
PROPOSED DISPOSAL BY CONTEL CORPORATION LIMITED (THE “COMPANY”) OF ITS EXISTING BUSINESS, IN ITS ENTIRETY, TO GOOD IDEA LIMITED (“GIL”)

1. INTRODUCTION

The board of directors (the “**Board**”) of Contel Corporation Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) is pleased to announce that the Company has entered into a sale and purchase agreement dated 31 January 2009 (the “**Business Disposal Agreement**”) to dispose of the entire Business (as defined below) of the Company, for a cash consideration of US\$22,500,000 to Good Idea Limited (“**GIL**”), a private company incorporated in the Cayman Islands (the “**Proposed Disposal**”). GIL is a wholly-owned subsidiary of Sharpthink Finance Limited (“**ST**”), a substantial shareholder of the Company.

The existing business (the “**Business**”) of the Company consists of its manufacturing and sale of digital media products with original design manufacturer and original equipment manufacturer capabilities, as carried on by the Company under its own name as well as under the names of its subsidiaries, and without prejudice to the generality of the foregoing, comprises:

- (i) the goodwill of the Company in connection with the Business and the exclusive right for GIL and GIL’s successors in title and licensees to use the trade name of “Contel Corporation Limited” or “Contel” and all other names and marks used at any time in relation to the Business and to represent itself as carrying on the Business in succession to the Company, including the right to all lists and particulars of customers and suppliers of the Business and all other trading, operating and confidential information relating to the Business and the right to the benefit of all restrictive covenants and confidentiality obligations undertaken by persons previously employed or engaged in the Business (the “**Goodwill**”);
- (ii) the goods purchased or agreed to be purchased for resale, consumable stores, raw materials and components for incorporation into products for sale, products and services in the course of production, finished goods and other assets of the Company, in each case for use or resale in the ordinary course of the Business (the “**Stocks**”);
- (iii) the shares of the companies in which the Company holds shares (whether directly or indirectly) (the “**Included Target Shares**”);
- (iv) the benefit as well as the burden of all contracts, undertakings, arrangements, engagements and obligations of, and rights, benefits and licences enjoyed by, the Company which have been entered into or undertaken in connection with the Business or otherwise (whether for the purchase or supply of any goods or services by or to the Company, or of any other nature whatsoever) (the “**Contracts**”);
- (v) all trade debts (including, in addition, goods and services tax, if applicable) due and payable to the Company in respect of the Business, up to and including the Transfer Date (as defined below) (the “**Book Debts**”);
- (vi) the plant, machinery, equipment, tools, furniture, fixtures and fittings owned by the Company and/or used or intended to be used in connection with the Business (the “**Plant and Equipment**”);
- (vii) all the Company’s rights against third parties which relate to the Business; and

- (viii) all other assets owned by the Company and used wholly or mainly in the ordinary course of the Business,

but shall not include:

- (a) all liabilities, costs or expenses as may be claimed and are outstanding against the Company or any of its subsidiaries, in respect of the Company's US\$8,000,000 zero coupon convertible bonds due 2010 (the "**Convertible Bonds**"); and
- (b) all incurred and adjudged liabilities, duties and obligations of every description of the Company in respect of or consequent to any default or failure in paying of settling such liabilities, costs or expenses as at the date of the Business Disposal Agreement.

((a) and (b) collectively known as the "**Excluded Liabilities**")

2. RATIONALE FOR THE PROPOSED DISPOSAL

The Independent Directors are of the view that the Proposed Disposal could be in the interests of the Company as the outlook of the Business is increasingly challenging in the current economic climate. The Independent Directors understand that the slowdown of consumer spending in Europe and United States of America, which are the main markets for the Company's products, have and will for the foreseeable future continue to adversely affect the Company's performance. In addition, the world-wide credit crunch has affected the ability of the Company to obtain the requisite finance to operate efficiently, as trade credit has become increasingly rare and working capital lines difficult to secure. Given the unfavourable business conditions of the industry, the Company may require further financial resources to maintain the sustainability and viability of the business during the current economic crisis.

In addition, the proceeds from the Proposed Disposal will be used, amongst other things, as a source of funds for repayment of the early redemption of the Convertible Bonds as set out in (a) the subscription agreement dated 29 June 2007 between the Company and ABN Amro Bank N.V. (London Branch) ("**ABN Amro**" or the "**Bondholder**"); (b) the trust deed dated 3 August 2007 between the Company and Citibank, N.A. London; and (c) the agency agreement dated 3 August 2007 between the Company, Citibank, N.A. London, and other agents named therein (collectively, the "**Convertible Bonds Contracts**"). As announced by the Company on 13 January 2008, ABN Amro has exercised its option to have all of the Convertible Bonds, which are in the aggregate principal amount of US\$8,000,000, redeemed on 2 February 2008 (the "**Early Redemption**"). As the Company does not presently have the financial resources to repay the Convertible Bonds, the Proposed Disposal represents one available basis to request the Bondholder to extend the Early Redemption date or if possible, refinance the indebtedness.

3. THE PROPOSED DISPOSAL

3.1 THE PROPOSED DISPOSAL AS A MAJOR TRANSACTION

The Company entered into the Business Disposal Agreement on 31 January 2009 to effect the Proposed Disposal for a cash consideration of US\$22,500,000 (the "**Disposal Consideration**"). The Disposal Consideration is subject to adjustment pursuant to Clause 3 of the Business Disposal Agreement. Completion of the Proposed Disposal ("**Completion**") is conditional upon, among other things, the approval of Shareholders being obtained for the Proposed Disposal and the Company having received from an independent financial adviser to be appointed (the "**IFA**") an opinion that the transaction contemplated under the Business Disposal Agreement is on normal commercial terms and is not prejudicial to the interests of the Company and its minority shareholders.

Based on the audited financial statements of the Company for the 15 months ended 31 March 2008, the relative figures of the Proposed Disposal computed on the bases set out in Rule

1006(a) to (d) of the Listing Manual of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) (the “**Listing Manual**”) are as follows:

Relative figures under Rule 1006

Rule 1006(a)	
Net asset value of the assets to be disposed of	US\$70,554,000
Net asset value of the Group	US\$62,384,000
Size of relative figure	113.1%

Rule 1006(b)	
Net profits ⁽¹⁾ attributable to the disposed assets for the 15 months ended 31 March 2008	US\$8,130,000
Net profits ⁽¹⁾ of the Group for the 15 months ended 31 March 2008	US\$8,130,000
Size of relative figure	100.0%

Rule 1006(c)	
Aggregate value of consideration to be given	US\$22,500,000
Company’s market capitalisation ⁽²⁾ as at 30 January 2009, being the market day immediately preceding the date of the Business Disposal Agreement	US\$10,239,185
Size of relative figure	219.7%

Rule 1006(d)	
Number of equity securities to be issued by the Company as consideration for the Proposed Disposal	Not applicable
Number of equity securities in issue	Not applicable
Size of relative figure	Not applicable

Notes:

- (1) Under Rule 1002(3), net profits are defined as profit or loss before income tax, minority interests and extraordinary items.
- (2) The market capitalisation of US\$10,239,185 is derived from the weighted average market price of S\$0.03176 per Share on 30 January 2009.

The Proposed Disposal will be deemed to be a major transaction under Chapter 10 of the Listing Manual. After the Proposed Disposal, the Company will become a cash company, and will be subject to the delisting requirements under the rules of the Listing Manual.

3.2 PRINCIPAL TERMS AND SALIENT FEATURES OF THE PROPOSED DISPOSAL

3.2.1 Disposal Consideration

The Disposal Consideration was determined on a willing-seller willing-buyer basis, and based on a premium over the prevailing market capitalisation of the Company, calculated based on the weighted average price of the Company’s shares transacted for 30 January 2009, after excluding the quantum of the Excluded Liabilities.

The Disposal Consideration for the sale of the Business and the assumption of the liabilities of the Company, but excluding the Excluded Liabilities (the “**Assumed Liabilities**”) shall be the sum of US\$22,500,000 (the “**Default Consideration**”), provided that if prior to Completion, GIL is required to assume the Excluded Liabilities in addition to the Assumed Liabilities, the Disposal Consideration shall be subject to an immediate downward adjustment equivalent to the Excluded Liabilities (the “**Adjusted Consideration**”).

A deposit of five (5) per cent. of the Default Consideration, being the sum of US\$1,125,000 (the “**Upfront Payment**”), is payable by GIL within seven (7) Business Days from the date of the Business Disposal Agreement to the Company, provided always that if Completion fails to take place in accordance with the terms of the Business Disposal Agreement, the Company shall, on first written demand by GIL, return the Upfront Payment in full to GIL without (and free and clear of any deduction for) set-off or counterclaim.

GIL shall, on Completion, make payment of the balance of the Disposal Consideration, being the Default Consideration less the Upfront Payment (the “**Balance Default Consideration**”) or the Adjusted Consideration less the Upfront Payment (the “**Balance Adjusted Consideration**”), as the case may be, to the Company as follows:

- (a) where GIL is liable to pay the Company the Balance Default Consideration under the terms of the Business Disposal Agreement, GIL shall:
 - (i) first, pay such sum from the Balance Default Consideration as is necessary to settle the Excluded Liabilities, to such account as may be instructed by ABN Amro; and
 - (ii) second, pay the surplus from the Balance Default Consideration to the Company; or
- (b) where GIL is liable to pay the Company the Balance Adjusted Consideration under the terms of the Business Disposal Agreement, GIL shall pay the entire sum of the Balance Default Consideration to the Company.

3.2.2 Salient Terms of the Business Disposal Agreement

The salient terms of the Business Disposal Agreement, comprise, amongst others, the following:

The Company shall transfer to GIL the Business consisting of the assets set out below with effect from and as they are as at the close of business on the date of Completion (the “**Transfer Date**”), on the terms and subject to the conditions of the Business Disposal Agreement:

- (a) the Goodwill;
- (b) the Stocks;
- (c) the Included Target Shares, together with all rights and advantages attaching thereto as at the Transfer Date;
- (d) the benefit, as well as the burden, of the Contracts;
- (e) the Book Debts;
- (f) the Plant and Equipment;
- (g) all the Company’s rights against third parties which relate to the Business, including, without limitation:
 - (i) all rights in connection with guarantees, warranties and representations given by such third parties concerning goods and services supplied to the Company in the course of the Business; and
 - (ii) the benefit of any insurance or insurance claim attributable to any event occurring before the Transfer Date which relates to the assets (other than the Included Target Shares and any loans or advances that are outstanding from the companies in which the Company holds shares (whether directly or indirectly) (the “**Included Target Entities**”) or due to the Included Target Entities, which shall be waived) used for the conduct of the Business and to

be sold and purchased under the Business Disposal Agreement or to the liabilities assumed by GIL under the Business Disposal Agreement;

insofar as the same can be lawfully assigned or transferred to or held on trust for GIL, failing which, the Company shall pursue such rights and benefits vigorously according to GIL's direction provided that GIL shall promptly reimburse any disbursements reasonably incurred by the Company in so doing; and

- (h) all other assets owned by the Company and used wholly or mainly in the ordinary course of the Business.

3.2.3 Conditions Precedent

Completion of the Proposed Disposal is conditional upon the fulfilment of certain conditions precedent on or before the Completion date of the Business Disposal Agreement including, amongst others, the following:

- (a) the Company having received from the IFA an opinion that the transaction contemplated under the Business Disposal Agreement is on normal commercial terms and is not prejudicial to the interests of the Company and its minority shareholders;
- (b) the sale and purchase of the Business on the terms set out in the Business Disposal Agreement being approved by the SGX-ST, and where approval from the SGX-ST is obtained subject to any conditions, such conditions being reasonably acceptable to GIL and the Company;
- (c) the approval of the shareholders of the Company being obtained at a general meeting of the Company (or any adjournment thereof) in respect of the sale and purchase of the Business on the terms set out in the Business Disposal Agreement in favour of GIL;
- (d) the passing at the same general meeting of the Company referred to in paragraph 3.2.3(c) of a resolution to approve the change of its name from "Contel Corporation Limited" to such other name which does not contain the words "Contel", "CCL" or any derivatives of these, as may be agreed to by GIL;
- (e) the waiver or extension by the relevant bondholder(s) and/or their trustee of the redemption or the extension of the redemption of the Convertible Bonds by the relevant bondholder(s) and/or their trustee to such date which is subsequent to the completion of the Business Disposal Agreement, or the execution by the Company and/or GIL of all such deeds, undertakings and/or documents in such form and content as may be reasonably required by the relevant bondholder(s) and/or their trustee in accordance with the terms of the Convertible Bonds Contracts for GIL to assume the Excluded Liabilities, as the case may be; and
- (f) all material approvals, authorisations, clearances, confirmations, consents, exemptions, grants, licences, orders, permissions, recognitions and waivers (including waiver of any pre-emption rights to the Included Target Shares) as may be required or appropriate for or in connection with the sale and purchase of the Business on the terms set out in the Business Disposal Agreement in favour of GIL or the transactions contemplated in the Business Disposal Agreement and to carry on the business of any of the companies within the Group with all relevant government, governmental, quasi-governmental, supranational, statutory, regulatory, administrative, fiscal or judicial agency, authority, body, court, commission, department, exchange, tribunal or entity in any jurisdiction having been obtained and not withdrawn or revoked.

If the condition precedent under paragraph 3.2.3(a) above is not fulfilled, the parties to the Business Disposal Agreement agree to renegotiate and amend such terms of the agreement as may be necessary.

3.3 THE PROPOSED DISPOSAL AS AN INTERESTED PERSON TRANSACTION

Under Chapter 9 of the Listing Manual, an “interested person” means (a) a director, chief executive officer or controlling shareholder of the issuer; or (b) an associate of any such director, chief executive officer, or controlling shareholder.

ST is the holding company of GIL and is also a substantial shareholder of the Company, holding 126,570,897 of the shares in the Company (26.0% of the issued share capital of the Company). Mr Wang Chengqun holds 39,600 shares in ST (79.2% of the issued share capital of ST) and Ms Liu Shu Hua, through her shareholding in Great Advice Limited, holds 10,400 shares in ST (20.8% of the issued share capital of ST). Mr Wang Chengqun, as director of the Company, and Ms Liu Shu Hua, as a controlling shareholder of ST, are deemed interested in the shares of the Company and GIL by virtue of their shareholdings in ST. Accordingly, the Proposed Disposal constitutes an interested person transaction pursuant to Chapter 9 of the Listing Manual. Furthermore, as the value of the transaction is above S\$100,000 and is equal to or exceeds 5.0% of the Company’s latest audited net tangible assets (“NTA”), Shareholders’ approval by way of ordinary resolution is required in order for the Company to effect the Proposed Disposal (the “Interested Person Transaction”).

4. FINANCIAL EFFECTS OF THE PROPOSED DISPOSAL

The unaudited pro forma financial effects of the Proposed Disposal on the Company are set out below. The objective is to illustrate what the historical information might have been had the Proposed Disposal been completed at an earlier date. However, such information is not necessarily indicative that the results of operations or the financial position as illustrated would have been attained had the Proposed Disposal been completed at an earlier date.

The pro forma financial effects in this section are based on the audited consolidated financial information of the Group for the 15 months ended 31 March 2008. The financial effects of the Proposed Disposal have been prepared based on the following assumptions and anticipated events:

- (a) The Company did not have any business operations immediately after the Proposed Disposal;
- (b) The Company did not have any assets and liabilities immediately after the Proposed Disposal except for the cash proceeds received from the Proposed Disposal and the obligation pertaining to the Convertible Bonds;
- (c) Part of the proceeds received was used to pay off the redemption of the Convertible Bonds at 113.3% of the principal amount; and
- (d) After paying off the Convertible Bonds and factoring in other miscellaneous costs and professional expenses (estimated at approximately US\$556,000), the Company had a net cash balance of US\$12,880,000.

Earnings per Share

The pro forma financial effects of the Proposed Disposal on the earnings per Share of the Company are as follows:

	Before the Proposed Disposal	After the Proposed Disposal ⁽¹⁾
Net profit/(loss) attributable to	6,788	(49,504)

equity holders of the Company (US\$'000)		
Weighted average number of ordinary Shares ⁽²⁾ used in the computation of basic earnings/(losses) per Share ('000)	378,329	378,329
Basic earnings/(losses) per Share (US cents)	1.79 ⁽³⁾	(13.08)

Notes:

- (1) For computation of the earnings per Share after the Proposed Disposal, the Proposed Disposal is assumed to be completed on 1 January 2007.
- (2) The number of ordinary Shares in issue as at 30 January 2009 was 486,652,193.
- (3) Based on the audited consolidated financial information of the Group for the 15 months ended 31 March 2008, after adjusting for the effects of the Convertible Bonds, the diluted earnings per Share (expressed in US cents) was 1.75.

NTA per Share

The pro forma financial effects of the Proposed Disposal on the NTA of the Company are as follows:

	Before the Proposed Disposal	After the Proposed Disposal ⁽¹⁾
NTA (US\$'000)	57,805	12,880
Number of Shares in issue as at 31 March 2008 ('000) ⁽²⁾	417,852	417,852
NTA per Share (US cents)	13.83	3.08

Notes:

- (1) For computation of the NTA per Share after the Proposed Disposal, the Proposed Disposal is assumed to be completed on 1 April 2008.
- (2) The number of ordinary Shares in issue as at 30 January 2009 was 486,652,193.

Gearing

The pro forma financial effects of the Proposed Disposal on the gearing of the Company are as follows:

	Before the Proposed Disposal	After the Proposed Disposal
Borrowings of the Company (US\$'000)	40,070	-
Shareholders' equity (US\$'000)	62,293	12,880
Net gearing (times)	0.64	N.A.

The net proceeds of US\$12,880,000 obtained upon completion of the Proposed Disposal will represent a deficit of US\$49,504,000 of the proceeds over the net book value of the Company and its subsidiaries.

5. INTERESTS OF THE DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

Save for Mr Wang Chengqun and Ms Liu Shu Hua (who are interested in the Proposed Disposal which is an Interested Person Transaction), none of the Directors (other than in his capacity as a director or shareholder of the Company) and substantial Shareholders has any interest, direct or indirect, in the Proposed Disposal.

Mr Wang Chengqun and Ms Liu Shu Hua will abstain from voting and have undertaken to ensure that their associates will abstain from voting on the ordinary resolution in respect of the Proposed Disposal.

6. OPINION OF THE AUDIT COMMITTEE

Pursuant to Rules 917(4)(a)(ii) and 921(4) of the Listing Manual, the audit committee of the Company (comprising the independent directors, namely Mr Tsang Siu For, Thomas, Mr Chow Wai Koon and Mr Wong Yee Shuen Wilson) will obtain an opinion from an independent financial advisor, on whether or not the Proposed Disposal is:

- (a) on normal commercial terms; and
- (b) prejudicial to the interests of the Company and its minority shareholders.

The appointment of an independent financial adviser in respect of the Proposed Disposal will be announced in due course.

7. RESPONSIBILITY STATEMENT

The Directors of the Company (including those who have been delegated supervision of this Announcement) collectively and individually accept full responsibility for the accuracy of the information given in this Announcement and confirm, after making all reasonable enquiries that to the best of their knowledge and belief, the facts stated and opinions expressed in this Announcement are fair or accurate (as the case may be) in all material respects as at the date hereof, and that there are no material facts the omission of which would make this Announcement misleading in any material respect.

8. CIRCULAR AND DOCUMENTS AVAILABLE FOR INSPECTION

The circular to shareholders of the Company (the “Circular”) containing further information on the Proposed Disposal, and enclosing the notice of the special general meeting of the Company, will be dispatched by the Company to shareholders in due course.

A copy of the Business Disposal Agreement will be made available for inspection during normal business hours at the office of the Company Secretary, Tricor Evatthouse Corporate Services (a division of Tricor Singapore Pte Ltd), at 8 Cross Street #11-00 PwC Building Singapore 048424 for three (3) months from the date of this Announcement.

9. CAUTION IN TRADING

Shareholders are advised to exercise caution in trading their shares. There is no certainty or assurance as at the date of this Announcement that the Proposed Disposal will be completed, or that no changes will be made to the terms thereof. The Company will make the necessary announcements when there are further developments on the Proposed Disposal. Shareholders are advised to read this Announcement and any further announcements by the Company carefully. Shareholders should consult their stockbrokers, bank managers, solicitors or other professional advisors if they have any doubt about the actions they should take.

BY ORDER OF THE BOARD

Tsang Siu For, Thomas
Lead Independent Director
31 January 2009