

CHIP ENG SENG CORPORATION LTD



ANNOUNCEMENT

PROPOSED LONG TERM BUSINESS PARTNERSHIP WITH THE PROPOSED RESTRUCTURED COMPACT METAL INDUSTRIES LTD

Further to our announcement on 6 September 2002, Compact Metal Industries Ltd ("Compact") has on 30 September 2002, announced, *inter alia*, a proposed renounceable rights issue new shares in the capital of Compact ("Rights Shares") on the basis of five (5) Rights Shares for every two (2) existing issued ordinary shares of Compact issued at \$0.055 each (the "Rights Issue"). The rights price of \$0.055 ("Rights Issue Price") each represents a discount of 31.25 % from the last traded price of \$0.08 Compact shares on 27 September 2002.

The Board of Directors of Chip Eng Seng Corporation Ltd ("CES" or the "Company") is pleased to announce that the Company, the controlling shareholders of Compact ("Controlling Shareholders") and Compact, have entered into a conditional agreement (the "Conditional Subscription Agreement") to subscribe for an aggregate of 210,000,000 shares in Compact ("Shares") comprising (a) the Rights Shares pursuant to a proposed renunciation of the rights entitlement of between a minimum of 195,000,000 Rights Shares and a maximum of 210,000,000 Rights Shares ("Renounced Rights Shares") ("Renounced Rights Entitlement") of the Controlling Shareholders and (b) in the event that there is a shortfall from the maximum of 210,000,000 Rights Shares under the Renounced Rights Entitlement, such number of new Shares as shall be equal to the shortfall (collectively, the "CES Subscription Shares") at the Rights Issue Price ("Subscription").

APPROVALS REQUIRED BY THE COMPANY

As the Subscription constitutes a major transaction by the Company under the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST"), the Subscription is subject to the approval of the shareholders of the Company at an extraordinary general meeting to be convened.

The Subscription is also subject to:

- (a) a ruling being obtained from the Securities Industry Council ("SIC") that the Company is not regarded as acting in concert with the Controlling Shareholders, the creditor banks ("Creditor Banks") of Compact and its subsidiaries (the "Compact Group") and certain of Compact's trade creditors (the "Trade Creditors") under the Singapore Code on Take-overs and Mergers ("Code") and that the Company is not obliged to make a general offer pursuant to the Code arising from the transaction contemplated in the Conditional Subscription Agreement ("SIC Ruling"); or
- (b) a waiver being obtained from the SIC and the shareholders of Compact in respect of obligations of the Company to make a general offer under the Code ("Whitewash Waiver").

CONDITIONS PRECEDENT

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

- (a) the execution of definitive documentation in connection with the financial restructuring of the Compact Group on terms reasonably acceptable to the Company and Compact ("Debt Restructuring");
- (b) the execution of definitive security documentation in connection with the Cash Loan (as defined below) on terms reasonably acceptable to the Company and Compact;
- (c) a capital reduction exercise by Compact to reduce the par value of each ordinary share in its capital from \$0.10 to \$0.05, or such other par value as Compact and the Company may determine ("Capital Reduction"), taking effect;
- (d) the Creditor Banks agreeing to underwrite the Rights Shares (other than the Renounced Rights Shares) at the Rights Issue Price, or alternatively, to subscribe or procure the subscription of such number of new Shares as equal to the number of Rights Shares (other than the Renounced Rights Shares) not subscribed by the shareholders of Compact ("Creditor Banks Shares"), up to the amount of approximately S\$15,868,200 or such other amount as may be agreed in writing amongst the Company, Compact and the creditor Banks at the Rights Issue Price, and on such other terms reasonably acceptable to the Company and Compact;
- (e) the approval in-principle of the SGX-ST being obtained for the Rights Issue and the listing and quotation of the Rights Shares;
- (f) the approval of Compact's shareholders in general meeting of the Capital Reduction, the Debt Restructuring, the Rights Issue, the Whitewash Waiver (if necessary) and the issue of new Shares;
- (g) the approval of the Company's shareholders in a general meeting of the Subscription;

- (h) the approval of the Creditor Banks to, *inter alia*, the Capital Reduction, the Rights Issue, the Subscription and the Debt Restructuring, on terms reasonably acceptable to the Company and Compact;
- (i) the SIC Ruling or the Whitewash Waiver having been obtained and if such ruling or waiver (as the case may be) is granted subject to any conditions, such conditions being acceptable to the Company, the Controlling Shareholders and Compact;
- (j) the Controlling Shareholders having obtained the approval of any chargees in respect of their Shares to the renunciation of the Renounced Rights Entitlement in favour of the Company;
- (k) save as disclosed in the announcement by Compact on its financial statements for the 6-month period ended 30 June 2002, and as contemplated pursuant to the Debt Restructuring, the Capital Reduction and the Rights Issue, there being no material adverse change in the business, operations, assets or financial condition of the Group since the date of signing of the Conditional Subscription Agreement;
- (l) there being no petition presented or application made for the winding up, liquidation, receivership or judicial management of Compact;
- (m) there being no petition presented for the bankruptcy of the Controlling Shareholders or composition by the Controlling Shareholders with their creditors; and
- (n) the Controlling Shareholders collectively being the legal and beneficial owner of 78,000,000 Shares on completion of the Subscription.

In the event that the above conditions are not fulfilled by the date falling six months from 30 September 2002 or such other date as the Company, Compact and the Controlling Shareholders may agree (the "Cut-Off Date"), the Conditional Subscription Agreement in respect of the Subscription shall terminate and have no further effect, and neither party shall have any claim against the others for damages, costs, compensation or otherwise.

CASH LOAN

In connection with the Subscription, the Company will be extending a cash loan of \$5 million ("Cash Loan") to Compact for its working capital purposes which amount shall be secured by, *inter alia*, a mortgage over Compact's property at 120 Pioneer Road, Singapore 639597 ("Tuas Property") in favour of the Company. On completion of the Subscription, the Cash Loan shall be set-off against partial payment of the issue price of the Subscription and the security over the Tuas Property shall be accordingly discharged. However, should the above conditions not be fulfilled by the Cut-Off Date or if the Conditional Subscription Agreement is terminated for whatever reason, Compact shall repay the Cash Loan, together with the interest accrued thereon, immediately upon receipt of a written demand from the Company.

APPOINTMENT OF DIRECTORS ON THE BOARD OF COMPACT

Pursuant to the Conditional Subscription Agreement, the Company shall be entitled to nominate one person as additional director of Compact and to have another person attend board meetings of Compact as an observer following the drawdown of the Cash Loan. Upon completion of the Subscription, the Company shall be entitled to nominate, in aggregate, three persons as additional directors of Compact (including the one person appointed in relation to the Cash Loan).

TERMINATION

The Company shall be entitled to terminate the Conditional Subscription Agreement if any of the events set out in paragraphs (a) to (c) below shall occur. The said events are:

- (a) if the Creditor Banks do not give written in-principle approval to underwrite the Rights Shares (other than the Renounced Rights Shares) at the Rights Issue Price or alternatively, to subscribe or procure the subscription of the Creditor Banks Shares at the Rights Issue Price and on such other terms reasonably acceptable to the Company and Compact within sixty (60) days from the date of the Conditional Subscription Agreement or such longer period as the parties may agree; or
- (b) if the definitive agreement(s) relating to the matters referred to in subparagraph (a) above, after having been entered into by the Creditor Banks, is terminated or rescinded for whatever reasons; or
- (c) if Compact shall go into liquidation whether compulsory or voluntary (except for the purposes of a bona fide reconstruction or amalgamation) or if a petition shall be presented or an order made for the appointment of an administrator in relation to Compact or if a receiver, administrative receiver, judicial manager or manager shall be appointed over any part of the assets or undertaking of Compact or if any event analogous to any of the foregoing shall occur in any jurisdiction.

FURTHER INFORMATION ON COMPACT'S RIGHTS ISSUE AND DEBT RESTRUCTURING

Subject to agreement between the Company, Compact and the Creditor Banks:

- (a) Underwriting/Conversion of Outstanding Loans

The Creditor Banks are to underwrite or subscribe on a pro-rata basis for up to approximately \$15,868,200 of excess Rights Shares (i.e. approximately 288,512,727 Rights Shares) which existing shareholders of Compact do not take up through the conversion of part of their existing outstanding loans to the Compact Group.

- (b) Moratorium

The Creditor Banks' Rights Shares are to be subject to a moratorium over a 24 month period with a right to sell in eight equal tranches on a staggered basis.

(c) First Right of Refusal

The Creditor Banks are to give the Company and the Controlling Shareholders a right of first refusal in respect of any disposal of the Rights Shares where (i) a third party (other than the Company and the Controlling Shareholders) already holds 10% of Compact's shares or (ii) they intend to sell Shares representing 2% or more of the issued capital of Compact over a 30-day period.

(d) Trade Creditors

Compact is to procure the Trade Creditors agree to subscribe for up to \$3,000,000 of excess Rights Shares (i.e. 54,545,454 Rights Shares) which existing shareholders do not take up through the conversion of trade debts owing to such Trade Creditors.

(e) Standstill

The Creditor Banks will maintain a standstill period of three years from the execution of a debt restructuring agreement.

(f) Outstanding Debts reduced by approximately \$21 million

The debt owing by the Compact Group to the Creditor Banks will be reduced by S\$21 million from the repayment out of partial proceeds of the Rights Issue and/or the conversion of debts to Rights Shares underwritten or subscribed by the Creditor Banks on a pro-rata basis based on their outstanding loan amounts to the Compact Group.

The remaining outstanding debt of the Compact Group owing to the Creditor Banks shall be restructured.

For more information on the Debt Restructuring and the Rights Issue, please refer to Compact's announcement dated 30 September 2002, a copy of which is available on the website of the SGX-ST at www.sgx.com.

INFORMATION ON THE COMPACT GROUP

Compact is a public listed company on the Main Board of Singapore Exchange Securities Trading Limited ("SGX-ST"). The Compact Group has two core areas of businesses:

- (a) Manufacturing, fabrication, installation and trading of aluminium and aluminium extrusions; and
- (b) Undertaking projects comprising architectural contracts and engineering works.

Information on the Compact Group is elaborated in Appendix 1.

RATIONALE FOR THE SUBSCRIPTION

CES and its subsidiaries (the “CES Group”) intend to extend its business activities into related areas of business with the aim diversifying income stream, offering the potential to widen product range and market coverage in the longer term.

Despite the financial performance and position of the Compact Group and its current cash flow requirements, the Company believes that with the scheduled restructuring arrangements, including the support of its creditor banks and certain creditors, the fundamental business of the Compact Group is otherwise expected to be viable.

The Directors of the Company are of the view that the cause of Compact Group’s current poor financial results and weak financial position is largely due to:

- Excessive borrowings;
- Overly burdened with assets that are yielding low returns;
- Investment in non-core assets; and
- Cost management.

The restructuring measures to be agreed with the creditor banks will allow the Compact Group some time to restructure its financial arrangements and business operations to be more cost effective. Accordingly, the Conditional Subscription Agreement is, amongst others, conditional upon Compact entering a Restructured Agreement with its creditor banks.

In view of the above, the Directors of the Company believe that the fundamental business of the Compact Group has a good probability for a turnaround situation and should be able to generate sufficient cash flow to fund its current level of business activities on the following grounds:

- ⇒ Control over a vertically integrated business model, starting from the manufacturing of aluminium, the moulding of aluminium components, fabrication, installation and project management for end consumers.
- ⇒ Long-standing track record and a well-established brand in the industry that is known for the quality of its aluminium products.
- ⇒ One of the remaining predominant aluminium market leaders in Singapore that supplies aluminium for the majority of large projects and architectural contracts and engineering works in Singapore.
- ⇒ Diversified customer base comprising:
 - Governmental agencies, such as LTA, MRT, HDB and JTC
 - Private sector projects

- ⇒ Technical capabilities in different sectors:
 - Building and construction for residential and industrial premises;
 - Civil engineering works such as airport terminals, light rail transportation stations, MRT stations;
 - Educational institutions;
 - Electronic components for the telecommunication industry, the computer peripheral segment,
- ⇒ Offers a wider range of industrial application for aluminium products. Apart from being applied in the building material industry, aluminium extrusion components also have wide usage in the electronic segment such as actuator arm for the computer hard disk drive, and used in conjunction with plastic components in various industries.
- ⇒ Production and manufacturing are located in Malaysia and Indonesia, and the aluminium products are currently exported to Singapore, Australia, Europe and U.S.A.
- ⇒ With the restructuring schedule in place, the Compact Group has the potential to expand further via joint ventures and strategic alliances with other industry participants. The Directors believe that the Compact Group would be an easier platform to venture overseas than that of the CES Group's existing construction business.
- ⇒ The management of CES Group is familiar with the Compact Group's business. Compact Group is currently a major sub-contractor of the CES Group in respect of the latter's construction business.

The Directors are therefore of the view that the Conditional Subscription Agreement offers the CES Group an opportune investment in a related area of business which is in a turnaround after the implementation of its restructured plans and continued vigilance on investments and cost controls.

RESULTANT EQUITY INTEREST IN COMPACT

In view of the proposed underwritten Rights Issue and the Conversion, the enlarged issued share capital of Compact and the resultant equity interest of CES in Compact would be as follows:

	Before Entering Into the Conditional Subscription Agreement	After Subscribing for the 210,000,000 Renounced Rights Shares and upon Completion of the Rights Issue
CES' Equity Interest		
No. Of Shares Held In Compact	0	210,000,000

No. Of Issued Shares of Compact	221,223,260	774,281,410
Equity Interest (%)	0	27.12%

FINANCIAL EFFECTS OF THE SUBSCRIPTION

The Company's subscription of the 210,000,000 renounced rights shares in Compact pursuant to the completion of Compact's Rights Issue is not expected to have any material impact on the CES Group for this financial year ending 31 December 2002 because the Rights Issue is expected to be completed in the first quarter of 2003.

However, solely for the purpose of illustration, assuming that the Subscription was completed and had occurred on 1 January 2001, the financial impact on the CES Group based on its last audited financial year ended 31 December 2001 would have been as follows:

(a) **Share Capital**

There would have been no impact on the number of issued shares of the Company as the subscription of the 210,000,000 renounced rights shares in Compact would have been subscribed and paid in full by way of cash.

(b) **Net Tangible Assets**

	Before Entering Into the Conditional Subscription Agreement	After Subscribing for the 210,000,000 Renounced Rights Shares and upon Completion of the Rights Issue
NTA	52,699	52,699
NTA per share (cents)	10.76	10.76

(c) **Earnings / (Loss) Per Share**

	Before Entering Into the Conditional Subscription Agreement	After Subscribing for the 210,000,000 Renounced Rights Shares and upon Completion of the Rights Issue
Profit Before Tax	5,314	5,314
Share of loss of Associated Company*	-	-
Profit After Tax	1,517	1,517
EPS (cents)	0.31	0.31

* Share of net loss of associated company of \$2.14 million in FY2001 is offset by recognition of negative goodwill in accordance with the Singapore Statement of Accounting Standards SAS 22 (2000).

(d) ***Gearing***

There would have been no impact on the CES Group's gearing as the subscription of 210,000,000 renounced rights shares in Compact would have resulted in Compact being only an associated company of CES.

INTEREST OF CONTROLLING SHAREHOLDERS, SUBSTANTIAL SHAREHOLDERS AND DIRECTORS

None of the controlling shareholders (as defined in the Listing Manual of SGX-ST), substantial shareholders and directors of the Company has any direct or deemed interest in Compact, and the Conditional Subscription Agreement.

CIRCULAR TO SHAREHOLDERS

A circular to shareholders setting out, *inter alia*, the details of the Subscription, together with notice of the extraordinary general meeting, will be despatched to shareholders of the Company in due course.

DOCUMENTS FOR INSPECTION

A copy of the Conditional Subscription Agreement is available for inspection at the registered office of the Company at 69 Ubi Crescent #06-01 CES Building Singapore 408561 during office hours for three months after the date of this announcement.

By Order of the Board

Raymond Chia
Executive Director

Date: 30 September 2002

Information on the Compact Group

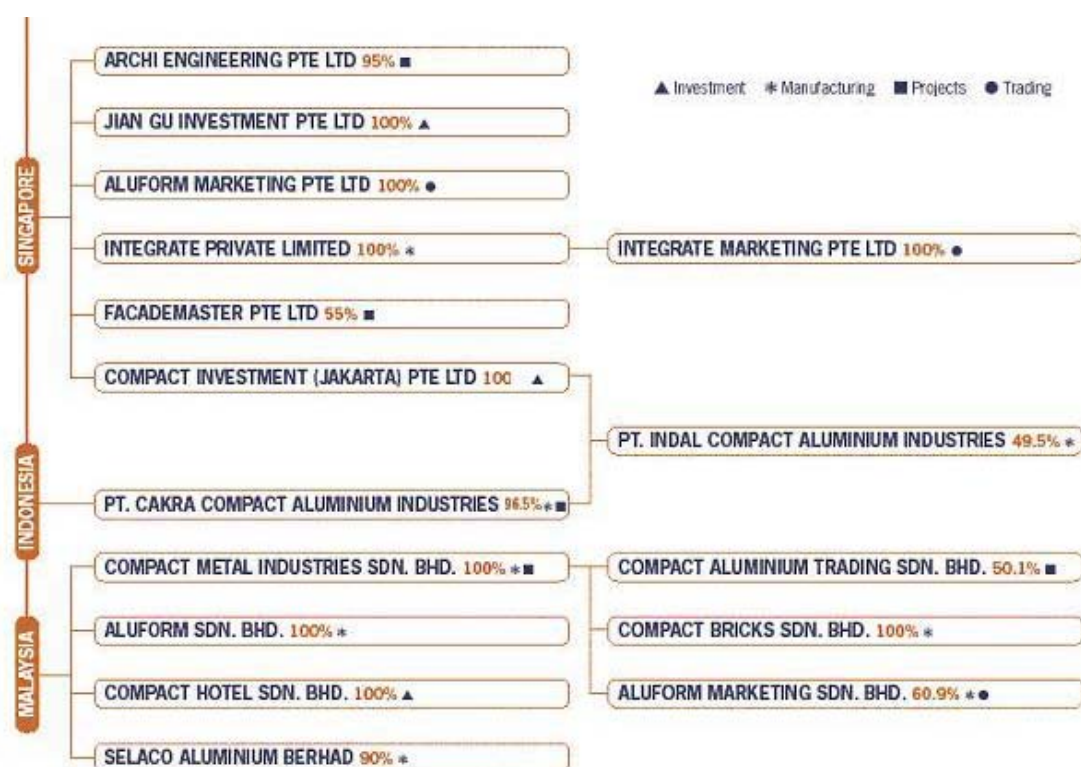
Principal Activities

Compact is a public listed company on the Main Board of SGX-ST. The Compact Group has two core areas of businesses:

- (a) Manufacturing, fabrication, installation and trading of aluminium and aluminium extrusions; and
- (b) Undertaking projects comprising architectural contracts and engineering works.

The Group operates principally in Singapore, Malaysia and Indonesia.

Group Structure



Financials of Compact Group

(S\$'000)	1999⁽¹⁾	2000⁽²⁾ (Restated)	2001⁽²⁾
Turnover	106,899	101,480	118,577
Depreciation and Amortization	7,845	8,713	8,689
Interest on Borrowings	4,508	5,951	6,164
Loss before Tax	1,206	11,060	8,671
Loss after Tax	298	12,168	8,154
Shareholder's Funds	55,611	44,978	41,115

Note:

(1) The accounts for the financial year ended 31 December 1999 was extracted from Compact's Annual Report.

(2) The accounts for the financial years ended 31 December 2000 and 2001 were based on the announced results dated 28 March 2002.

Borrowings of the Compact Group

As at 31 December 2001	Effective interest rate (%)	Total (\$)	Within 1 year (\$)	1 to 5 years (\$)	After 5 years (\$)
Unsecured					
- short-term loans	4.33% to 5.85%	(4,986,800)	(4,986,800)	-	-
- bank overdrafts	6.00% to 6.75%	(7,919,575)	(7,919,575)	-	-
- trust receipts	3.50% to 6.00%	(31,497,739)	(31,497,739)	-	-
- transferable loan	-1.05% to 3.13%	(38,974,000)	(38,974,000)	-	-
Secured					
- short-term loans	4.25%	(2,775,000)	(2,775,000)	-	-
- long-term loans	7.40% to 7.90%	(6,527,827)	(6,527,827)	-	-
- bank overdrafts	7.90% to 8.40%	(5,214,934)	(5,214,934)	-	-
- trust receipts	4.05% to 4.25%	(4,869,510)	(4,869,510)	-	-
Finance lease liabilities	3.50% to 6.25%	(2,296,219)	(1,724,726)	(559,755)	(11,738)
Total		(105,061,604)	(104,490,111)	(559,755)	(11,738)

Controlling Shareholders

Shining Holdings Pte Ltd, Tan Chin Eng, Tan Kay Kiang, Tan Kay Tho, Tan Kay Sing and Tan Hua Joo (collectively, the "Tan Family") own 92,199,000 Shares, both directly and indirectly, in Compact, representing 41.7% of the issued share capital of Compact. The respective shareholdings are as follows:-

Shareholders	No. of Shares held			
	Direct Interest	Percentage of issued capital	Deemed Interest (Pursuant to Section 7 of issued of the Companies Act, Cap. 50)	Percentage of issued capital
Shining Holdings Pte Ltd	56,092,000	25.36	485,000	0.22
Tan Chin Eng	6,601,920	2.98	-	-
Tan Kay Kiang	6,074,000	2.75	56,577,000	25.58
Tan Kay Tho	8,847,920	4.00	58,152,000	26.29
Tan Kay Sing	6,795,000	3.07	56,577,000	25.58
Tan Hua Joo	7,305,000	3.30	79,000	0.04