

SOUTHERN STEEL BERHAD

- (I) PROPOSED TERMINATION OF THE EXISTING EXECUTIVE SHARE OPTION SCHEME
 - (II) PROPOSED ESTABLISHMENT OF AN EXECUTIVE SHARE SCHEME
-

1. INTRODUCTION

On behalf of Southern Steel Berhad ("**SSB**" or the "**Company**"), Hong Leong Investment Bank Berhad (*formerly known as MIMB Investment Bank Berhad*) ("**HLIB**") wishes to announce that the Company proposes to:

- (i) terminate the existing executive share option scheme ("**ESOS**") of SSB, which was established on 8 October 2008 and will expire on 7 October 2018 ("**Proposed Termination**"); and
- (ii) establish an executive share scheme comprising an ESOS ("**Proposed New ESOS**") and an executive share grant scheme ("**Proposed ESGS**") (collectively referred to as the "**Proposed ESS**" or the "**Scheme**")

(the Proposed Termination and Proposed ESS are collectively referred to as the "**Proposals**").

2. DETAILS OF THE PROPOSALS

2.1 Proposed Termination

SSB had, on 8 October 2008, established an ESOS of up to 15% of the issued and paid-up ordinary share capital of SSB ("**Existing ESOS**"). The Existing ESOS allows the granting of options ("**Options**") to subscribe for ordinary shares of RM1.00 each (unless otherwise adjusted) in SSB ("**SSB Shares**") to the executives and/or executive directors of SSB and its subsidiaries ("**SSB Group**") who are eligible pursuant to the bye-laws of the Existing ESOS.

No Options have been offered under the Existing ESOS since its commencement.

The Company proposes to terminate the Existing ESOS in accordance with the bye-laws of the Existing ESOS, which states that the Company in general meeting may, by ordinary resolution, terminate the Existing ESOS prior to the expiry of its duration or tenure.

2.2 Proposed ESS

Subject and subsequent to the Proposed Termination, SSB proposes to establish an executive share scheme of up to 10% of the issued and paid-up ordinary share capital of SSB (excluding treasury shares) for the eligible executives and/or directors of the SSB Group ("**Eligible Executives**").

The Proposed ESS will enable the Company to have a fresh duration of 10 years to implement the Scheme and to provide an opportunity for Eligible Executives who have contributed to the growth and development of the SSB Group to participate in the equity of the Company. The Proposed ESS will be administered by the Board of Directors of the Company or Board of Directors of the relevant subsidiary of the Company (as the case may be, in respect of Eligible Executives in the said subsidiary only) or a duly authorised committee thereof or an individual authorised by the Board of Directors ("**Board**") in accordance with the bye-laws governing the Proposed ESS ("**Bye-Laws**").

The Proposed ESS shall comprise the following:

(i) Proposed New ESOS

The Proposed New ESOS is intended to allow the Company to offer Options to the Eligible Executives at a pre-determined exercise price in accordance with the Bye-Laws. The Board shall have the absolute discretion to impose such conditions applicable to the offer of Options ("**Option Offer**") as it may deem fit, including prescribing the financial and performance targets or criteria, if any, and the period within which the said financial and performance targets or criteria are to be achieved.

The Board may at its discretion determine the exercise price for the SSB Shares comprised in an Option ("**Option Price**") provided that the Option Price so fixed shall not be at a discount of more than 10% (or such discount as the relevant authorities shall permit) from the 5-day weighted average market price of the SSB Shares preceding the date of offer of the Option and shall in no event be less than the par value of the SSB Shares.

(ii) Proposed ESGS

The Proposed ESGS is intended to allow the Company to reward the Eligible Executives for their contribution to the SSB Group with awards of SSB Shares without any consideration payable by the Eligible Executives ("**Grants**"), subject to the Eligible Executives fulfilling the financial and performance targets, if any. The Board shall have the absolute discretion to impose such conditions applicable to the offer of Grants ("**Grant Offer**") as it may deem fit, including prescribing the financial and performance targets or criteria, if any, and the period within which the said financial and performance targets or criteria are to be achieved.

In implementing the Proposed ESS, it is the intention of the Company to have the flexibility, at the absolute discretion of the Board, to enable the satisfaction of the exercise of Options and/or vesting of SSB Shares pursuant to Grants under the Proposed ESS through:

- (i) the issue of new ordinary shares of RM1.00 each (unless otherwise adjusted) in SSB ("**New SSB Shares**");
- (ii) the transfer of existing SSB Shares; or
- (iii) a combination of issuance of New SSB Shares and transfer of existing SSB Shares.

An application will be made to Bursa Malaysia Securities Berhad ("**Bursa Securities**") for the listing of and quotation for the New SSB Shares, if any, to be issued upon the exercise of Options and/or vesting of SSB Shares pursuant to Grants under the Proposed ESS on the Main Market of Bursa Securities.

3. SALIENT FEATURES OF THE PROPOSED ESS

3.1 Quantum

At any point of time during the existence of the Proposed ESS, the aggregate number of SSB Shares comprised in:

- (i) exercised Options;
- (ii) unexercised Options;
- (iii) unexpired Option Offers pending acceptances and unexpired Grant Offers pending acceptances by the Eligible Executives;

- (iv) outstanding Grants;
- (v) completed Grants; and
- (vi) exercised options, unexercised options, outstanding grants, completed grants and unexpired offers pending acceptances, under any other executive share schemes established by the Company which are still subsisting

(hereinafter referred to as the "Aggregate") shall not exceed an amount equivalent to 10% of the issued and paid-up ordinary share capital (excluding treasury shares) of the Company at any one time ("Maximum Aggregate").

3.2 Eligibility

To be eligible for participation in the Proposed ESS, a person must be at least 18 years of age as at the date of offer of an Option Offer and/or Grant Offer (collectively referred to as the "Offer(s)") ("Date of Offer") and satisfy the following conditions:

- (i) be an executive of SSB or any of its subsidiaries ("Member of the Group") and has been confirmed in service; or
- (ii) be a director of a Member of the Group.

The Board may from time to time at its absolute discretion select and identify suitable Eligible Executives to be offered the Options and/or Grants.

3.3 Basis of allotment and maximum allowable allotment

A Member of the Group may at its discretion at any time and from time to time as it shall deem fit during the existence of the Proposed ESS make one or more Offers to an Eligible Executive. The Board may, from time to time, at its absolute discretion determine the number of SSB Shares and the terms and conditions to be comprised in an Offer.

The allocation to an Eligible Executive who, either singly or collectively through persons connected with the Eligible Executive, holds 20% or more of the issued and paid-up ordinary share capital (excluding treasury shares) of the Company, must not exceed 10% of the Maximum Aggregate.

3.4 Rights attaching to the SSB Shares

In the event that any New SSB Shares are to be allotted upon the exercise of the Options and/or vesting of SSB Shares pursuant to the Grants under the Proposed ESS, the New SSB Shares shall, upon issue and allotment, rank *pari passu* in all respects with the existing issued and paid-up ordinary share capital of the Company, except that they will not rank for any dividend, right, entitlement and/or distribution, in respect of which the record date precedes the allotment date of the New SSB Shares and will be subject to all the provisions of the Articles of Association of the Company relating to transfer, transmission or otherwise.

In the event that any existing SSB Shares are to be transferred upon the exercise of the Options and/or vesting of SSB Shares pursuant to the Grants under the Proposed ESS, the existing SSB Shares shall be transferred together with all dividends, rights, entitlements and distributions, in respect of which the record date is on or after the transfer date.

3.5 Duration

The Proposed ESS shall be in force for a period of 10 years from the effective date for the implementation of the Proposed ESS to be determined by the Board of Directors of the Company.

4. UTILISATION OF PROCEEDS

The actual proceeds to be received pursuant to the exercise of the Options under the Proposed New ESOS will depend on the actual number of Options granted and exercised, and the Option Price payable upon the exercise of the Options. Therefore, the amount of proceeds to be raised from the exercise of the Options is not determinable at this juncture.

In the event that New SSB Shares are to be allotted upon the exercise of the Options, the proceeds from the exercise of the Options shall be utilised for the working capital of the Company.

In the event that existing SSB Shares are to be transferred upon the exercise of the Options, the proceeds from the exercise of the Options shall be utilised to pay for the cost of purchasing the said SSB Shares and/or to purchase additional SSB Shares for the purpose of the Scheme.

SSB will not receive any proceeds pursuant to the Proposed ESGS as the Eligible Executives under the Proposed ESGS will not be required to pay for the SSB Shares to be issued and/or transferred to them.

5. RATIONALE FOR THE PROPOSALS

The purpose of the Proposed ESS is to achieve the following objectives:

- (i) align the long term interests of Eligible Executives with those of the shareholders of the Company and encourage Eligible Executives to assume greater responsibility for the performance of the businesses that they manage;
- (ii) motivate Eligible Executives toward strategic business objectives;
- (iii) reward Eligible Executives with an equity stake in the success of the SSB Group;
- (iv) make the total compensation package more competitive in order to attract, retain and motivate high calibre executives; and
- (v) provide the Company with flexibility to determine the most appropriate instrument or combination of instruments to be offered to the Eligible Executives as part of the Company's efforts to motivate, reward and retain Eligible Executives.

The Proposed ESS will provide the Company with a fresh 10-year scheme period as compared with the remaining duration of approximately 5 years under the Existing ESOS, of which the Company proposes to terminate. The Proposed ESS is to facilitate the implementation of the option and/or share grant plans, taking into account, *inter alia*, the performance period that may be required to achieve the prescribed financial and performance targets or criteria.

6. EFFECTS OF THE PROPOSALS

The Proposed Termination will not have any effect on the issued and paid-up ordinary share capital, substantial shareholders' shareholdings, earnings and earnings per share, net assets and gearing of the Company.

6.1 Issued and paid-up share capital

The Proposed ESS is not expected to have any immediate effect on the issued and paid-up ordinary share capital of SSB. The issued and paid-up ordinary share capital of SSB will increase depending on the number of New SSB Shares to be issued upon the exercise of Options and/or vesting of SSB Shares pursuant to Grants under the Proposed ESS. However, if existing SSB Shares are to be transferred to Eligible Executives upon the exercise of the Options and/or vesting of SSB Shares pursuant to Grants under the Proposed ESS, there will be no effect on the issued and paid-up ordinary share capital of the Company.

6.2 Substantial shareholders' shareholdings

The Proposed ESS will not have any immediate effect on the shareholdings of substantial shareholders of the Company. Any effect on the shareholdings of substantial shareholders will depend on the number of New SSB Shares to be issued upon the exercise of Options and/or the vesting of SSB Shares pursuant to Grants under the Proposed ESS.

6.3 Earnings

The Proposed ESS is not expected to have any immediate effect on the earnings of the SSB Group. Malaysian Financial Reporting Standards 2 ("MFRS 2") issued by the Malaysian Accounting Standards Board requires the fair value of the Options and/or SSB Shares comprised in Grants to be measured at the respective Date of Offer and recognised as an expense over the vesting period of such Options and/or Grants. This would have an effect on the future earnings of the SSB Group. However, the potential effect of the Proposed ESS on the earnings per share of the SSB Group in the future, as a consequence of the recognition of the expense, cannot be determined at this juncture as it would depend on the number of Options and/or SSB Shares comprised in the Grants and various factors that affect the fair value of the Options and/or SSB Shares comprised in the Grants.

6.4 Net assets and gearing

Apart from the potential impact of MFRS 2 as elaborated in Section 6.3 above, the Proposed ESS is not expected to have an immediate effect on the net assets and gearing of the SSB Group based on its latest audited consolidated financial statements as at 30 June 2012 until such time that the Options and/or SSB Shares comprised in the Grants under the Proposed ESS are exercised and/or vested. The effect will depend on, amongst others, the following:

- (i) the number of SSB Shares to be issued upon the exercise of Options under the Proposed New ESOS and the Option Price; and/or
- (ii) the number of SSB Shares vested pursuant to the Grants under the Proposed ESGS on the date of vesting.

6.5 Convertible securities

As at 31 July 2013, the Company does not have any outstanding convertible securities.

7. APPROVALS REQUIRED

The Proposed Termination is subject to the approval of the shareholders of SSB.

The Proposed ESS is subject to approvals being obtained from the following:

- (i) the shareholders of SSB;

- (ii) Bursa Securities, for the listing of and quotation for the New SSB Shares to be issued upon the exercise of Options and/or vesting of SSB Shares pursuant to the Grants under the Proposed ESS; and
- (iii) other relevant authorities/parties, if required.

The Proposed Termination and the Proposed ESS are inter-conditional upon each other and the Existing ESOS will only terminate prior to the implementation of the Proposed ESS. In the event that the Proposed ESS is not implemented, the Proposed Termination will not proceed.

8. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED WITH THEM

The Company proposes to seek shareholders' approval for authority to offer Options and Grants to YBhg Dato' Dr Tan Tat Wai and Mr Chow Chong Long (collectively referred to as the "Interested Directors"), the Group Managing Director and Deputy Group Managing Director of SSB respectively. As such, the Interested Directors, by virtue of their eligibility to participate in the Proposed ESS, are deemed interested in respect of their respective proposed allocation under the Proposed ESS (the proposed allocations to the Interested Directors shall be collectively referred to as the "Proposed Allocations").

Accordingly, the Interested Directors have abstained and will continue to abstain from deliberating and voting at all relevant meetings of the Board of Directors of SSB in relation to their respective proposed allocation under the Proposed ESS.

They will also abstain from voting, in respect of their direct and/or indirect interests in SSB, on the proposed ordinary resolution in relation to their respective proposed allocation under the Proposed ESS at a general meeting to be convened. The Interested Directors will also ensure that persons connected with them will abstain from voting in respect of their direct and/or indirect shareholdings, if any, on the proposed ordinary resolution in relation to their respective proposed allocation under the Proposed ESS.

The shareholdings of the Interested Directors in SSB as at 31 July 2013 are as follows:

Name	Direct		Indirect	
	No. of SSB Shares	%	No. of SSB Shares	%
YBhg Dato' Dr Tan Tat Wai	14,854	0.00	35,742,238 ⁽¹⁾	8.52 ⁽¹⁾
Mr Chow Chong Long	95,563	0.02	-	-

Note:

- (1) Held through Southern Amalgamated Co Sdn Bhd, Hock Kheng Industries Sdn Bhd, Su Hock Company Sdn Bhd, Seri Pinang Sdn Bhd and spouse.

Save as disclosed above, none of the directors, major shareholders of SSB and/or persons connected with them have any interest, direct or indirect, in the Proposals and the Proposed Allocations.

9. DIRECTORS' RECOMMENDATION

The Board of Directors of the Company, having considered all aspects of the Proposals (including but not limited to the rationale and effects of the Proposals), is of the opinion that the Proposals are in the best interest of the Company.

The Board of Directors of the Company (except for the Interested Directors who have abstained from expressing any opinion or recommendation in relation to their respective proposed allocation under the Proposed ESS), having considered all aspects of the Proposed Allocations, is of the opinion that the Proposed Allocations are in the best interest of SSB.

10. ADVISER

HLIB has been appointed as the Adviser for the Proposals.

11. EXPECTED TIME FRAME FOR COMPLETION AND APPLICATION TO THE RELEVANT AUTHORITIES

Barring any unforeseen circumstances, an application to Bursa Securities for the listing of and quotation for the New SSB Shares to be issued upon the exercise of the Options and/or vesting of SSB Shares pursuant to the Grants under the Proposed ESS is expected to be made within 1 month from the date of this announcement.

SSB expects to implement the Proposals within 6 months from the date of approval from Bursa Securities for the listing application in relation to the Proposed ESS.

This announcement is dated 26 August 2013.