NATSTEEL: THE BATTLE FOR CONTROL*

Between June 2002 and January 2003, the corporate stage of Singapore witnessed a dramatic saga between players whose ultimate aim was the control of NatSteel, a government-linked cash-rich steel company. The starting point was a proposed management buyout of the company that soon turned into a complex and lengthy takeover battle. Central protagonists of the stage included NatSteel’s board of directors; the investment consortia 98 Holdings and Crown Central Assets; Oei Hong Leong, an enigmatic tycoon with a corporate raider image; Temasek Holdings, the Singapore government’s prestigious investment arm; and DBS, one of Singapore’s largest and most influential banks. For several months, the struggle kept the country’s lawyers, media reporters, share brokers and speculators working overtime. This battle for control was, to say the least, unusual in the context of Singapore’s docile takeover environment.

THE OBJECT OF DESIRE: NATSTEEL

The National Iron and Steel Mills was incorporated in Singapore on 12th August 1961 and publicly listed on the then Stock Exchange of Malaysia and Singapore in 1964. On 30th May 1990, the company changed its name to “NatSteel”. After the city-state’s independence in 1965, NatSteel assumed a central role in the government’s nation building efforts through residential and infrastructural development. Identified as a key to national self-reliance, NatSteel was a Government-Linked Company (GLC), largely held by the Singapore government, through its investment arm Temasek Holdings. By mid 2002, however, Temasek’s stake in NatSteel was 8.1%, with its subsidiary DBS Bank holding another 14.67%.

Having concentrated on steel making for about two decades, NatSteel embarked upon a diversification program in the early 1980s, making its first foray into steel fabrication and then into construction related products and services. In the early

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1990s NatSteel entered the booming electronics manufacturing industry, primarily as a contract manufacturer of electronic and computer components for large multinational firms such as Apple, IBM and Hewlett-Packard. NatSteel subsequently diversified into chemical manufacturing and engineering services.

With profitable operations and a healthy balance sheet, NatSteel began internationalizing its operations in the early 1990s. At its peak in the mid to late 1990s, NatSteel was a large manufacturing conglomerate owning numerous steel mills, cement, concrete and other construction products factories, chemical plants, engineering services and electronics contract manufacturing businesses spread around 14 countries, from China and Vietnam in the east to Mexico and Brazil in the west. Singapore served as the hub, providing R&D, Engineering, Logistics, Sourcing and other support services.

NatSteel’s electronics contract manufacturing business, under the flagship company of NatSteel Electronics, flourished in the early to mid 1990s, winning lucrative contracts such as the provision of motherboards for Apple’s success story, the iMac. The company also bought plants in Mexico and Hungary. But by the late 1990s, NatSteel found it hard to compete against larger global players such as Solectron Corporation and Flextronics International. A drop in Apple’s sales, in addition, badly affected NatSteel electronics’ profitability. In October 2000, NatSteel sold NatSteel Electronics to Solectron for US$2.4 billion, in the context of broader consolidation in the electronics contract manufacturing industry. This sale was described as a divestment of the group’s “non-core” assets, indicating NatSteel’s intent to concentrate on its core steel-making business.

Despite divesting its electronics businesses, 2001 was particularly adverse for NatSteel, reporting a loss of $130 million. The company’s bank debts also soared to $210m. NatSteel accelerated its divestment efforts in an attempt to focus on its core businesses and return to profitability. In May 2002, NatSteel agreed to sell its subsidiary NatSteel Broadway, a large China-based integrated contract manufacturer of plastic and metal electronic components, to Flextronics International.
for $334 million. NatSteel Broadway was NatSteel’s key electronics manufacturing unit, and its divestment effectively amounted to NatSteel exiting the electronics business altogether.

This was followed by the sale of NatSteel’s controlling stake of 66.4% in an integrated steel-maker in Brazil, NatSteel Brasil, to Gerdau Limited of Spain for $255 million in October. NatSteel Brasil was an investment holding subsidiary of NatSteel. These divestments, with net proceeds of $589 million, enabled the company to report earnings of $183.5 million in 2002 and reduce its debts to $114 million. A pre-tax operating profit of $42 million was also reported, with all divisions of the company showing improved performance. The most profitable operations were NatSteel’s mills in China and Vietnam. The company’s coffers now boasted $589 million in cash (Exhibit 1 shows NatSteel’s financial information in 2001 and 2002).

Despite these divestments and several other smaller sales of non-core businesses, NatSteel was still a large and diversified industrial group in 2002, organized along two divisions – the Steel Division and the Industrial Division and mainly serving the construction industry in Singapore and the region. The Steel Division consisted of the regional steel mills in Singapore, Malaysia, China, Philippines and Vietnam with a total annual capacity of 3 million tonnes. The Industrial Division grouped the diversified activities of the company in three sets – Construction Products, Chemicals and Engineering, with the Construction Products being the largest revenue contributor (Exhibit 2 shows the NatSteel divisions and their subsidiaries in 2001).

STEEL INDUSTRY AND SINGAPORE DEVELOPMENTS

The steel industry has traditionally been regarded as a central driver of growth and development of national economies. Historically, it has been a cyclical industry, sequentially exhibiting rapid growth accompanying periods of economic advancement, followed by long periods of overcapacity and decline. The steel industry grew rapidly in the early 20th century and the momentum continued well
after the Second World War, when many nations needed to rebuild their infrastructure. By the 1960s however the industry suffered from severe overcapacity.

An important technological development in the 1970s was the mini-mill technology, challenging the dominance of traditional vertically integrated mills that spanned the whole process of steel production from mining iron ore to final product rollout. Mini-mills relied on recycled scrap iron as a raw material for manufacturing steel. They were smaller and were located near the cities, closer to the demand. Mini-mill technology was cheaper and operations more efficient, posing a threat to established players. NatSteel also operated on the efficient mini-mill model, recycling scrap to meet local steel demand, capitalizing on the rapid economic development of Singapore and the region.

By 2002, however, the global steel industry was saturated, with intense competition and stagnant demand. High fragmentation denied individual players significant market power and depressed profit margins. The commoditization of steel reduced differentiation potential and minimized switching costs and customer loyalty. Overcapacity prevailed despite huge capacity cuts, a trend only helped by the higher use of alternative materials in construction and automobile manufacturing. Meanwhile, scrap iron and energy were getting more expensive and anti-dumping rulings were introduced by several countries.

With Singapore becoming a developed nation, the local demand for steel had subsided through the 1980s. The Singapore Building and Construction Authority had forecast the Singapore construction demand in 2003 to decline by 15.2% to $12 billion. The construction demand in neighbouring Malaysia and Thailand were showing slow recovery while China maintained a moderate growth rate. Falling tariffs on steel imports into Singapore from countries with lower cost structures such as China, and rising local wages were also hitting NatSteel’s bottom-line. Anti-dumping duties against steel imports from Malaysia and Turkey were going to be removed in January 2003, adversely affecting NatSteel’s competitive position in Singapore. Keeping these factors in mind, NatSteel acquired steel plants in
developing countries like China and Vietnam, also facing local competition in these countries. By 2002, with NatSteel predicting lower future earnings for both its divisions, it was clear that the steel industry was past its heyday and was now a “sunset industry” – an unattractive proposition for investors.

On 30th May 2002, Singapore’s Economic Review Committee’s Entrepreneurship and Internationalization Subcommittee (EISC) presented its recommendations, some of which were of relevance to Singapore’s GLCs such as NatSteel. The EISC said Temasek Holdings should be prepared to dilute its stake, or even cede control of its GLCs in cases where such steps were necessary to aid international development of these businesses, or in other instances when it made commercial sense. One important suggestion by the EISC was that Temasek should explore other methods of divestment besides initial public offerings and trade sales. It proposed using such ways as leveraged management buyouts to “give people who are already familiar with the business the opportunity to grow the company”4. It also called on Temasek to review its stable of companies constantly, and be potentially prepared to rationalize, consolidate or divest them accordingly.

This set of recommendations was seen as “writing on the wall” for the GLCs that were no longer perceived to be of strategic interest to the government and its investment arm. In the context of a bleak economic climate, the government was keen to rationalize its investments in favour of strategic businesses and divest its non-core assets.

THE MANAGEMENT BUYOUT OFFER

Ang Kong Hua and Crown Central Assets’ Bid

On 3rd June, NatSteel President Ang Kong Hua, supported by six senior executives launched a surprise $294m bid to take over NatSteel. Ang Kong Hua was 30-year NatSteel veteran. The bid was engineered through Crown Central Assets, an investment holdings company set up by the group of senior managers, which included Member of Parliament and executive vice president of NatSteel – Mr. Gan
Kim Yong. The attempt came as a surprise to the Singapore corporate world as it was the largest ever management buyout attempt for a government linked company.

The proposed deal was in the form of a leveraged buyout, with the financing being provided by DBS Bank, a large shareholder in the company itself with about 14% stake. Crown proposed to take up all the NatSteel assets and investments, while it would not assume the company’s bank debt. After the completion of the sales of the subsidiaries NatSteel Broadway and NatSteel Brasil for a total of $589 million, NatSteel would remain a cash-rich holding company. Crown also proposed that shareholders’ approval will be sought, through an Extraordinary General Meeting (EOGM), to liquidate the company and return its capital to shareholders – its coffers being able to pay up to $1.84 per share – a 16% premium on NatSteel’s last traded price of $1.62. Crown made the offer conditional upon irrevocable undertakings from Temasek and DBS, holding 8.1% and 14.67% of NatSteel shares respectively, to vote in favour of the offer and not to sell their stakes to a third party unless another general offer was made. The NatSteel board was given until 17th June to accept the offer. This deadline was later extended to 15th July upon request from the board.

Crown asserted that the takeover would give NatSteel “an opportunity to further realize its announced plans to unlock and maximize value for its shareholders”5. It further said that “the offer, if accepted, will monetize all remaining assets of NatSteel, thereby facilitating the return and distribution of the company’s capital to shareholders”6. Crown claimed that the liquidation approach made sense, as two of the company’s largest shareholders, Temasek Holdings and DBS, saw their NatSteel investments as “non-core and would seek to exit at the appropriate opportunity”7, which would result in a whittled down NatSteel at the risk of a possible takeover and add to “uncertainties for the management”8.

Meanwhile, Ang Kong Hua – who, in addition to being NatSteel’s President, was also the Chairman of another Government Linked Company, Singapore Telecom, as well as the head of Singapore’s securities watchdog, the Securities
Industry Council (SIC) – had been careful in his comments regarding the management buyout offer, as he was aware of potential conflicts of interest. He said that he could not comment extensively on the offer beyond what was announced. “I’m still an executive director and I have fiduciary duties to perform,” he said, “I cannot be seen as promoting my private interests in this proposed transaction.”

 Asked why he and his management are interested in taking over a business that is generally considered to be in a sunset industry, he replied, “If you own a business, whether it's sunset or sunrise, you've got to make it work, it's harder for you to walk away from it.” He also added that “the offer ensures continuing commitment of existing management and as such, offers the best prospects for the future of the core businesses and the well-being of the employees.”

**Reaction to the Bid**

The MBO offer temporarily ended speculation over the NatSteel stock, as it was suspended from trading on 3rd June prior to the offer’s announcement. Analysts welcomed the bid as an indication of Singapore state’s commitment towards progressively reducing its involvement in business. The market responded positively to Crown’s offer, with NatSteel shares jumping 9.9%, by 16 cents to close to a two year high of $1.78. The stock was also the top gainer and the second most actively traded one in an otherwise unexciting Singapore Stock Exchange amid economic downturn. Most investors ruled out the possibility of a counter offer for the “sunset industry” company. An investment banker noted, “No buyer will want to come if they can’t get management on board. Who's going to help them negotiate the minefields in the business?”

While several analysts and brokers felt that the offer was valued fairly, considering the limited potential of a firm in the steel industry, several analysts and minority shareholders had opposing views. In their view, although the offered price was at 13% premium over the company’s traded value, it was nevertheless a steep
65% below its book value. The net tangible assets of NatSteel, including the cash from the recent sale of the two subsidiaries, would place its shares at a price of $3.34 apiece, making the company worth at least $848 million. Hence, Crown theoretically stood to gain $554 million if the deal went through. Although dissenters acknowledged the fact that it was impossible to sell the mostly money losing NatSteel businesses separately for a total of $1.17 billion (net tangible asset value of NatSteel in June 2002) – as NTA value was seldom reflective of a company’s true value in this industry – they were still not quite convinced by the $1.84 figure. Some also suggested that Ang Kong Hua should disclose how he came up with the valuation, for the sake of transparency, as he knew best about the company’s true worth. They also wondered what value proposition the deal presented to him and his team, so that he was willing to take up such an endeavour. There were also some concerns about the fact that the deal did not strain the pockets of management. One minority shareholder noted: “Since Mr. Ang is able to use the company’s assets as collateral, the deal costs him no money. He’s getting the company at a steal”.

Temasek Holdings’ reaction to the offer was, however, difficult to interpret. It did not sound too enthusiastic about the issue, and clarified that it had not given an in-principle approval for the buyout. It said in a statement: “For Temasek’s 8.1 percent stake in NatSteel, we will, like the other shareholders, take into consideration the views of the financial and legal advisers and will evaluate the proposal based on its commercial merits.” Being a major shareholder, its acceptance was seen as important, if not necessary, for the success of the bid.

Acceptance of Crown’s Offer

On 20th June, the NatSteel board announced that it was also looking for other buyers and that it was in touch with some interested parties. It requested Crown to extend the acceptance deadline to 16th August from 15th July so that the board and its financial adviser, Salomon Smith Barney, could have “an opportunity to conduct
On 16th August, in a final attempt to woo the NatSteel board, Crown announced a raise of 19% in its offer price to take it to $1.90 per share. This valued the offer price for NatSteel to $350 million. Crown also said that it no longer required an irrevocable undertaking from Temasek and DBS to support the deal. The NatSteel board finally accepted the offer, minutes before the midnight deadline, and recommended it to shareholders. It also announced that the MBO offer was the best among five bids in total, and gave shareholders until October to decide upon its fate. The board would now not solicit for additional bidders, but unsolicited competing bids could of course appear until October. If another bid was ultimately successful, it would have to pay a 3% termination fee amounting to $10.5 million to Crown Central Assets. DBS, a major shareholder of NatSteel, which would finance the Crown deal, announced that it would abstain from voting on the issue in the shareholders EOGM.

NatSteel’s stock price jumped to $1.83 from $1.78, as most investors did not anticipate a competing bid to appear. An analyst noted: “I think it (the revised offer) is a good offer for shareholders and represents an easy way for them to cash out. The management led by Ang Kong Hua is the only one in Singapore that can derive value from the assets”16. Ang Kong Hua tried to persuade the shareholders to accept the offer by saying: “The central point of this buyout is that it gives certainty to the business to management and therefore all staff. This means we’ll be able to continue its existing strategy. There will be no surgery.”17 He maintained that the offer represented “full and fair value to the shareholders”18.

The skeptics still criticized the revised price as too low compared to NatSteel’s book value. But they also acknowledged that in case the MBO offer failed and there was no competing bid, the revived market interest in NatSteel shares would be lost and the share price would slip down to its usual sleepy levels of around $1.60. Hence
the investors had few options. As this realization seeped in, the NatSteel stock price settled down to a steady $1.78.

**TWO WAY BATTLE – THE ENTRY OF 98 HOLDINGS**

**Ong Beng Seng and his Consortium**

Even though the chances of the emergence of a competing NatSteel bid appeared to be bleak, there were some important developments taking place in the meantime. Ong Beng Seng, a flamboyant Singapore businessman having interests in the hospitality industry (his company Hotel Properties Limited owned the regional franchises of Hilton, Four Seasons Hotel, Hard Rock Café and Haagen-Dazs) surprisingly showed an interest. He quickly put together a consortium of investors and incorporated a company called 98 Holdings Pte Ltd. Apart from the Ong family’s 50% stake, the consortium included Standard Chartered Private Equity (a fully owned subsidiary of the Standard Chartered Bank) with a 10% stake, and Hong Kong based GEMS Oriental and General Fund II (an investment company formed by Simon Murray, a former lieutenant of Hong Kong tycoon Li Ka Shing) holding a 20% stake. The most surprising member of the consortium, with a stake of 20%, was none other than Temasek Holdings, already a majority shareholder in NatSteel with a direct stake of 8.1%, with its subsidiary DBS Bank holding another 14.67%.

**98 Holdings’ Competing Bid**

On 3rd October, to the surprise of many analysts, 98 Holdings emerged on the scene by placing a $745m bid to buy all NatSteel shares and take the company private. The consortium offered to buy each NatSteel share at $1.93, a price slightly better than Crown’s offer of $1.90. 98 Holdings offered immediate cash for the shares; unlike Crown’s offer, where shareholders would have to wait for up to a couple of years for NatSteel assets to be liquidated to receive the payout.
98 Holdings declared that its offer would hold good provided there was “no material adverse change” during the offer period. It also said that it would continue to employ the management of NatSteel should its bid eventually succeed. David Ban, a director and spokesman for 98 Holdings and Ong Beng Seng’s cousin, said: “I don’t see any problem in keeping them, as both management and us have the same objective – that is to enhance the value of the company. Both of us see value in the company and if they want to continue working with us for the benefit of the company, I don’t see why not.” He also felt that Crown was unlikely to raise its offer to compete with 98 Holdings: “They did their due diligence and have already raised their offer from the earlier bid of $1.84. So why would they want to raise it further? In any case it’s the only other bid on the table.” Asked what he felt about some shareholders’ concern that the price could be too low compared to NatSteel’s book value, he said: “We are businessmen. Of course, we are out to make money, but it’s up to shareholders to decide if our offer is fair.”

**Reaction to the Bid**

Although 98 Holdings’ offer was only slightly better than Crown’s, the market saw it as an omen for an upcoming bidding war for the company. Expecting a counter bid from Crown, NatSteel shares jumped 3.6% to a two-and-half year high of $2.01. The unexpected presence of Temasek Holdings in a consortium that wished to take over a company where it already held a large stake puzzled many analysts. They wondered what motives Temasek could have in bidding for the company when it originally observed its stake in it as non-core. Some offered an explanation that by joining a rival bidder, Temasek was trying to convey a message to Crown’s management buyout team and to other potential bidders that it would not let NatSteel be sold for cheap. They conjectured that Temasek might be trying to bring about a bidding war to encourage the bidders to improve their offer in the general interest of the NatSteel shareholders, which included Temasek itself. In addition,
while Temasek was a part of 98 Holdings’ bid, Temasek’s subsidiary DBS Bank was supporting Crown’s rival bid.

The skeptics also cast doubt on the intentions of 98 Holdings itself, commenting that it was not serious about its bid and was only using it to draw other bidders out by offering only a slightly better price. 98 Holdings defended its position and reiterated its genuine commitment to the deal. It said: “After putting up $745 million and spending all those long and tiring hours on the plan, how can you say we are not serious?”

THE PLOT THICKENS – THE ENTRY OF SANION

The Enigmatic Oei Hong Leong

While the market and media were busy with the Crown / 98 Holdings battle, someone was quietly snapping up NatSteel shares from the market. This mysterious buyer was Oei Hong Leong, a famous Indonesian born tycoon, who had earned a reputation as an asset trader. Son of Indonesian billionaire Oei Ek Tjong of the well-known Widjaja business family, Oei, 53, had extensive business holdings throughout Asia. In the 1980s, he was famously involved in the take over of United Industrial Corporation, and transformed it from a detergent maker into a major property player. In 1988, he bought the Paragon shopping center for $280 million within 48 hours – and sold it soon after with a piece of adjoining land costing $79 million for a total price of $690 million. In 1990, UIC staged the biggest takeover in Singapore of that time by seizing control of Singapore Land for $2.6 billion. Oei later sold his stake in UIC when it was plagued by massive debts and went to Hong Kong to focus on his power plants and factories there. He then relocated from Hong Kong to Singapore in the year 2000. In 2001, when OCBC, a Singapore bank, made a bid for Keppel Capital Holdings (another Singapore company), he had bought 1 million Keppel shares at a price of $3.42; 4 cents above OCBC’s offer of $3.38. When OCBC
later revised its offer to $3.65, Oei sold his shares to make a tidy profit. These past actions had not helped Oei to improve his media image.

On 11th October, much to the surprise of the market, Oei declared that he had built up an 11.1% stake in NatSteel by purchasing 40.6 million shares in the open market for $79.8 million, hence paying an average price of $1.97 per share. The shares were bought by his investment company, Sanion Enterprises. This move suddenly made Oei the second largest shareholder in NatSteel, behind DBS’ 14.67% stake and ahead of Temasek’s 8.1%.

Reaction to Sanion’s Entry

The speculators of a bidding war could not have wished for a better turning point in the developing plot than the entry of Oei Hong Leong. The media was quick to label him a “corporate raider” – an epithet that seemed to be quite popular among the local newspapers during the ensuing takeover struggle – as opposed to Ong Beng Seng’s less intriguing appellation of “hotelier”.

To the investors’ delight, the share prices of NatSteel soared to unprecedented heights of $2.05, in anticipation of an offer from Oei triggering a three-way bidding war. This made NatSteel the best performing stock on the Straits Times Index, showing a 131% gain since the start of the year, in a market that fell by about 20%. Some analysts were, however, wary of Oei’s intentions in view of his reputation as a dealmaker. They felt that he was just there as a watcher and not a player, aiming to make a quick buck out of the anticipated bidding war between 98 Holdings and Crown; and would eventually bow out of the game by selling his stake at huge profits. It also seemed strange that Oei, with no prior experience in the steel industry, would be interested in taking over a relatively unattractive steel-maker and managing it. Hence, overall, he was not seen as a serious contender.
An analyst noted: “If he believed in the steel business, he could have bought the shares when they were at $1.31.”24 Another captured the general sentiment by commenting: “This is getting exciting - NatSteel, a sleepy company for so long, now has possibly three ardent suitors.”25 Another analyst predicted that “He is a dealmaker. It looks like he will be buying more shares.”26 But Oei kept the speculators busy by just saying: “I just saw it as an opportunity to invest in Singapore. At an average price of around $1.97/$1.98 there is very little downside risk.”27 A surprised David Ban of 98 Holdings tried to downplay the confusion by saying: “I’m not going to speculate on Mr. Oei’s purchases but things look interesting.”28 Crown’s Ang Kong Hua refused to comment on Oei’s move or how his team would respond to it. He said that only “God knows”29 why all of a sudden so many people were interested in NatSteel.

Thus, the stage was all set for a much anticipated next move by either of the bidders. Meanwhile, the bidding struggle was fast turning out to be a feast of Singapore’s leading corporate law firms, who were making a fortune advising the various involved parties.

THE ROLLER COASTER TAKEOVER STRUGGLE

98 Holdings Revises Offer

Caught off-guard by Oei’s buying spree and under pressure to keep interest in its bid alive, 98 Holdings declared on 21st October that it would offer shareholders a better price of $2.00 per share of NatSteel, up from the previous quote of $1.93. This offer price was much better than Crown’s competing bid of $1.90 and placed NatSteel’s value at $772 million. It also extended the offer’s validity to 21st November in order to give shareholders more time to act. The market welcomed the price revision, with the share price soaring up to $2.04, as the move confirmed the speculators’ predictions. Many market analysts also said that $2.00, although still
below book value, was almost about the fair price for NatSteel. They recommended the shareholders to consider selling their shares as they felt a higher bid was unlikely. Oei Hong Leong was also not buying above $2.00 in the open market.

There were rumours that the move came as 98 Holdings feared that Oei Hong Leong might align with Crown, the rival bidder. Alternatively, he could be planning to launch a bid by himself. The move, said speculators, was thus devised to pre-empt any such scenario. An explanation of 98 Holdings’ alleged fears was provided by an analyst who said: “Mr. Ang doesn’t really have the financial muscle and Mr. Oei doesn’t have expertise in the steel business. So together they can be quite a potent force and be in a position to wrest the company from Mr. Ong’s consortium”30. 98 Holdings’ David Ban, however, clarified: “We are keeping up with the market and hope this will bring [the bid for NatSteel] to a speedy conclusion”31. NatSteel’s president and Crown’s director Ang Kong Hua’s remarks were limited to: “We are assessing the situation”32.

Meanwhile on 29th October, unfazed by these developments and defying analysts’ predictions, Oei Hong Leong bought another 5.37 million shares at an average price of $2.03 to take his stake to 12.54%. This move sent signals to shareholders that 98 Holdings’ $2.00 price tag might not be final after all.

Crown Changes Stance

Oei’s moves set 98 Holdings’ diplomacy rolling, and it achieved a major and unexpected breakthrough on 31st October. Staying true to the unpredictability of the now famous takeover struggle, Crown declared its support for rival 98 Holdings’ bid. Three out of six members of the management buyout team, including Ang Kong Hua, gave irrevocable commitment to 98 Holdings to support its offer at $2.00 per share. The aggregate shareholdings of the three executives amounted to 2.52% of NatSteel stake. They also promised to try to convince the other three members to do
the same. In return, Ang would continue as director and president of NatSteel and no staff retrenchments would follow if 98’s bid succeeded. He was also offered a board seat and a stake in 98 Holdings if its offer became unconditional.

With this unexpected alignment, 98 Holdings successfully mitigated the challenge posed by Crown as a rival bidder. Some analysts observed that the two parties decided to cooperate perhaps to forestall any move by Oei to make a quick buck out of them. David Ban declared: “The participation of management and the continuing leadership of Ang Kong Hua are important steps for 98 Holdings in its objectives for NatSteel” 33. Crown’s bid, however, would stay and shareholders would still have the option to vote in its favour in a planned shareholder EOGM.

The two rivals now collaborating, all eyes were now on Oei Hong Leong’s next move. Would he launch a competing bid or would he bail out by selling his stake, now that 98 Holdings had made clear that they were not interested in increasing their offer price? Many analysts expected the latter from the reputed “asset trader”, as he stood to gain about $1.5 million in profits if he now sold his shares at $2.00 to 98 Holdings or in the open market. An analyst commented: “See how he bought a stake in Keppel Capital last year, when OCBC launched its bid for Keppel Capital. I really don’t see him managing a company” 34. But Oei, true to his enigmatic reputation, took neither of the expected courses of action. Instead, he responded by continuing his shopping spree the very next day, buying a further 7.96 million shares at an average price of $2.03 to take his stake to 14.7%. This move had a symbolic significance, as he was now the single largest NatSteel shareholder, surpassing even DBS in a matter of just two weeks. Although all sorts of speculations had been made about the man and his motives, Oei Hong Leong himself never really spoke about his plans until that time. Puzzled by his moves, 98 Holdings and Temasek Holdings urged him to make his intentions on NatSteel clear.

The DBS Equity Episode
Oei did not oblige Temasek and DBS but at least it was clear by now that he intended to amass as many NatSteel shares as he could. Speculators wondered whether he would now go on to accumulate more than 30% stake in the company. At 7:30 am on 1st November, Oei walked up to DBS CEO Jackson Tai’s office and personally handed him a two-page letter offering to buy out DBS’ entire stake of 14.67% at a price of $2.03 per share. The 53.9 million shares would cost him $109 million. The offer was indeed an attractive one for DBS, better than 98 Holdings’ $2.00 per share. At the same time, DBS’s parent, Temasek Holdings, was part of the rival bidder that had already offered a $2.00 price for NatSteel’s shares. If DBS accepted Oei’s offer, it would eventually help him amass a whopping 29.37% stake in NatSteel, very close to the crucial 30% mark. In the absence of any comments from the man himself, it was anybody’s guess if he would finally go on to make a general offer for the company after acquiring DBS’s stake. DBS, however, said that in its view Oei should extend the offer to all shareholders.

A few days later, on 4th November, Oei Hong Leong finally spoke vaguely about his intentions on NatSteel. He said that he has had some “exploratory and informal discussions with three financial institutions relating to NatSteel”14. These discussions were intended to explore their interest in financing a possible bid for NatSteel. However, he said that he had not made any formal approach to NatSteel or appointed any financial adviser for the matter.

DBS considered Oei’s offer. On 12th November, 98 Holdings came up with a counter-offer for DBS. It declared that it would match Oei’s price of $2.03 for DBS’s stake and also extend the same price to all the shareholders. This marked the second time 98 Holdings had revised its offer upwards. The same afternoon, DBS CEO Jackson Tai visited Oei Hong Leong at his house to inform him of the competing bid. He was asked if he wanted to increase his offer price to $2.05, extend the $2.03 offer to all shareholders, or sell his shares35. Oei laughed, saying he hadn’t spent $100
million buying NatSteel shares just to make a couple of million in profits. He also declined to increase the offer price or extend it to all shareholders. Next morning, DBS promptly sold its stake to Excel Partners, a member of 98 Holdings for $96 million or $2.03 per share – with an undertaking from them that promised the extension of the same offer to shareholders. The consortium also extended the deadline of the offer to 27th November from 21st November. Meanwhile, Oei changed his mind and agreed to pay up $2.05 for each share owned by DBS – a total of $1 million extra – in a notification sent in late afternoon. DBS said it was too late and that the deal had been done.

DBS CEO Jackson Tai remarked: “We gave Mr. Oei ample opportunity to increase the Sanion Enterprise offer and to extend the offer to all NatSteel Ltd shareholders. Since Mr. Oei did not agree to our proposal, we committed ourselves to Excel Partners Pte Ltd and we live by our word and reputation as bankers.”

Asked why DBS preferred 98’s offer over a similar offer from Sanion, a spokesman answered: “While we have to look after the bank’s interest, as a long-time shareholder of NatSteel, we also wanted what was best to its other shareholders. Excel’s offer not only matched Mr. Oei’s bid (prior to his upping the price), but it also had the added advantage of a general offer.”

98 Holdings’ David Ban said: “We are happy that DBS has accepted our offer, recognizing the value it gives to all shareholders. There is certainty in our offer of $2.03 and we urge all shareholders to accept it.”

But DBS’ hasty action in favour of 98 holdings outraged some of its shareholders, who were of the view that the bank should have waited and extracted the best price for the shares it owned. An angry shareholder questioned: “Why the haste in selling out to Excel when the deadline for Sanion’s offer is at 5pm on Thursday? DBS’ duty should have been to exact the best price for its shareholders and not worry about NatSteel’s shareholders. Why did it not make its sale to Excel
conditional on not there being a higher offer in the meantime, like Temasek Holdings has done in the case of its 7 per cent stake.” DBS CEO Jackson Tai responded: “We are a bank, not some back-alley money changer. This means we need to understand the circumstances of the transaction.”

Indeed, there were not many plausible explanations for the sudden show of haste by DBS to sell its shares to 98 Holdings, after sitting on Oei’s offer for so long. Some critics, including three leading Singapore newspapers, suggested a possible influence by its parent Temasek over DBS’s actions. They issues public apologies and agreed to pay undisclosed damages when Temasek threatened legal action.

**Oei’s Buying Spree and Pseudo-Bid**

Oei Hong Leong, being a seasoned businessman, decided not to let this setback affect him. Instead, he decided to respond by stepping up the momentum on his shopping spree of NatSteel shares in the open market, where they were now trading at around a 15-year high of $2.05. On 14th November, Oei bought 11.5 million shares at $2.04 bringing his stake to 17.8%. The next day, he followed up with another chunk of 3.5 million shares at $2.05 to own 18.77% of NatSteel. By virtue of his mysterious silence, Oei kept his rivals guessing about his game plan. Meanwhile, 98 Holdings, unable to garner enough shareholder acceptances ahead of the 27th November deadline, had extended the deadline yet another time to 4th December. This date incidentally coincided with a crucial extraordinary general meeting for NatSteel shareholders, called by the board to vote on Crown’s management buyout offer.

On 19th November, the Singapore Securities Industry Council (SIC), the share trading watchdog, finally intervened to urge Oei – a 19.6% stakeholder in NatSteel by now – to speak up on behalf of Sanion Enterprises and make its plans clear so that shareholders would have “sufficient information, advice and time to enable them to
reach an informed decision” on the general offer by 98 Holdings. He was given until 13th December to state if he intended to make a general offer for NatSteel.

Soon after the directive, Oei embarked upon another round of shopping. On 22nd November he bought 2.9 million shares at $2.05 to stand at 20.4% ownership of NatSteel. On 25th November, 9.95 million shares bought again at $2.05 took his stake to 23.06%, just two points below the now largest shareholder, 98 Holdings owning a 25% stake. The next day, this figure was taken to 23.65% and then 24.12% the day after. On 29th November, he owned 24.72% of NatSteel. In a final round of buying on 2nd December, he bought a 4.54% chunk of NatSteel in the form of 16.81 million shares priced at $35.5 million. Oei Hong Leong was again the single largest shareholder of NatSteel now, with his 29.25% stake of 108.43 million shares well ahead of 98 Holdings’ 25.05%. Interestingly, he had stopped 2.76 million shares short of surpassing the critical 30% mark, setting the rumour mills in action again.

The very next day, on 3rd December, an interesting development took place. Sanion’s lawyers requested a suspension on the trading of NatSteel shares, citing that the company was considering making a takeover offer and was “in the process of seeking certain regulatory issues”. The suspension was granted during the morning trading session. As a quip on his rival’s name, Oei Hong Leong declared that the take-over would be engineered through a custom-made investment company called “99 Holdings”. But by afternoon, the NatSteel board requested the Singapore Exchange to lift the trading suspension on its shares, informing the Exchange that Sanion had not yet contacted them about any takeover offer. 98 Holdings, whose offer was due to lapse the next day, also supported the board’s action by saying that Oei might not have a firm intention to make an offer. The suspension was lifted and trading was resumed by afternoon. Some observers, including 98 Holdings, saw the suspension request as a ploy by Oei Hong Leong to freeze the share price at $2.05, and to block its rivals from being able to buy shares
last minute at their offer price of $2.03, just a day ahead of its impending offer deadline.

That night, Oei announced that although he had not made a general offer, he had in fact proposed a funding plan for a possible takeover of NatSteel. His company, 99 Holdings, had approached the SIC with a “pre-conditional voluntary cash offer” for all NatSteel shares. One of the conditions of the offer was that 99 Holdings should be able to offset the price it would pay for NatSteel from a special distribution of cash upon its shares. This special distribution would be afforded by the company’s cash hoard of $589 million, or about $1.55 per share, received after the recent sales of its subsidiaries NatSteel Broadway and NatSteel Brasil. In other words, 99 Holdings would make a general offer for NatSteel only if the company paid a one-off cash dividend to all the shareholders before the offer. Hence 99 Holdings would just have to pay the offer price minus the dividend payout to acquire the company – the dividends thus partially financing the takeover. Assuming 99 Holdings paid $2.05 per share, with a $1.55 dividend it would actually only pay 50 cents per share.

The offer was, however, rejected by the SIC, which felt that the pre-condition could impose a burden on the offeree company and create uncertainty among shareholders as to whether the proposed offer would be made. The pre-condition could also compromise the equality of treatment between competing offerors. SIC also said that according to Rule 3.5 of the Singapore Code on Take-Overs and Mergers (the “Takeover Code”), the confirmation of the financial resources required must be in respect of the full offer price and not the cash amount payable by the offer. Oei’s advisers tried hard to find a legal precedent for such a conditional takeover offer, but failed to convince the SIC with examples.

Following Sanion’s failed conditional offer, it said that it would continue to keep its position under review. Sanion also clarified that “its overriding objective
was to seek to maximize shareholders’ value in NatSteel”44, and that “it wanted to be engaged in discussions with NatSteel board on any possible offer and on exercising its rights as a shareholder”45. Critics were, however, not convinced of Oei’s plans. One of them said: “Basically, he’s trying to use the company’s funds to help him finance his general offer”46. Another rued: “It doesn’t seem like he can get funding for the full amount. It’s disappointing because they suspended the shares for him.”47 Some also wondered if his takeover intentions were genuine at all: “I don’t think he wants the company. He’s probably trying to get a higher price (from 98).”48

The EOGM and Oei’s Change of Stance

4th December was a busy day for newsmakers covering the NatSteel takeover story. At 10 am, the shareholders met at the Mandarin Singapore Hotel in an EOGM to discuss the fate of the management buyout offer by Crown Central Assets. Rivals and major shareholders Ong Beng Seng and Oei Hong Leong were conspicuously absent, which surprised many shareholders. 98 Holdings was, however, represented by David Ban. 200 other shareholders attended the passionate four-hour meeting, where the NatSteel board had a hard time explaining the low prices of the bids to dissatisfied shareholders. They felt that since more than half of the company’s net tangible assets of $3.34 per share were in cash, any decent offer should have been at least $2.50.

Many shareholders were infuriated when NatSteel Chairman Dr. Cham Tao Soon asked investors to state their shareholdings as they rose to ask questions. A representative of the Securities Investors Association of Singapore (SIAS) informed the board that such a demand was improper as it threatened to “belittle and undermine”49 small shareholders.

During the meeting shareholders questioned why NatSteel did not disclose to its potential buyers that its financial performance was actually improving after the
losses of the previous year. This could have been unfair to other bidding parties as the management buyout team had the latest information about the company’s performance. The board also informed the shareholders that it had considered giving them cash dividends, but decided that it could make NatSteel “untenable” and cause its share price to fall. During the voting, an overwhelming 98.8% majority of the shareholders present or represented at the meeting, including 98 Holdings, expectedly rejected Crown’s management buyout offer. After the meeting, a shareholder told the press: “I wouldn’t say shareholders were hostile but they were tough on the directors.”

Meanwhile with just 26.7% of NatSteel in its control and the offer deadline looming at 3:30 pm, 98 Holdings announced yet another extension of its offer of $2.03 per share to 9th December. Most shareholders, expecting a better offer from Oei Hong Leong, were not moved.

The ball was in Oei’s court. Oei surprised everyone again by a sudden change in his stance in a bid to shed his “corporate raider” and “asset trader” image. He declared that despite his bid having been rejected by the SIC, he was still in the fray for the takeover of NatSteel. He informed that he was in talks with financial institutions to arrange financing for a possible bid. One of the three parties he had talked to was DBS bank, which, he said, had later “unexpectedly” pulled out of the discussion after issuing a term sheet for the financing. This, according to Oei, had left him with little choice but to mount the failed conditional offer for NatSteel.

Suddenly turning vocal as a major shareholder, Oei expressed his intention of pushing three of his own people into the NatSteel board of directors and then calling for an EOGM before 23rd December to demand a $1.55 per share dividend payout – in the interests of minority shareholders. He gave the NatSteel board until 5 pm next day to respond to his demands and also remarked that he was a “stayer” at NatSteel and would block 98 Holdings’ takeover efforts as they were not in the interests of
shareholders. This was the first time Oei had voiced concerns on behalf of his fellow shareholders, who were, however, still unsure of his real intentions.

Probably intending to back up his statements and to keep up the heat, Oei bought a further 2 million NatSteel shares the following day, bringing his stake to a nagging 29.79%. He again avoided the 30% mark, keeping the speculators busy and the market dizzy. Later in the day, he withdrew his request for three board seats without stating any reasons and said that he wanted to concentrate on the issue of dividend payouts first. It was, however, unlikely that the SIC would have approved his requests for directorships anyway, as it would have given him access to the company’s internal information and hence an unfair advantage over rival 98 Holdings.

The NatSteel board did not arrive at a decision over Oei’s dividend payout request by his 5th December deadline. The board had, however, earlier said that it was seriously considering his request and was consulting appropriate regulatory authorities regarding his proposals. A potential dilemma before the board here was that any such payout announcement at that point in time could seem to be unfair to 98 Holdings’ offer, as it would drain cash from the firm.

Oei displayed patience by accepting the situation and saying that such decisions could not be rushed. He also did not press the board for the deadline as it was “not a hostile bid”.

On 8th December, the NatSteel board responded point by point to Oei’s demands. On the dividend payout issue, the board said that it would reconsider paying a cash dividend to shareholders and was likely to be ready to announce its decision on the matter before 23rd December. It however added that preliminary analysis showed that the actual payout would be considerably less than the $1.55 figure demanded by Oei, as a large dividend payout would increase the company’s leverage, hence reducing its creditworthiness. The action might also put off investors.
by diminishing the company’s market capitalization. On the demand regarding notification of a shareholder EOGM by 23rd December, the board said that the action was not necessary. Since 98 Holdings’ offer could theoretically be extended till 23rd December, the board wanted to “preserve choice” for shareholders by not implementing any cash distribution before that date. This would avoid “potential confusion” before 98 Holdings’ offer actually closed.

98 Holdings’ Persistence and Oei’s Revelation

While the market was busy speculating on Oei’s enigmatic moves, the acceptance deadline for the 98 Holdings’ offer had finally arrived on 9th December. Despite previous extensions, the acceptance figures stood at a dismal 4.7% on top of the 25% of NatSteel that 98 already owned. It was obvious that the shareholders were not much interested in the $2.03 offer, especially since they could sell anyway their shares to Oei Hong Leong at $2.05 in the open market. In a show of persistence, 98 Holdings declared a new offer price of $2.05 per share, a third offer price revision valuing the company at $791 million. The revision was followed by an acceptance deadline extension till 23rd December, and had come despite 98 Holdings’ earlier declaration that the $2.03 price was final unless a competing bid arrived. The consortium said the decision was based upon “feedback received from shareholders and the current trading price of NatSteel shares” and emphasized that “we have committed almost $800 million for the benefit of all shareholders. This is currently the only offer open to all shareholders.”

Analysts believed that this minor price revision would hardly move the shareholders – many of whom believed the stock was worth at least $2.50 and were expecting a better offer from Oei very soon – and would do little to break the impasse. The revised offer would also apply to those who had tendered their acceptances earlier. But, to the concern of DBS shareholders, it was clear that the bank had missed out on an extra $1 million profit on its NatSteel shares. Reports also
revealed that having increased their offer price to the open market price now, 98 Holdings had also resorted to buying NatSteel shares in the market, in a bid to overtake Oei, who, unlike 98, was bound by the 30% mark. Hence, the increase in offer price, although just two cents, gave 98 Holdings a strategic position to be able to buy NatSteel shares in the market.

Hours after the revision announcement by 98 Holdings and four days before the SIC imposed deadline to make his intentions clear, Oei Hong Leong – remarkably more vocal now than the initial stages of the takeover battle – declared that he “currently does not intend to make a general offer”\(^{56}\). Instead, seeking greater control of the company, he came up with an ambitious business plan to dispose off NatSteel’s non-core assets. His company Sanion said that it would focus on the steel business and work with the NatSteel management – “thereby enhancing shareholder value”\(^{57}\). Strategic alliances with his numerous partners in China would be used to achieve this goal. In Oei’s words: “Although the steel industry may be a sunset industry in Singapore, it is a sunrise industry in China. And with strategic partners in China, NatSteel would be able to move the company even further forward”\(^{58}\). But Sanion still intended to pursue the matter of cash distribution, with the “overriding objective of maximizing its investment in the company”\(^{59}\). Oei declared that after 98 Holdings’ offer expired on 23rd December, he intended to exercise his shareholder rights to call an EOGM to vote on the appointment of nine additional directors to the NatSteel board – on top of the existing eight. This would pave the way for a dividend distribution decision in favour of his demands. But he did not comment on how a majority presence in the board would be made possible, as he owned less than 30% of the company’s stock. Oei firmly believed that his actions were “for the good of the minority shareholders because they get to maximize their shareholder value”\(^{60}\). Analysts speculated that a possible reason why Oei could not make an offer was his inability to garner financing in face of his reputation as an asset trader and not a builder of companies. Oei’s current actions, however, seemed to be an attempt to
change this image. But he invited criticism for his rather brief four-paragraph business plan too. One pertinent question was – how did he propose to make forays into China after the company will have been stripped of its cash due to his suggested dividend payouts?

Oei’s announcements brought jubilation to the 98 Holdings camp, as he finally had clarified his intentions – putting the uncertainty to rest for the moment. 98 Holdings was, however, still skeptical of Oei’s proposals and supported the NatSteel board’s stand: “They’re in the best position to propose to shareholders a dividend that will be prudent given the company’s operational and financial requirements. We are quite content to await their decision on this. Mr. Oei is proposing to convene an EGM and we wonder if he’s taken into consideration that the 98 consortium has almost as many shares as he has”.

**The Third Option – Dividends**

Mired between the actions of the bidding rivals and the ever-busy NatSteel board, the company’s erstwhile quiet investors finally spoke out. On 10th December, retail investors demanded that the NatSteel board disclose immediately how much dividend, if any, NatSteel would pay out. The dividend amount would help them evaluate the relative attractiveness of the two options they had: To sell their shares to 98 Holdings or to keep their shares in support of Oei Hong Leong’s plans for the company. As expected, the investors also demanded to know details of Oei’s future plans for NatSteel and the partnerships in China.

The board responded a couple of days later by declaring that although it did not believe that Oei request was “commercially viable”, it nevertheless recommended a cash dividend of 70 cents per share to be paid as soon as possible early next year. It also planned to recommend a further dividend of 27 cents per share once the ownership issues of the company were resolved and its relations with its banks returned to normal in the months ahead. The dividends proposal would be made by the board after 98 Holdings offer closed on 23rd December, no matter what its outcome was. The board, in a bid to convince the shareholders of its steps,
disclosed that some of NatSteel’s bankers had actually terminated certain banking facilities with the firm and threatened to pull credits lines, fearing the company would not have enough reserves left to repay its debts. Hence, the board said: “There is a need for an appropriate balance between cash distribution to shareholders and funding business operation and investment requirements”\textsuperscript{63}. A spokesman from NatSteel’s financial adviser, Salomon Smith Barney, noted: “Sanion has cast certain ideas into shareholders’ head, where these ideas are unrealistic, they have to be addressed”\textsuperscript{64}. The board also pointed out that shareholders should note that with less than 30\% of the total number of shares, Sanion wanted its nominees to make up an absolute majority of the board.

The dividend announcement came as a setback to 98 Holdings’ campaign as it effectively created a third option for the shareholders – to keep their shares and later collect the announced dividends. Any new options were welcome to the shareholders. But there was a potential risk too – if 98’s offer succeeded and the composition of the board changed, the announcements of the current board would not hold good. If, on the other hand, the offer failed, analysts predicted the share prices to relegate to their sleepy pre-takeover-bid levels again, reducing shareholders’ investment value. The consortium, however, went on to buy 7.99 million shares representing 2.16\% of NatSteel in the open market at $2.05, taking its total stake to 32\% including acceptances to its offer.

Meanwhile, journalists were working overtime to cover the unfolding saga. Oei Hong Leong particularly captured the fancy of reporters, who often labeled him with adjectives such as “a shrewd asset trader”. The obvious bias confounded many readers who wondered if the press actually had some hidden agenda behind the passionate reviews of his personal traits. Anyway, continuing his charm offensive to prove that he cared for the minority shareholders, Oei responded to the press by writing the following letter to The Business Times on 13th December\textsuperscript{65}:
“I REFER to the Hock Lock Siew commentary ‘NatSteel saga could hit stalemate (BT, Dec 11) by Catherine Ong.

Ms Ong has made it clear where she stands on the matter. In fact, she has gone further than that. This and her previous article are full of sarcastic, personal comments against me. A quick rundown of some of them: On Mr. Ong and his camp ‘The Ong Beng Seng-led consortium is clearly prudent . . .’ ‘A hard-driving, savvy negotiator . . .’ On Mr. Oei and other NatSteel shareholders ‘. . . makes threatening noises without jumping into the fray . . .’ ‘Mr. Oei has a gift for making Delphic-like statements . . .’ ‘What a genius, or should that be Janus . . .’ ‘. . . he can squeeze $1.55 out of special dividends for them, never mind what consequences that would have for the future of NatSteel . . .’ Mr. Oei speaks ‘from both sides of his mouth’ Mr. Oei’s pre-conditional offer proposal was a ‘half-baked excuse to request a suspension . . .’ ‘Many of (NatSteel’s) shareholders are individuals who aren’t savvy about the business of investing - as the level of their questioning at the EGM showed.’

I have no problem with her heaping praise on Mr. Ong. He is a friend of mine and deserves the praise bestowed on him. I am sure both of us are in NatSteel for business reasons. While Ms Ong may enjoy gunning for me personally, there is no need to insult minority shareholders.

Oei Hong Leong, Singapore”

Despite its alternative dividends proposal, the NatSteel board recommended in a circular to shareholders that they accept 98 Holdings’ offer to take over the company. The circular noted that 98 Holdings’ offer price of $2.05 “represents an immediately realisable and certain proposition”66 and was in contrast to Sanion’s uncertain plans for NatSteel. This recommendation by NatSteel’s independent directors was based on advice given by the company’s external financial adviser, ANZ Singapore.

Oei Hong Leong, persistent in his demand for exacting a larger payout, rejected the board’s announced dividends plan. He was of firm view that NatSteel can well afford such a payout. To support his demands, he offered his proceeds from
the dividend payout – a sum of $171 – as a bridging loan to NatSteel, if it declared a $1.55 dividend. The condition of this loan would be the failure of the 98 Holdings’ bid and the appointment of his nine candidates to the board.

98 Holdings Gains Ground

In view of the dividends proposal announced by NatSteel, the SIC gave 98 Holdings until 20th December to revise its offer price if it so desired. A revision was widely anticipated by the market. An analyst noted: “They are under pressure to raise the offer upwards, because based on their offer of $2.05 and the proposed cash distribution of 97 cents, the net outlay for 98 is much smaller. The SIC is giving 98 space to revise its bid upwards”67. With the 23rd December acceptance deadline fast approaching, 98 Holdings stepped up the efforts to garner NatSteel shares or shareholder acceptances of its offer. It was 98 Holding’s turn to go shopping.

On 16th December, Temasek Holdings – a key member of 98 Holdings itself – announced that it had sold its 7.9% (Temasek had reduced its holdings from 8.1% to 7.9% in the meantime) NatSteel stake to the consortium at $2.05 per share. This deal was a huge confidence booster to the consortium, as Temasek had just given a conditional undertaking to accept 98 Holdings’ offer – reserving the right to accept a higher one. Temasek declared: “Temasek is satisfied that it has achieved its objective of realising fair value for its investment in NatSteel”68. Temasek’s move surprised market observers who could not understand why Temasek was not willing to wait until 20th December to see if 98 Holdings revised its offer upwards. The sudden move was reminiscent of its subsidiary DBS’ haste to sell its shares to 98 Holdings despite having its options open. Some took the move as an indication to shareholders that 98 Holdings might not revise the price upwards after all, and it was time to sell off their shares. Another psychological boost came when Ang Kong Hua, the NatSteel President, sold his 3.3 million shares to 98 Holdings, making a $1.3 million profit. Added to this was some open market buying, which saw 98 Holdings’ stake (including acceptances) jump to 36.49% – making 98 Holdings the largest shareholder.
On 18th December, 98 Holdings announced a fourth increase in its offer price to $2.06 per share. This marginal increase allowed them to buy more time by allowing them to push the acceptance deadline further to 3rd January 2003. The consortium said: “although we believe $2.05 represents fair value, we have revised our offer to $2.06 as it will be very useful for shareholders to have more time to deliberate further on our offer, particularly given the time constraints many will be facing during the festive season”69. It also blamed Sanion for the complications: “We have done this because of the uncertainties arising from the announcements made by Sanion regarding the assets and future business requirements of NatSteel”70. It also added: “We have reservations about any premature and substantial depletion of the company's assets and resources, without a clear understanding and evaluation of the NatSteel's group's operational, financial and strategic commitments.”71

NatSteel shares jumped to a 17 year high of $2.07, with the market expecting a higher eventual offer from 98 Holdings. Observers noted that 98’s actions showed its lack of confidence in its open offer, which had only generated a meager 4.57% acceptances so far. One of the first takers of the revised offer was again Ang Kong Hua, who sold another 1.5 million shares of his stock options at $2.06 each. He cited a similar reason as Temasek: “I have elected to sell all my holdings of NatSteel shares as the price of not less than $2.05 per share represents, in my view, a fair value for the shares and as an outright sale of the shares enables me to realise the value of my NatSteel shares”72. A few days later, NatSteel Chairman Dr. Cham Tao Soon also agreed to sell his 40,000 shares to 98 Holdings at $2.06. The consortium said that it would also continue to buy in the open market, “thereby giving shareholders another alternative, particularly for those who prefer to have a clear exit for their investment in NatSteel”73. It upped its stake to 36.72%, bolstered by some off-market deals. There were rumours that NatSteel shares had been put under surveillance by the Singapore Exchange, as some blocks of shares were traded above the offer price in the market. There was speculation that some buyers had pumped up the price to keep 98 Holdings away from buying from the market. But 98
Holdings attempted to put all speculation to rest by declaring that its $2.06 offer was final. Sanion rejected the offer and called on the shareholders not to accept it, as in its view it did not represent a fair value of the stock.

While 98 Holdings was busy shopping, Oei Hong Leong was in Beijing – busy exploring steel alliances with Chinese players and government officials. Back in Singapore, the NatSteel board rejected Oei’s bridging loan offer for dividend payment, saying the company could land into financial crisis if it agreed to his terms: “The board does not believe it is commercially viable for the company to distribute 1.55 SGD per share in the immediate future and still function as a properly capitalised group capable of maintaining its performance and growth prospects.” 98 Holdings said that it opposed Oei’s dividends demand and would vote against any proposal by Oei to gain control of the NatSteel board. It said that it had “reservations about Sanion’s dividend proposals as they are being made without the benefit of a detailed review of the operations of the company.” It also labeled Sanion’s NatSteel plans as “general and vague” by saying: “Until Sanion gives details of the synergies, the strategy... it’s all somewhat general and vague and therefore not very helpful.”

98 Holdings did not want to take any chances this time. It took out advertisements in newspapers, detailing the merits of their offer and what options the shareholders had. Christmas cards, signed by Ong Beng Seng, were also sent to NatSteel shareholders to rally their support. Each card had an informative letter reminding shareholders of the offer and its merits.

The Final Countdown

On New Year’s Eve, a restless 98 Holdings announced yet another extension of the acceptance deadline – this time to 10th January 2003. The appeal to SIC for extension was not only made by 98 Holdings, but also by the NatSteel board, “to give shareholders sufficient time to allow them to reach an informed decision on the offer.” 98 Holdings by now had 40.65% of NatSteel shares, including acceptances – still almost 10% away from the target. SIC invited some criticism for allowing 98 to
extend the offer so many times, despite its bid being the only one on the table. Shareholders felt this possibly enabled the consortium to keep its offer price low.

On 6th January, the NatSteel board took out a full page advertisement in Singapore newspapers that told the shareholders in bold print – “you can withdraw your acceptances” to 98 Holdings’ offer. The advertisement amused and puzzled a lot of people, as the board had recommended to shareholders to accept 98 Holdings’ offer in the past. Oei Hong Leong was, however, not amused and issued a notice to the board through his legal advisers demanding an explanation of its contradictory actions. He alleged that this advice amounted to the board trying to frustrate an offer on the table – an action that violated the Takeover Code 78. On the other hand, some critics felt that the NatSteel board was trying to aid 98 Holdings’ efforts by helping it to increase its stake through market purchases of shares, as mere acceptances did not amount to a firm commitment from shareholders. These doubts gained support when the very next day, 98 Holdings itself took out full page advertisements urging the shareholders to withdraw their acceptances and to sell in the open market. The advertisement also had a cut-out form to facilitate easy withdrawal of acceptances. NatSteel defended its advertisement saying that it was meant to remind the shareholders of different courses of action available to them regarding 98 Holdings’ offer. They could either accept the offer, sell the shares in the market or in off-market deals, or hold on to their shares after withdrawing their acceptances to 98’s offer. NatSteel also explained that the paragraph about withdrawal of the offer was in response to queries from anxious shareholders who had earlier accepted 98’s offer, but now wanted to sell in the open market owing to uncertainties regarding the offer’s success.

On 7th January SIAS asked NatSteel to release its third and fourth quarter results, so that shareholders could make a more informed decision. The results had been withheld by the NatSteel board, which maintained that it was not appropriate to release them, in view of the current bids for the company. NatSteel president Ang Kong Hua, on behalf of the board, rejected SIAS’ call saying that releasing the latest
results was “neither feasible nor appropriate”\textsuperscript{79}. Ang also said that according to the Takeover Code\textsuperscript{80}, the board was not allowed to announce any results after the 39th day from the posting of an offer document, which was 29th November in NatSteel’s case.

The NatSteel board also came under criticism by SIAS for not including comments by some shareholders in the minutes of the 4th December shareholder EOGM. This prompted SIAS to issue a general directive to firms to include even minor details of shareholder meetings, for the sake of greater transparency. Any such omission, according to SIAS, was “totally unacceptable”\textsuperscript{80} and “represents total disregard for and disrespect of minority shareholders”\textsuperscript{81}. SIAS also asked why the NatSteel board had not applied to the Singapore government on time for an extension of an anti-dumping tariff order against steel imports. NatSteel had not appealed against the lifting of the tariff, which would come into effect on 23 January 2003, thereby dealing a big blow to NatSteel’s competitive position in Singapore. NatSteel application for extension, which came much after the deadline, was rejected by the government. Some critics commented that the board was probably so engrossed in the takeover battle that they could no longer take care of the company’s other important strategic issues.

The New Year had now set in, as had the realization in the 98 camp that it could be their last chance to get control of NatSteel. By 6th January, aggressive open market buying of 3.13 million shares at $2.06 took 98’s stake to 35.23% plus acceptances of 7.55% – still over 7% short of target. 98 Holdings was now openly encouraging shareholders, through full page newspaper ads, to sell in the open market instead of placing acceptances, as this was a sure and faster way to increase its stake. Surprisingly, after a month’s silence, Oei Hong Leong suddenly appeared and bought 1 million NatSteel shares at $2.07 – apparently to frustrate 98’s efforts or to push the market price up. He again stopped short of the 30% mark at 29.83%. 98 Holdings pledged to block Oei’s actions in NatSteel even if their offer did not eventually succeed. By 7th January, 98 Holdings controlled 43.85% of NatSteel. This
figure increased to 44.72% by 8th January. On the next day, the consortium bought a chunk of 9.47 million shares to take its tally to 47%. By now, many brokers were also advising shareholders to sell in the open market for quicker and certain returns.

The D-Day finally came and 98 Holdings was still lagging by 3%. Industry observers, although admitting that this had been a close struggle, were convinced that the consortium could not possibly build up the requisite stake by the 3:30 pm SIC deadline of January 10th. To make matters worse, Oei appeared again and bought 250,000 shares at $2.07 – hindering 98 Holding’s last ditch efforts. He now controlled 29.9% of NatSteel.

Working against the odds, 98 Holdings engaged in frantic buying efforts. Many last-minute sellers, finally convinced that this was their best chance, appeared and there was heavy trading throughout the day. A total of 7.56 million shares were traded on the day. 98 Holdings got its hands on about 6.5 million of them. The situation was still unclear when the clock struck 3:30. But a jubilant 98 Holdings soon divulged that they had emerged victors in a nail biting finish, finally building up a 50.31% controlling stake in NatSteel. The consortium’s battle for NatSteel had lasted for 99 days, finally culminating in success. The offer subsequently went unconditional and would stand for two more weeks until 24th January.

The events of January 10th surprised industry observers; but finally the curtains had come down on a seven month long takeover epic that had taken the Singapore corporate world by storm. Oei Hong Leong had successfully destroyed any dreams that 98 Holdings could have had of buying all NatSteel shares and taking the company private. It remained to be seen if Oei would finally sell his stake in NatSteel to 98 Holdings or would continue to be a “stayer”, demanding bargains for the minority shareholders.

The next day, as Ong Beng Seng walked into his office, he found a bouquet of flowers waiting for him. It was a congratulatory gift from his friend, Oei Hong Leong.
<table>
<thead>
<tr>
<th></th>
<th>The Group</th>
<th></th>
<th>Change</th>
<th>The Company</th>
<th></th>
<th>Change</th>
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<tbody>
<tr>
<td></td>
<td>2002</td>
<td>2001</td>
<td>%</td>
<td>2002</td>
<td>2001</td>
<td>%</td>
</tr>
<tr>
<td>Sales</td>
<td>S$'000</td>
<td>S$’000</td>
<td>%</td>
<td>S$’000</td>
<td>S$’000</td>
<td>%</td>
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<tr>
<td>Cost of sales</td>
<td>1,738,903</td>
<td>1,585,395</td>
<td>9.7</td>
<td>325,635</td>
<td>322,952</td>
<td>291,835</td>
</tr>
<tr>
<td></td>
<td>(1,551,734)</td>
<td>(1,449,331)</td>
<td></td>
<td>(325,635)</td>
<td>(322,952)</td>
<td></td>
</tr>
<tr>
<td><strong>Gross profit / (loss)</strong></td>
<td>187,169</td>
<td>136,064</td>
<td>37.6</td>
<td>2,683</td>
<td>1,1,346</td>
<td>7,473</td>
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<tr>
<td>Other operating income</td>
<td>18,399</td>
<td>33,781</td>
<td></td>
<td>11,346</td>
<td>26,825</td>
<td></td>
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<tr>
<td>Distribution costs</td>
<td>(29,992)</td>
<td>(25,813)</td>
<td></td>
<td>(106)</td>
<td>(7,179)</td>
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<td>Administrative expenses</td>
<td>(85,637)</td>
<td>(118,853)</td>
<td></td>
<td>(299,308)</td>
<td>(35,089)</td>
<td></td>
</tr>
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<td>Other operating expenses</td>
<td>(27,033)</td>
<td>(18,164)</td>
<td></td>
<td>(299,308)</td>
<td>(4,528)</td>
<td></td>
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<tr>
<td><strong>Profit / (loss) from operations</strong></td>
<td>62,906</td>
<td>7,015</td>
<td>796.7</td>
<td>(20,081)</td>
<td>15,443</td>
<td>(33,627)</td>
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<td>Investment income</td>
<td>1,214</td>
<td>1,519</td>
<td></td>
<td>5,281</td>
<td>(3,253)</td>
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<td>Interest income</td>
<td>6,539</td>
<td>27,350</td>
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<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Finance costs</td>
<td>(12,142)</td>
<td>(22,082)</td>
<td></td>
<td>(26,825)</td>
<td>(10,316)</td>
<td></td>
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<tr>
<td>Share of results of associated companies</td>
<td>2,675</td>
<td>17,373</td>
<td></td>
<td>-</td>
<td>-</td>
<td></td>
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<tr>
<td><strong>Profit / (loss) before taxation and exceptional items</strong></td>
<td>61,192</td>
<td>31,175</td>
<td>96.3</td>
<td>(2,610)</td>
<td>56,653</td>
<td>11,196</td>
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<td>Exceptional items</td>
<td>149,036</td>
<td>(149,257)</td>
<td></td>
<td>(198,868)</td>
<td>(198,868)</td>
<td></td>
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<tr>
<td><strong>Profit / (loss) before taxation</strong></td>
<td>210,228</td>
<td>118,082</td>
<td>n/m</td>
<td>54,043</td>
<td>8,000</td>
<td>(187,672)</td>
</tr>
<tr>
<td>Taxation</td>
<td>(12,175)</td>
<td>21,502</td>
<td>n/m</td>
<td>20,000</td>
<td>20,000</td>
<td>n/m</td>
</tr>
<tr>
<td><strong>Profit / (loss) after taxation</strong></td>
<td>198,053</td>
<td>96,580</td>
<td>n/m</td>
<td>62,043</td>
<td>(167,672)</td>
<td>n/m</td>
</tr>
<tr>
<td>Minority interests</td>
<td>(14,517)</td>
<td>(28,337)</td>
<td>n/m</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Net profit / (loss) for the year</strong></td>
<td>183,536</td>
<td>(124,917)</td>
<td>n/m</td>
<td>62,043</td>
<td>(167,672)</td>
<td>n/m</td>
</tr>
</tbody>
</table>

n/m: not meaningful

**Exhibit 1 (a): NatSteel Income Statements for 2001 and 2002 (Unaudited)**

(Source: NatSteel Ltd Full Year Financial Statement and Dividend Announcement 2002)
<table>
<thead>
<tr>
<th></th>
<th>The Group</th>
<th>The Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31.12.02</td>
<td>31.12.01</td>
</tr>
<tr>
<td></td>
<td>S$’000</td>
<td>S$’000</td>
</tr>
<tr>
<td>Share Capital</td>
<td>186,779</td>
<td>181,441</td>
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<tr>
<td>Share Premium</td>
<td>6,881</td>
<td>-</td>
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<tr>
<td>Reserves</td>
<td>973,581</td>
<td>742,791</td>
</tr>
<tr>
<td>Shareholders’ Funds</td>
<td>1,167,241</td>
<td>924,232</td>
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<tr>
<td>Deferred Income</td>
<td>11,757</td>
<td>-</td>
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<tr>
<td>Minority Interests</td>
<td>38,221</td>
<td>138,351</td>
</tr>
<tr>
<td></td>
<td><strong>1,217,219</strong></td>
<td><strong>1,075,471</strong></td>
</tr>
<tr>
<td>Current Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stocks</td>
<td>140,859</td>
<td>200,053</td>
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<td>Receivables and prepayments</td>
<td>354,329</td>
<td>430,326</td>
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<td>Cash and bank balances</td>
<td>741,331</td>
<td>201,395</td>
</tr>
<tr>
<td></td>
<td><strong>1,236,519</strong></td>
<td><strong>831,774</strong></td>
</tr>
<tr>
<td>Non Current Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>373,553</td>
<td>585,698</td>
</tr>
<tr>
<td>Investment properties</td>
<td>14,670</td>
<td>14,988</td>
</tr>
<tr>
<td>Subsidiary companies</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Associated companies</td>
<td>92,223</td>
<td>353,343</td>
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<tr>
<td>Long term investments</td>
<td>48,495</td>
<td>49,537</td>
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<tr>
<td>Long term receivables</td>
<td>19,958</td>
<td>11,107</td>
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<tr>
<td>Intangible assets</td>
<td>23,307</td>
<td>2,129</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>6,644</td>
<td>8,436</td>
</tr>
<tr>
<td></td>
<td><strong>578,850</strong></td>
<td><strong>1,025,238</strong></td>
</tr>
<tr>
<td>Total Assets</td>
<td><strong>1,815,369</strong></td>
<td><strong>1,857,012</strong></td>
</tr>
<tr>
<td>Current Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts due to bankers</td>
<td>(263,448)</td>
<td>(271,918)</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>(221,055)</td>
<td>(294,787)</td>
</tr>
<tr>
<td>Taxation</td>
<td>(19,427)</td>
<td>(15,442)</td>
</tr>
<tr>
<td></td>
<td><strong>(503,930)</strong></td>
<td><strong>(582,147)</strong></td>
</tr>
<tr>
<td>Non Current Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for retirement benefits</td>
<td>(5,490)</td>
<td>(9,427)</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>(28,363)</td>
<td>(42,498)</td>
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<tr>
<td>Other unsecured notes</td>
<td>(27,721)</td>
<td>(27,721)</td>
</tr>
<tr>
<td>Long term loans</td>
<td>(22,046)</td>
<td>(109,091)</td>
</tr>
<tr>
<td>Other non current liabilities</td>
<td>(10,600)</td>
<td>(10,657)</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td><strong>(598,150)</strong></td>
<td><strong>(781,541)</strong></td>
</tr>
<tr>
<td></td>
<td><strong>1,217,219</strong></td>
<td><strong>1,075,471</strong></td>
</tr>
</tbody>
</table>

**Exhibit 1 (b): NatSteel Balance Sheet at the end of 2001 and 2002 (Unaudited)**

(Source: NatSteel Ltd Full Year Financial Statement and Dividend Announcement 2002)
### Exhibit 1 (c): NatSteel Cash Flow Statement for 2001 and 2002 (Unaudited)

(Source: NatSteel Ltd Full Year Financial Statement and Dividend Announcement 2002)
NatSteel Key Companies: Steel Division

- Singapore Steel Operations
  - Subsidiary Companies
    - NatSteel Ltd
    - Eastern Steel Services Pte Ltd
    - Eastern Wire Pte Ltd
    - NatSteel Trade Int’l Pte Ltd
    - Materials Recycling Pte Ltd
    - Burwill Trading Pte Ltd

- Regional Steel Operations
  - Subsidiary Companies
    - Wujin NatSteel Co Ltd
    - Wuxi Jinyang Metal Products Co
    - Best Bar Pty Ltd
    - Eastern Steel Fabricators Phils. Inc.
    - EW Reinforcement Pte Ltd
  - Associated Companies
    - SteelAsia Mfg Corporation
    - NatSteelVina Co Ltd
    - Aco Minas Gerais SA
    - Southern Steel Berhad
    - Southern NatSteel (Xiamen) Ltd

NatSteel Key Companies: Industrial Division

- Constructions Products
  - Eastern Industries Pte Ltd
  - Subsidiary Companies
    - Eastern Pretech Pte Ltd
    - Eastern Pretech (M) Sdn Bhd
    - Eastern Pretech (HK) Ltd
    - Runhong Pretech Engg, Co Ltd
    - National Cement Industry Pte Ltd
    - Eastern Concrete Pte Ltd
    - Eastern Bricks Pte Ltd
    - PT Sindo Batu Bata Industries
    - EI Resources Sdn Bhd
    - PT Eastern Indotama Resources
    - EI Marine Pte Ltd
    - Oy Parmarine Ltd

- Chemicals Group
  - NatSteel Chemicals Ltd
  - Subsidiary Companies
    - NatSteel Chemicals (M) Sdn Bhd
    - Eastech Steel Mill Services Pte Ltd
    - Eastech Steel Mill Svcs (M) Sdn Bhd
    - PT Eastech Indonesia
    - NatSteel EnviroTech Pte Ltd
    - NatSteel Guinard Oil Svs Pte Ltd
  - Associated Companies
    - National Oxygen Pte Ltd
    - Bangkok Synthetics Co Ltd
    - Southern Rubber Works Sdn Bhd
    - Guizhou Dazhong Rubber Co Ltd

- Engineering Group
  - NatSteel Engineering Pte Ltd
  - Subsidiary Companies
    - Soon Douglas (Pte) Ltd
  - Associated Companies
    - RCR Tomlinson Ltd

NatSteel Key Companies: Electronics Division

- NatSteel Broadway Ltd
- B.J. Industries Pte Ltd

Exhibit 2: NatSteel Divisions and Subsidiaries in 2001
(Source: NatSteel Ltd Corporate Website and Annual Report 2001)

Note: NatSteel Brasil was an investment holding subsidiary and is thus not shown in this chart

40
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55 The Business Times, 10 December 2002, Oei declares his intention: no general offer for NatSteel
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57 The Straits Times, 10 December 2002, Oei unveils plan as 98 Holdings raises offer price
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