

Startech Electronics Ltd
(Company Registration Number: 199906220H)

ANNOUNCEMENT

**AMENDMENTS TO THE PROPOSED RIGHTS ISSUE, PROPOSED DEBT RESTRUCTURING
EXERCISE AND PROPOSED CAPITAL REDUCTION EXERCISE**

1. Amendments to the Proposed Rights Issue

*The Board of Directors (the "**Directors**") of Startech Electronics Ltd (the "**Company**") refers to the announcement dated 2 December 2005 in respect to the proposed renounceable rights issue (the "**Proposed Rights Issue**"). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as defined in the announcement dated 2 December 2005.*

The Directors wish to announce that the maximum number of Rights Shares to be issued under the Proposed Rights Issue have been revised to 595,576,664 Rights Shares, assuming that (i) 94,502,371 outstanding warrants issued by the Company under the deed poll dated 17 May 2004 ("**Warrants 2004**") are exercised and all new Shares have been issued pursuant to such exercise by the Books Closure Date, (ii) 1,000,000 new Shares and 1,000,000 Warrants 2004 are issued and allotted to PricewaterhouseCoopers ("**PWC**") pursuant to the capitalisation of the outstanding amount due to PWC for professional services rendered to the Company in 2003 ("**PWC Fee Capitalisation**") by the Books Closure Date; and (iii) 1,000,000 Warrants 2004 which were issued to PWC as per (ii) above are exercised and all new Shares have been issued pursuant to such exercise by the Books Closure Date. Accordingly, the terms of the Proposed Rights Issue shall be as follows: -

The proposed renounceable non-underwritten rights issue of between a minimum of 402,571,922 and a maximum of 595,576,664 Rights Shares at an issue price of S\$0.01 for each Rights Share on the basis of two (2) Rights Shares for every one (1) existing Share held by Shareholders as at the Books Closure Date, fractional entitlements to be disregarded.

Unless otherwise stated herein, all other principal terms of the Proposed Right Issue, including the purpose of the Proposed Rights Issue and the use of the proceeds arising therefrom as stated in the Company's announcement dated 2 December 2005 remain unchanged.

The terms and conditions of the Proposed Rights Issue are subject to such changes as the Directors, after consultation with the Manager, may deem fit. The final terms and conditions of the Proposed Rights Issue will be contained in the Circular and the Offer Information Statement to be despatched by the Company to the shareholders of the Company (the "**Shareholders**") in due course.

2. Proposed Debt Restructuring Exercise

2.1 Introduction

The Company has provided a corporate guarantee for an outstanding amount of approximately S\$7.39 million as at 28 February 2006 ("**Outstanding Amount**") owing to Malayan Banking Berhad ("**Maybank**") under the revolving credit facility granted by Maybank to the Company's subsidiary, Startech Manufacturing Pte Ltd ("**SMPL**") ("**Maybank-SMPL Facility**"). As previously announced on 30 December 2005, SMPL has been voluntarily liquidated as it was unable to continue its business by reason of its liabilities. To fulfill its obligations under this

corporate guarantee, the Directors wish to announce that the Company has finalised the broad terms with Maybank to restructure the repayment of the Outstanding Amount. The proposed debt restructuring exercise ("**Proposed Debt Restructuring Exercise**") in relation to the Maybank-SMPL Facility comprises: -

- (a) The Maybank Debt-Equity Swap (as defined herein);
- (b) The Interested Person Transaction (as defined herein);
- (c) The Proposed Rights Issue;
- (d) The Grant of Investors Call Options and the Option Shares Issue (as defined herein);
- (e) The Maybank Whitewash Resolution (as defined herein); and
- (f) The Maybank Swap Shares Options (as defined herein).

2.2 Rationale

The objectives of the Proposed Debt Restructuring Exercise are: -

- (a) To preserve the listing status of the Company;
- (b) To, over time, enable Maybank to receive full settlement of the Outstanding Amount owing by the Company. Maybank will not likely recover any substantial portion of the Outstanding Amount in the event Company goes into liquidation or judicial management; and
- (c) To restructure the repayment of the Outstanding Amount to lighten the Group's debt burden. The Company can then focus on the business restructuring and injection of new businesses, which may, in turn, result in a higher share price and consequently, benefit the Shareholders and Maybank.

2.3 Details

To restructure the repayment of the Outstanding Amount, Maybank is proposing to make available to the Company a credit facility ("**New Maybank Facility**") in an aggregate amount equal to the amount required to repay and discharge all amounts due and owing from SMPL to Maybank under the Maybank-SMPL Facility in full on the date of utilisation of the New Maybank Facility (including all accrued and/or default interest up to and including the date of utilisation of the New Maybank Facility), subject to the terms and conditions of a credit agreement to be entered into between the Company and Maybank ("**Credit Agreement**"). The New Maybank Facility will only be used to repay all amounts due and owing by SMPL to Maybank under the Maybank-SMPL Facility. Accordingly, the Maybank-SMPL Facility shall be fully discharged vis-à-vis Maybank and SMPL, and the Maybank-SMPL Facility shall cease to have any effect from the date of utilisation of the New Maybank Facility. It is proposed that the New Maybank Facility be secured by 3 separate guarantee, and fixed and floating charges over the present and future assets of the Company's subsidiaries, Hi-tech Distribution Pte Ltd, Switech Systems & Marketing Pte Ltd and Chemitec Industrial Private Limited in favour of Maybank.

It is proposed that the New Maybank Facility be settled by the following: -

(a) Partial repayment using proceeds from Proposed Rights Issue

It is proposed that S\$1.50 million from the net proceeds to be raised from the Proposed Rights Issue be used for partial repayment to Maybank. The Company has obtained the Undertaking from Rennace Investments Ltd. ("**Rennace Investments**") to subscribe for up

to 200,000,000 Rights Shares under the Proposed Rights Issue. This will ensure that the Company will raise the net proceeds of S\$1.60 million (after deducting issue expenses of approximately S\$0.40 million), of which S\$1.50 million will be used to repay Maybank. The Proposed Rights Issue is subject to Shareholders' approval.

(b) Maybank Debt-Equity Swap

It is proposed that an aggregate amount of S\$4.00 million of the Outstanding Amount be capitalised and converted into 400,000,000 new Shares ("**Maybank Swap Shares**") which will be issued and allotted to Maybank and/or its nominees ("**Maybank Debt-Equity Swap**"), based on the issue price of S\$0.01 per Maybank Swap Share, on the terms and subject to the conditions set out in the subscription agreement to be entered into between the Company and Maybank ("**Subscription Agreement**") and the Credit Agreement. The completion of the Subscription Agreement would be subjected to, *inter alia*, the approval of Shareholders. Under the Subscription Agreement, the Maybank Swap Shares will be issued and allotted to Maybank simultaneously with the completion of the issuance and allotment of Rights Shares to Entitled Shareholders under the Rights Issue.

(c) Investors Call Options and Investors Put Options

In order to raise the fund required to settle remaining balance of the New Maybank Facility after deducting the partial repayment using the proceeds from the Proposed Rights Issue and the Maybank Debt-Equity Swap ("**Remaining Balance**"), and the interests accrued from the date of utilisation of the New Maybank Facility till the final repayment date of 31 March 2008 ("**Accrued Interest**"), the Company intends to enter into 3 separate call options and put options agreements/deeds ("**Call & Put Options Agreements/Deeds**") with Rennace Investments, Messrs Chan Fook Meng and Ong Buek Lee @ Ong Bink Lee (the "**Investors**"). Under the Call & Put Options Agreements/Deeds, call options ("**Investors Call Options**") will be granted to the respective Investors by the Company for the issuance of up to a collective aggregate of 200,000,000 new ordinary shares ("**Option Shares**") at an issue price of S\$0.01 for each Option Share. Similarly, the Company will be granted put options ("**Investors Put Options**") by each of the respective Investors whereby the Company will be granted the right to exercise the put options for the issuance of up to a collective aggregate of 200,000,000 Option Shares to the Investors at an issue price of S\$0.01 for each Option Share.

In the event that the Remaining Balance and Accrued Interest exceed the maximum proceeds to be raised from the Option Shares Issue, the Company intends to place up to a maximum of 20,000,000 new Shares to Mr Ong Buek Lee @ Ong Bink Lee at an issue price of S\$0.01 each to raise an additional S\$0.20 million.

The proposed issue and allotment of a collective aggregate 200,000,000 Option Shares to the respective Investors pursuant to the exercise of the Investors Call Options and/or the Investors Put Options ("**Option Shares Issue**") and the issuance of Investors Call Options to each of the Investors by the Company ("**Grant of Investors Call Options**") are subject to Shareholders' approval.

2.3 Maybank Swap Shares Options

Under the Debt Restructuring Exercise, it is proposed that Maybank entered into separate call options agreements/deeds ("**Maybank Swap Shares Options Agreements/Deeds**") with Messrs Chan Fook Meng, Tan Meng Dong and Ong Buek Lee @ Ong Bink Lee, and Rennace Investments (the "**Maybank Swap Shares Optionholders**") whereby the Maybank Swap Shares Optionholders will be granted the right to acquire up to a collective aggregate of 400,000,000 Maybank Swap Shares at S\$0.01 for each Maybank Swap Share ("**Maybank Swap Shares Options**") from Maybank.

Mr Tan Meng Dong is deemed to be an interested person as he is a director and executive chairman of the Group. Accordingly, the issuance of Maybank Swap Shares Option by

Maybank to Mr Tan Meng Dong is an interested person transaction ("**Interested Person Transaction**") within Chapter 9 of the Listing Manual and is subject to approval of independent Shareholders. Rule 921(4)(b) of the Listing Manual provides that the issuance of other securities of a class that is already listed, for cash to interested persons does not require an opinion from an independent financial adviser on whether the Interested Person Transaction is on normal commercial terms and whether they are prejudicial to the interest of the Company and its minority Shareholders. Instead, an opinion from the audit committee in the form required in Rule 917(4)(a) of the Listing Manual must be disclosed.

2.4 Maybank Whitewash Waiver

On 21 February 2006, the Securities Industry Council ("**SIC**") has granted a waiver ("**Maybank Whitewash Waiver**") to Maybank from the requirement under Rule 14 of the Singapore Code of Take-overs and Mergers ("**Code**") for Maybank and/or parties acting in concert with it under the Code to make a mandatory general offer ("**General Offer**") to acquire all the issued Shares (other than those already owned by them arising from Maybank's acquisition of Shares pursuant to the Maybank Debt-Equity Swap, subject to, *inter alia*, the condition that a majority of the Independent Shareholders approve by way of a poll, the proposed resolution ("**Maybank Whitewash Resolution**") for the waiver of the rights of the Independent Shareholders to receive the General Offer from Maybank and parties acting in concert with it.

2.5 Approval

The Proposed Debt Restructuring Exercise is subject to, *inter alia*, the following: -

- (a) The Company and Maybank entering into agreements to restructure the repayment of the Outstanding Amount;
- (b) The Company and the Investors entering into the Call & Put Options Agreements/Deeds;
- (c) Maybank and the Maybank Swap Shares Optionholders entering into the Maybank Swap Share Options Agreements/Deeds;
- (d) The approval in-principle of the SGX-ST for the dealing in, listing and quotation for the Maybank Swap Shares, the Rights Shares and the Option Shares on the SGX-ST Dealing and Automated Quotation System ("**SGX-SESDAQ**") having been obtained; and
- (e) The resolutions relating to the Proposed Debt Restructuring Exercise being approved by the Shareholders at an extraordinary general meeting of the Company ("**EGM**").

An application will be made to the SGX-ST for permission to deal in and for the listing and quotation of the Maybank Swap Shares, the Rights Shares and the Option Shares on the SGX-SESDAQ. An appropriate announcement on the outcome of the application will be made in due course.

3. Proposed Capital Reduction Exercise

To streamline its capital structure, the Directors wish to announce that the Company is proposing to undertake a capital reduction exercise ("**Proposed Capital Reduction Exercise**") pursuant to Section 78C of the Companies Act (Cap. 50), by way of cancellation of the Company's issued and paid-up share capital which is lost or unrepresented by available assets.

Pursuant to the changes introduced by the Companies (Amendment) Act 2005, any amount which stood to the credit of the Company's share premium account as at 30 January 2006 is deemed to form part of the Company's issued and paid-up share capital. As at 30 January 2006,

the sum of S\$2,619,867 was standing to the credit of the Company's share premium account. Following from the legislative changes as aforesaid, the Company's issued and paid-up share capital was S\$22,748,463.10.

The Proposed Capital Reduction Exercise will involve a write-off of S\$22,500,000 from the amount of S\$28,234,270 standing in the accumulated losses of the Company as at 31 December 2005, leaving a balance of S\$5,734,270 in accumulated losses. The Proposed Capital Reduction Exercise will result in the issued and paid-up share capital being reduced from S\$22,748,463 to S\$248,463.

The purpose of the Proposed Capital Reduction Exercise is to rationalise the balance sheet of the Company to more accurately reflect the value of its underlying assets and thus the financial position of the Company. In addition, the Company would be in a better position to retain future profits if a substantial amount of the accumulated losses are written off. This will help the Company to return to a healthier balance sheet sooner.

The Proposed Capital Reduction Exercise is not expected to have any effect on the earnings, net tangible assets and gearing of the Company as the Proposed Capital Reduction Exercise is an accounting procedure that cancels the issued and paid-up capital which has been lost or is no longer represented by available assets of the Company.

The Proposed Capital Reduction Exercise is subject to, the approval of Shareholders by way of a special resolution at the EGM to be convened.

4. Circular and Notice of EGM

A circular to Shareholders, together with the notice of the EGM, to seek Shareholders' approval for the Proposed Debt Restructuring Exercise and the Proposed Capital Reduction Exercise will be despatched to Shareholders in due course.

5. Responsibility Statement

The Directors (including those who may have been delegated detailed supervision of the preparation of this announcement) have taken all reasonable care to ensure that the facts stated in this announcement are fair and accurate and that no material facts have been omitted from this announcement, and they jointly and severally accept responsibility accordingly.

By Order of the Board of Directors
Startech Electronics Ltd

Tan Meng Dong
Executive Chairman
21 March 2006