prior to the Books Closure Date, provided to the Company or CDP, as the case may be, addresses in Singapore for the service of notices and documents (“**Entitled Shareholders**”). Fractional entitlements to the Rights Shares with Warrants will be disregarded and will, together with the provisional allotments which are not taken up or allotted for any reason, be aggregated and allotted to satisfy excess applications (if any), or disposed of or otherwise dealt with in such manner as the Directors may, in their absolute discretion, deem fit.

The Issue Price of S\$0.03 for each Rights Share represents a discount of approximately 25% to the last transacted price of S\$0.04 per Share on the SGX-ST Dealing and Automated Quotation System (“**SGX Sesdaq**”) on 30 March 2006, being the last trading day of the Shares on the SGX Sesdaq prior to the date of release of this announcement.

The Rights Shares will be payable in full upon acceptance and application, and when allotted and issued, will rank *pari passu* in all respects with the then existing Shares for any dividends, rights, allotments or other distributions, the record date for which falls on or after the date of issue of the Rights Shares.

For practical reasons and in order to avoid any violation of securities legislation in countries other than Singapore, the Rights Shares with Warrants will not be offered to Shareholders with registered addresses outside Singapore as at the Books Closure Date and who have not, at least five market days prior thereto, provided to the Company or CDP, as the case may be, addresses in Singapore for the service of notices and documents (“**Foreign Shareholders**”). If it is practicable to do so, arrangements may, at the discretion of the Company, be made for the provisional allotments of Rights Shares with Warrants which would otherwise have been provisionally allotted to Foreign Shareholders to be sold “nil paid” on the SGX Sesdaq as soon as practicable after dealings in the provisional allotments of Rights Shares with Warrants commence and the net proceeds arising therefrom will be dealt with in accordance with the terms set out in the offer information statement (“**Offer Information Statement**”) to be issued by the Company in connection with the Rights Issue.

Entitled Shareholders will be at liberty to accept, decline or otherwise renounce or trade their provisional allotments of Rights Shares with Warrants and will be eligible to apply for additional Rights Shares with Warrants in excess of their provisional allotments under the Rights Issue.

(b) Warrants

The Warrants, to be issued free with the Rights Shares subscribed for, will be in registered form and constituted by a deed poll setting out the terms and conditions of the Warrants (the “**Deed Poll**”). Each Warrant will, subject to the terms and conditions in the Deed Poll, carry the right to subscribe for one New Share at the Exercise Price during the exercise period commencing on the date of issue of the Warrants and expiring on the market day immediately preceding the 5th anniversary of the date of issue of the Warrants (“**Exercise Period**”). Any Warrant remaining unexercised at the end of the Exercise Period shall lapse and cease to be valid for all purposes.

The Warrants will be in detached form from the Rights Shares and listed and traded separately on the SGX Sesdaq under the book-entry (scripless) settlement system. The listing and quotation of the Warrants on the SGX Sesdaq, if approved, is expected to be subject to there being a sufficient spread of holdings for the Warrants to provide an orderly market for the Warrants. Each board lot of the Warrants will consist of 1,000 Warrants or such other board lot size which the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) may require and as may be notified by the Company.

The New Shares arising from the exercise of Warrants will rank *pari passu* in all respects with the then existing issued Shares for any dividends, rights, allotments or other distributions, the record date of which falls on or after the exercise date of the Warrants, save as may be otherwise provided in the Deed Poll. The Exercise Price and the number of Warrants will be subject to adjustments under certain circumstances to be provided for in the Deed Poll.

Based on the issued share capital of the Company of 415,045,060 Shares as at the date of this announcement, (i) a maximum of 415,045,060 Rights Shares with up to a maximum of 207,522,530 Warrants will be issued pursuant to the Rights Issue, if the Rights Issue is fully subscribed; and (ii) a minimum of 78,497,075 Rights Shares with 39,248,537 Warrants if the Rights Issue is subscribed for by only the Undertaking Shareholders (defined below) in accordance with the terms of their respective undertakings.

The terms and conditions of the Rights Issue are subject to such changes as the Directors may deem fit. The final terms and conditions of the Rights Issue will be contained in the Offer Information Statement to be despatched by the Company to Entitled Shareholders in due course, subject to receipt of Shareholders' approval of the Rights Issue.

3. UNDERTAKINGS OF MAJOR SHAREHOLDERS

As at the date of this announcement, Mr Ong Puay Koon (“**OPK**”), Bin Tai Holdings Private Limited (“**BTH**”) and Bintai Kinden Corporation Berhad (“**BKCB**”) (collectively, the “**Undertaking Shareholders**”) own in aggregate 238,261,352 Shares, representing approximately 57.41% of the existing total number of issued Shares.

To show their support for the Rights Issue, each of OPK, BTH and BKCB has respectively irrevocably undertaken to the Company to subscribe and pay for (or procure subscription and payment for) in accordance with the terms of the Rights Issue, at the Issue Price, the following number of Rights Shares with Warrants:

- (a) 15,059,630 Rights Shares with Warrants, being part of OPK's provisional allotment of Rights Shares with Warrants under the Rights Issue;
- (b) 24,325,000 Rights Shares with Warrants, being part of BTH's provisional allotment of Rights Shares with Warrants under the Rights Issue; and
- (c) 39,112,445 Rights Shares with Warrants, being BKCB's provisional allotment under the Rights Issue, assuming that there is no change to the existing issued share capital of the Company prior to the Rights Issue.

The relevant number of Rights Shares with Warrants above, which each of the Undertaking Shareholders has undertaken to subscribe for under its undertaking, will not result in any of the Undertaking Shareholders being obliged to make a mandatory general offer under the Singapore Code on Take-overs and Mergers ("**Take-over Code**") for Shares in the Company.

Depending on, *inter alia*, the total number of Rights Shares with Warrants subscribed for under the Rights Issue, OPK and BTH may apply for such number of additional Rights Shares with Warrants in excess of their respective undertakings without resulting them triggering a mandatory general offer under the Take-over Code.

In view of the above undertakings, the Company has decided that the Rights Issue will not be underwritten by any financial institution.

Immediately after the completion of the Rights Issue:

- (a) assuming that none of the Warrants issued pursuant to the Rights Issue is exercised, the aggregate shareholding percentage of the Undertaking Shareholders in the Company will be 63.72% (in the case where only the Undertaking Shareholders subscribe for the relevant number of Rights Shares with Warrants pursuant to their respective undertakings) and 57.41% (in the case where the Rights Issue is fully subscribed); and
- (b) assuming that all of the Warrants issued pursuant to the Rights Issue are exercised, the aggregate shareholding percentage of the Undertaking Shareholders in the Company will be 66.15% (in the case where only the Undertaking Shareholders subscribe for the relevant number of Rights Shares with Warrants pursuant to their respective undertakings) and 58.41% (in the case where the Rights Issue is fully subscribed).

4. PURPOSE OF THE RIGHTS ISSUE AND THE USE OF PROCEEDS

Based on the audited financial statements of the Company and its subsidiaries ("**Group**") for the year ended 31 March 2005, the Group incurred a net loss of approximately S\$8.6 million for the financial year ended 31 March 2005. Based on the unaudited financial statements of the Group for the six-month period ended 30 September 2005, the Group incurred a net loss of approximately S\$2.7 million for such six-month period. Given the Group's current deteriorating capital base, high gearing ratio and negative working capital position, the Rights Issue is being proposed with a view to addressing the foregoing to a certain extent and reduce the shortfall in the Group's working capital.

The minimum and maximum estimated net proceeds from the Rights Issue (after deducting estimated expenses for the Rights Issue) is expected to be approximately S\$2,004,912 (assuming only the Undertaking Shareholders subscribe for the relevant number of Rights Shares with Warrants pursuant to their respective undertakings) and S\$12,101,351.80 (assuming the Rights Issue is fully subscribed).

If all the Warrants issued pursuant to the Rights Issue are exercised, the estimated gross proceeds arising from such exercise of Warrants will range from S\$ 1,962,426.85 (assuming only the Undertaking Shareholders subscribe for the relevant number of Rights Shares with Warrants pursuant to their respective undertakings and 39,248,537 Warrants are issued) to S\$10,376,126.50 (assuming the Rights Issue is fully subscribed and 207,522,530 Warrants are issued).

The Company intends to use the net proceeds from the Rights Issue and the eventual exercise of the Warrants, if any, for the Group's working capital purposes (including to reduce any bridging loan facilities taken to fund working capital of the Group).

Pending the deployment of the proceeds for the purposes mentioned above, such proceeds may be deposited with banks and/or financial institutions, invested in short-term money markets and/or marketable securities, or used for any other purpose on a short-term basis, as the Directors may deem fit.

5. APPROVALS

The Rights Issue is subject to, *inter alia*, the following:

- (a) the approval in-principle of the SGX-ST for the dealing in, listing of and quotation for the Rights Shares, Warrants and the New Shares on the SGX Sesdaq having been obtained;
- (b) the Rights Issue being approved by the Shareholders at the extraordinary general meeting of the Company ("**EGM**") to be held; and
- (c) the lodgement of the Offer Information Statement with the Monetary Authority of Singapore.

Application will be made to the SGX-ST for permission to deal in and for the listing of and quotation for the Rights Shares, the Warrants and the New Shares, on the SGX Sesdaq.

A circular containing, *inter alia*, the details of the Rights Issue and the notice of EGM, will be despatched to Shareholders in due course.

Subject to Shareholders' approval of the Rights Issue at the EGM, the Offer Information Statement will be lodged with the Monetary Authority of Singapore and despatched to Entitled Shareholders in due course.

6. OTHER FUND RAISING EXERCISES

The Company is also considering other sources of fund raising which may be completed prior to the Rights Issue. The Company will make the appropriate announcements on such fund raising exercises in due course, including consequential adjustments (if any) to the structure of the Rights Issue.

By Order of the Board of Directors
MAE Engineering Ltd

Ong Puay Koon
Executive Vice Chairman
31 March 2006