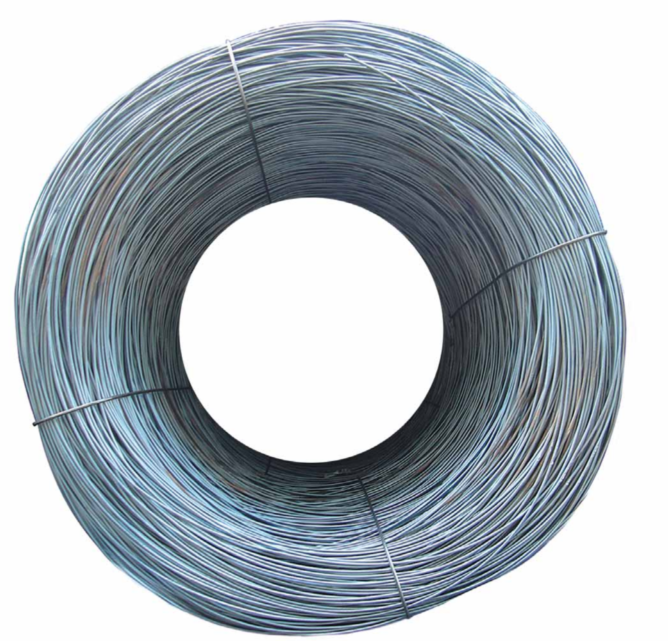
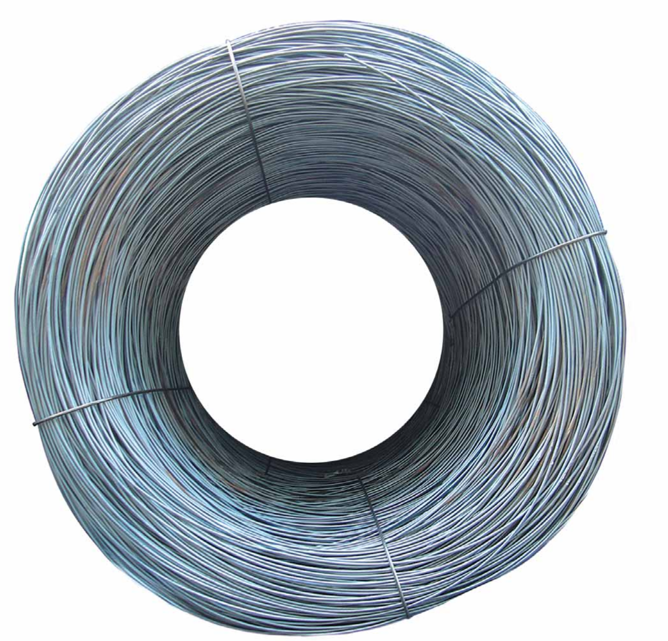
南達 Southern Steel



ANNUAL
REPORT

7



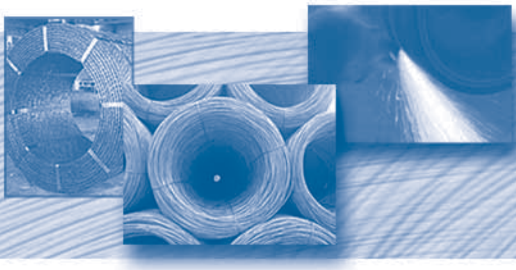
With our strength, we will not bend to the pressures of a changing industry.

With our commitment, we will lead the market to greater heights of innovation.

With our vision, we will create new possibilities for steel.

We are steel.

Contents



CORPORATE INFORMATION

Directors
Kwek Leng San
Chairman

Y Bhg Dato' Dr Tan Tat Wai
Group Managing Director

YA Bhg Tun Dato' Seri Dr Lim Chong Eu

YM Raja Dato' Seri Abdul Aziz bin Raja Salim

Yap Peng Leong

Koushik Chatterjee

Oo Soon Hee
(Alternate to Koushik Chatterjee)

Registered Office
Level 3, 2723 Lorong Perusahaan 12
Prai Industrial Estate
13600 Prai, Penang
Telephone: 04 390 6540
Facsimile: 04 390 8060

Principal Place of Business
2435 Lorong Perusahaan 12
Prai Industrial Estate
13600 Prai, Penang
Telephone: 04 390 6540
Facsimile: 04 390 8060

Auditors
PricewaterhouseCoopers
Chartered Accountants
16th Floor, Bangunan KWSP
Jalan Sultan Ahmad Shah
10050 Penang

Registrar
AGRITEUM Share Registration Services Sdn Bhd
2nd Floor, Wisma Penang Garden
42 Jalan Sultan Ahmad Shah
10050 Penang
Telephone: 04 228 2321
Facsimile: 04 227 2391

Secretary
Lim Gim Siok

CORPORATE STRUCTURE

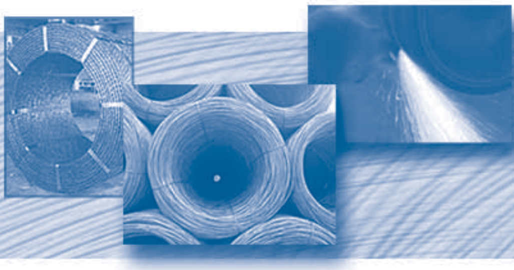
Southern Steel Berhad

Subsidiary Companies

- 100% Southern Wire Industries (Malaysia) Sdn Bhd
  - 100% Southern PC Steel Sdn Bhd
  - 100% Cempaka Raya Sdn Bhd
  - 100% Trend Staples Industry Sdn Bhd
- 100% Southern Steel Holdings Sdn Bhd
  - 100% Southern Steel Industries Sdn Bhd
  - 100% Southern Steel Bar Sdn Bhd
- 100% Southern Steel Trading Sdn Bhd
- 100% Southern Galvanised Wire Sdn Bhd
- 100% Southern Coated Wire Sdn Bhd
- 100% Southern Steel Mesh Sdn Bhd
  - 100% Southern Mesh Sdn Bhd
  - 100% E-Tatt Steel Wires Sdn Bhd
- 100% Southern Steel Properties Sdn Bhd
- 100% Danstil Sdn Bhd
- 100% Southern Steel Solutions Sdn Bhd
- 100% Southern Steel Management Sdn Bhd
- 83.7% Southern Pipe Industry (Malaysia) Sdn Bhd
  - 100% Asia Seamless Pipes Sdn Bhd
- 75% Southern Speciality Wire Sdn Bhd

Associated Companies

- 50% Southern Oriental Sdn Bhd
- 27.5% Steel Industries (Sabah) Sdn Bhd



DIRECTORS' PROFILE

Kwek Leng San
Chairman, Non-Executive Director/Non-Independent

Mr Kwek Leng San, aged 52, a Singaporean, obtained a Bachelor of Science (Engineering) degree from University of London and a Master of Science (Finance) degree from City University, London. He has extensive business experience in various business sectors, including financial services and manufacturing.

Presently, he is the Executive Chairman of Malaysian Pacific Industries Berhad, President & Chief Executive Officer of Hong Leong Industries Berhad and Hume Industries (Malaysia) Berhad, Managing Director of Narra Industries Berhad and a Director of Hong Leong Company (Malaysia) Berhad and Hong Leong Foundation.

Mr Kwek was appointed to the Board of the Company on 27 October 1992 and subsequently as the Chairman of the Company on 18 June 2003. He is also the Chairman of the Remuneration Committee of the Company.

Mr Kwek attended all the Board meetings held during the financial year ended 31 December 2007.

Mr Kwek is a brother of Y Bhg Tan Sri Quek Leng Chan and Mr Quek Leng Chye, both deemed major shareholders of the Company. Mr Kwek has no conflict of interest with the Company and has no conviction for offences within the past ten years.

Y Bhg Dato' Dr Tan Tat Wai
Group Managing Director/Non-Independent

Y Bhg Dato' Dr Tan Tat Wai, aged 61, a Malaysian, holds a Bachelor of Science degree in Electrical Engineering and Economics from the Massachusetts Institute of Technology, a Master of Economics degree from University of Wisconsin (Madison) and a PhD in Economics from Harvard University. He started his career with Bank Negara Malaysia in 1978 undertaking research in economic policies and subsequently as consultant to Bank Negara, World Bank and the United Nations University for several years. He served as the Secretary and a member on the Council of Malaysian Invisible Trade set up to formulate policies to reduce Malaysia's deficit in service trade. He was a member of the Government appointed Malaysian Business Council and a member of Corporate Malaysia Roundtable. Currently, he is a member of the Penang Industrial Council, the Industrial Co-ordination Council (ICC) and the National Committee on Business Competitiveness (NCBC) set up by the Ministry of International Trade and Industry. He represents Malaysia as a member of the APEC Business Advisory Council (ABAC).

Y Bhg Dato' Dr Tan is currently the Group Managing Director of the Company, a post he has held since December 1993. On 18 May 1984, Y Bhg Dato' Dr Tan was appointed as the Chief Executive Officer as well as a Director of Southern Steel Berhad. He was appointed as the Managing Director of the Company in September 1990. He is also a member of the Remuneration Committee of the Company.

His other directorships in public companies are as follows:
- Director of Shangri-La Hotels (Malaysia) Berhad, a public listed company on Bursa Malaysia Securities Berhad.
- Director of Titan Chemicals Corp Berhad, a public listed company on Bursa Malaysia Securities Berhad.
- Director of NatSteel Ltd, a public listed company in Singapore.

Y Bhg Dato' Dr Tan attended all the Board meetings held during the financial year ended 31 December 2007.

Y Bhg Dato' Dr Tan has no family relationship with any other Directors of the Company, has no conflict of interest with the Company and has no convictions for offences within the past ten years.

DIRECTORS' PROFILE (cont'd)

YA Bhg Tun Dato' Seri Dr Lim Chong Eu
Non-Executive Director/Independent

YA Bhg Tun Dato' Seri Dr Lim Chong Eu, aged 88, a Malaysian, is renowned as a leading statesman and holds the distinction of being the former Chief Minister of Penang. He has had a long and illustrious record as a political leader and representative of the people in many fields of national interests. He graduated with a Bachelor of Medicine and Bachelor of Surgery (M.B. Ch B.) from Edinburgh University of Scotland in 1944.

YA Bhg Tun Dato' Seri Dr Lim was appointed to the Board of the Company on 6 December 1993. He is also the Chairman of the Audit Committee of the Company.

His other directorships in public companies are as follows:
- Chairman of Suiwah Corporation Bhd, a public listed company.
- Chairman of Chin Well Holdings Berhad, a public listed company.
- Chairman of Berjaya Vacation Club Berhad, a public company.
- Director of United Overseas Bank (Malaysia) Berhad, a public company.

YA Bhg Tun Dato' Seri Dr Lim attended all the Board meetings held during the financial year ended 31 December 2007.

YA Bhg Tun Dato' Seri Dr Lim does not hold any shares in the Company and its subsidiary companies nor loan stocks of the Company, has no family relationship with any other Directors or major shareholders of the Company, has no conflict of interest with the Company and has no convictions for offences within the past ten years.

YM Raja Dato' Seri Abdul Aziz bin Raja Salim
Non-Executive Director/Independent

YM Raja Dato' Seri Abdul Aziz bin Raja Salim, aged 69, a Malaysian, is a Honorary Fellow of The Malaysian Institute of Taxation, Fellow of The Chartered Association of Certified Accountants, United Kingdom, Fellow of The Chartered Institute of Management Accountants ("CIMA"), United Kingdom and a Chartered Accountant (Malaysia). He served as Director-General of Inland Revenue Malaysia from 1980 to 1990 and Accountant-General Malaysia from 1990 to 1995. YM Raja Dato' Seri Abdul Aziz was the President of CIMA, Malaysia from 1976 to 1993 and a Council Member of CIMA, United Kingdom from 1990 to 1996. He was awarded the CIMA Gold Medal in recognition of his outstanding service to the accounting profession.

YM Raja Dato' Seri Abdul Aziz was appointed to the Board of the Company on 18 June 2003. He is also a member of the Audit Committee and Remuneration Committee of the Company.

YM Raja Dato' Seri Abdul Aziz attended all the Board meetings held during the financial year ended 31 December 2007.

DIRECTORS' PROFILE (cont'd)

YM Raja Dato' Seri Abdul Aziz bin Raja Salim (cont'd)
Non-Executive Director/Independent

His other directorships in public companies are as follows:
- Director of Camerlin Group Berhad
- Director of Tasek Corporation Berhad
- Director of Gamuda Berhad
- Director of Jerneh Asia Bhd
- Director of PPB Group Berhad
- Director of K & N Kenanga Holdings Berhad
- Director of Kenanga Investment Bank Berhad
- Director of Kenanga Unit Trust Berhad
- Director of Jerneh Insurance Bhd
- Director of Amanah Saham Mara Berhad
- Director of Panasonic Manufacturing Malaysia Bhd

YM Raja Dato' Seri Abdul Aziz does not hold any shares in the Company and its subsidiary companies nor loan stocks of the Company. He has no family relationship with any other Directors or major shareholders of the Company, has no conflict of interest with the Company and has no convictions for offences within the past ten years.

Yap Peng Leong
Non-Executive Director/Non-Independent

Yap Peng Leong, aged 53, a Malaysian, obtained a Bachelor of Accountancy and Economics degree from the University of Newcastle Upon Tyne, United Kingdom and is an Associate of the Institute of Chartered Accountants of England and Wales. He had worked in three major international firms of Public Accountants/Chartered Accountants in England, Singapore and Kuala Lumpur. He joined the Hong Leong Group in 1987 and held various positions including Accountant/Manager in Hong Leong Finance Berhad, Group Financial Controller/General Manager in Hume Industries (Malaysia) Berhad, Chief Operating Officer of Hume Industries (Malaysia) Berhad – Concrete Division and Hume Cemboard Berhad, Managing Director of Hume Cemboard Industries Sdn Bhd and Executive Director of HLI-HUME Management Sdn Bhd.

With effect from 1 December 2005, he assumed the position of Managing Director of MZ Motorrad und Zweiradwerk GmbH.

Mr Yap was appointed to the Board of the Company on 27 June 2002. He is also a member of the Audit Committee of the Company.

He attended all the Board meetings held during the financial year ended 31 December 2007.

Mr Yap does not hold any shares in the Company and its subsidiary companies nor loan stocks of the Company. He has no family relationship with any other Directors or major shareholders of the Company, has no conflict of interest with the Company and has no convictions for offences within the past ten years.

DIRECTORS' PROFILE (cont'd)

Koushik Chatterjee
Non-Executive Director/Non-Independent

Koushik Chatterjee, aged 39, an Indian, is an Honours Graduate in Commerce from Calcutta University and a Fellow Member of the Institute of Chartered Accountants of India.

Mr Chatterjee began his career as Industrial Trainee in Britannia Industries and worked as an Audit Senior in S B Billimoria & Company before joining Tata Steel Limited ("Tata Steel") in 1995.

In 1999 he was transferred to Tata Sons Limited in the Group Executive Office and was promoted as General Manager – Corporate Finance in 2002 and re-joined Tata Steel in 2003. He was appointed Vice President (Finance) in August 2004 and appointed as the Group Chief Financial Officer of the Tata Steel Group from January 1, 2008.

As the Group Chief Financial Officer, he is responsible for Financial Strategy, Financial Reporting and Control, Financial Planning & Funds Management, Project Finance & Treasury, Mergers & Acquisitions, Corporate & International Taxation and Investor Relations of the Company.

Mr Chatterjee was appointed to the Board of the Company on 30 March 2005.

Of the four (4) meetings of the Company held during the financial year ended 31 December 2007, Mr Chatterjee attended all except for one (1) for which he had extended his apologies.

Mr Chatterjee does not hold any shares in the Company and its subsidiary companies nor loan stocks of the Company. He has no family relationship with any other Directors or major shareholders of the Company, has no conflict of interest with the Company and has no convictions for offences within the past ten years.

Oo Soon Hee *(Alternate to Koushik Chatterjee)*
Non-Executive Director/Non-Independent

Mr Oo Soon Hee, aged 64, a Singaporean, is Director (South East Asia) of Tata Steel Limited. He graduated from the University of Singapore with a Bachelor of Science (Honours) degree in Applied Chemistry and holds a Diploma in Business Administration. After working as a Consultant in an international consulting company between 1971 and 1977, he joined NatSteel Ltd as a Sales Manager in June 1977. Over the years, he had been assigned various positions.

Mr Oo was appointed to the Board of the Company as Alternate Director to Mr Koushik Chatterjee on 30 March 2005.

He does not hold any shares in the Company and its subsidiary companies nor loan stocks of the Company, has no family relationship with any other Directors or major shareholders of the Company, has no conflict of interest with the Company and has no convictions for offences within the past ten years.

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, I am pleased to present the Annual Report and Financial Statements of the Group for the financial year ended 31 December 2007.

FINANCIAL REVIEW

In the year under review, the Group achieved a record profit before tax of RM195 million. The chief factor behind this strong performance was the Chinese Government's decision to impose export duties on billets, bars, wire rods and pipes, in addition to its removal of the rebate on value added tax for these products. These measures reduced Chinese exports of steel products, pushing up the prices of these products in the region. However, the escalating cost of raw materials, especially scrap, continues to be a concern.

REVIEW OF OPERATIONS

Southern Steel Berhad

For the year ended 31 December 2007, Southern Steel Berhad ("SSB") responded well to the favourable external environment and continued to be the biggest contributor of the Group. SSB showed significant improvements in its financial results over the previous year and maintained its strong market position in the domestic market. Sales revenue increased from RM1.9 billion in 2006 to RM2.3 billion in 2007 due to significant increase in selling prices. Profit before tax almost tripled from RM73 million to RM205 million.

Major projects under the 9MP are now progressively being implemented. Demand for steel bar and construction grade wire rod is expected to strengthen. Our volume of higher grade industrial wire rod are also rising. In 2007, the Company initiated several upgrading of facilities with the aim of creating a more flexible production capability, reducing costs and increasing output. These efforts included the conversion of a wire rod mill to also produce bar, the use of natural gas to mitigate the rising cost of fuel, the de-bottlenecking of the steel making plants to raise output and the enhancement of the production of high-grade wire rods to strengthen the position of the Group as leader in high grade steel products in the country.

SUBSIDIARY COMPANIES

(a) Southern Steel Mesh Sdn Bhd ("SSM")

The mesh market experienced its most intense and unhealthy competition in recent years. Despite rising wire rod prices, the undercutting of prices in mesh products resulted in SSM recording an operating loss in the first half of 2007. In the second half of the year, SSM launched its "reinforced steel business" ("RSB") initiative to integrate the provision of mesh and cut and bent bar for the construction industry. As a result, the company managed to increase sales and achieved profitability. Unfortunately, the stronger second half performance did not do enough to cover the loss of the first half, and hence SSM recorded a loss for the year.

In 2008, SSM would strengthen its RSB initiative as a one-stop reinforced steel solution center so as to better serve the market.

CHAIRMAN'S STATEMENT (cont'd)

(b) Southern Wire Industries (M) Sdn Bhd ("SWI")

Even though SWI's sales volume has increased as compared to 2006, it continued to record a loss. The company continued to face stiff competition from China as a result of the implementation of ASEAN – China Free Trade Agreement ("ACFTA") in 2006. The export duty introduced by the Chinese government on the export of its steel products is not applicable here.

The company's continuous productivity drive and cost reduction programmes are pre-requisites for competing against the cheap China exports, especially with further reduction in import duty expected in 2009 under ACFTA. However, the company is confident that its continued focus on productivity improvement, cost reduction and core products rationalization would give it better volume and margin to achieve profitability in 2008.

(c) Southern Pipe Industry (Malaysia) Sdn Bhd ("SPM")

SPM continued its efforts to undertake focused marketing of its in-line galvanized pipe products. Overall sales volume for the year is 17% higher than that of 2006, but profit was lower due to competition of cheap pipes from China and Thailand. Our in-line galvanized pipes have achieved significant improvements in volume and cost down. It is expected that the volume for in-line galvanized pipes will increase significantly, making the product a major profit contributor.

Looking ahead to 2008, the market situation is expected to improve after China withdrew their rebate on value added tax and imposed a small export duty for their pipe exports. This has reduced substantially their pipe exports to the region and opened up export potential for SPM. The company expects to increase its sales volume and profit steadily over the course of the year.

ASSOCIATED COMPANY

The associated company, Steel Industries (Sabah) Sdn Bhd ("SIS") continued to contribute positively to the Group's results in 2007 and, with the pick-up expected from the robust construction activities under the 9MP, 2008 is likely to be another good year for SIS.

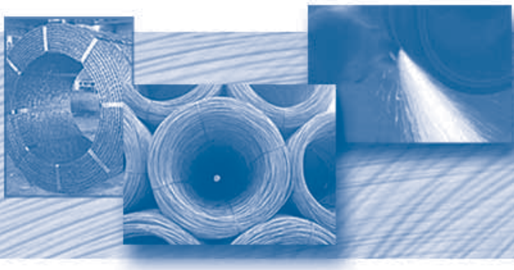
GOING FORWARD

Although there is still concern on the impact of a possible recession in the United States of America, the Group remains positive on the outlook for the steel market in Malaysia and in the region. Locally, with the implementation of more 9MP projects, the Group is well positioned to capitalize on the strong demand. Internationally, the effect of change in Chinese policy on steel has so far been positive, although competition is expected to increase in the years ahead, as tariffs in the region fall progressively under the ACFTA. Overall, the Group expects another satisfactory performance for the year 2008.

APPRECIATION AND ACKNOWLEDGEMENT

On behalf of the Board, I would like to take this opportunity to thank the management and staff for their contribution and commitment to the Group. I would also like to extend my appreciation to the customers, suppliers, shareholders and bankers for their continued support and confidence in the Group.

Kwek Leng San
Chairman



LAPORAN KENYATAAN PENGERUSI

Bagi Pihak Lembaga Pengarah, saya dengan sukacitanya membentangkan Laporan Tahunan dan Penyata Kewangan Kumpulan tahun berakhir 31hb. Disember 2007.

ULASAN KEWANGAN

Pada tahun ini, Kumpulan memperolehi rekod keuntungan sebelum cukai berjumlah RM195 juta. Faktor utama penyumbangan keuntungan kewangan yang memuaskan ini adalah kerana pengenaan duti eksport dan pemindahan rebet atas cukai tambah nilai terhadap bilet, besi keluli, dawai rod dan paip oleh China. Perlaksanaan ini telah mengurangkan pengeksportan besi keluli dari China tetapi mendorong peningkatan harga besi keluli di wilayah ini. Sungguhpun demikian, pengembangan kos bahan mentah terutama keluli sekerap masih merunsingkan.

ULASAN OPERASI

Southern Steel Berhad

Untuk tahun berakhir 31hb. Disember 2007, keadaan pasaran yang menggalakkan telah memberi rangsangan kepada Southern Steel Berhad (”SSB”). Oleh itu SSB masih merupakan penyumbang utama kepada Kumpulan Southern Steel. SSB telah menunjukkan keuntungan kewangan yang lebih baik berbanding dengan tahun sebelumnya, ini mengekalkan kedudukkannya yang kukuh dalam pasaran domestik. Peningkatan harga jualan telah menjadikan perolehan jualan meningkat dari RM1.9 ribu juta pada tahun 2006 kepada RM2.3 ribu juta pada tahun 2007. Keuntungan sebelum cukai hampir tiga kali ganda iaitu daripada RM73 juta kepada RM205 juta.

Projek-projek utama dalam rancangan Malaysia ke-9 telah dilaksanakan secara beransur-ansur. Permintaan terhadap besi keluli, dawai rod dan dawai rod perindustrian bergred tinggi dijangka meningkat. Pada tahun 2007, pihak syarikat telah menaikkan taraf kemudahan kelengkapan untuk meningkatkan tahap fleksibel keupayaan pengeluaran, mengurangkan kos dan menggandakan pengeluaran. Ini termasuk pengubahsuaian mesin seperti mengubahsuaikan mesin dawai rod juga dapat menghasilkan kepingan keluli, penggunaan gas asli bagi mengurangkan kos bahan bakar, pengubahan logi pembuatan bilet untuk meningkatkan pengeluaran dan mempertingkatkan pengeluaran dawai rod bergred tinggi. Usaha-usaha ini bertujuan untuk mengukuhkan kedudukan Kumpulan sebagai ketua dalam pengeluaran keluli bergred tinggi di negara kita.

LAPORAN KENYATAAN PENGERUSI (sambungan)

SYARIKAT-SYARIKAT SUBSIDIARI

(a) Southern Steel Mesh Sdn Bhd (”SSM”)

Pasaran mesh mengalami persaingan yang kuat dan jejas pada tahun-tahun kebelakangan ini. Walaupun harga dawai rod meningkat, tetapi pemotongan harga produk mesh yang lebih rendah mengakibatkan SSM mengalami kerugian pada separuh tahun pertama 2007. Pada separuh tahun kedua 2007, SSM melancarkan Reinforced Steel Business (”RSB”) sebagai inisiatif menyatukan pembekalan mesh, “cut and bent” kepingan keluli kepada industri pembinaan. Pelancaran ini menggalakkan peningkatan jualan dan membawa keuntungan. Malangnya keuntungan yang diperolehi tidak mampu menyerap kerugian pada separuh tahun pertama. Oleh itu SSM merekodkan kerugian tahun ini.

Bagi tahun 2008, SSM akan menguatkan inisiatif RSB sebagai satu pusat perhentian dan penyelesaian untuk segala besi keluli kegunaan bidang pembinaan (one stop reinforced steel solution) supaya dapat memberi perkhidmatan yang lebih baik di pasaran.

(b) Southern Wire Industries (M) Sdn Bhd (”SWI”)

Sungguhpun jualan SWI telah meningkat berbanding tahun 2006 tetapi masih mengalami kerugian. Syarikat masih menghadapi persaingan sengit daripada China akibat kesan implementasi Perjanjian Perdagangan Bebas China-ASEAN (”ACFTA”) pada tahun 2006. Ini adalah kerana duti eksport yang diperkenalkan oleh kerajaan China tidak diterapkan ke atas produk dawai.

Usaha berterusan syarikat dalam activiti-activiti peningkatan produktiviti dan pengurangan kos adalah amat diperlukan supaya dapat bersaing dengan produk murah yang import dari China terutamanya pengurangan duti import dijangka pada tahun 2009 di bawah ACFTA. Namun begitu syarikat masih yakin dengan usaha berterusan dalam peningkatan produktiviti, pengurangan kos dan rationalisasi produk-produk utama akan membawa keuntungan bagi tahun 2008.

(c) Southern Pipe Industry (Malaysia) Sdn Bhd (”SPM”)

Sungguhpun keseluruhan hasil jualan adalah 17 peratus lebih berbanding dengan tahun 2006 tetapi keuntungan kewangan tidak memuaskan. Ini adalah disebabkan persaingan paip-paip murah buatan China dan Thailand. Namun demikian SPM masih memberi tumpuan dan terus berusaha dalam pemasaran paip bersadur serentak dimana proses saduran dijalankan serentak dengan proses pembuatan paip. Ini adalah kerana kami telah berusaha serta mendapat hasil jualan yang tinggi dan juga berjaya dalam usaha pengurangan kos bagi paip bersadur. Hasil jualan paip bersadur dijangka meningkat tinggi lagi dan kami berhajat menjadikan paip bersadur serentak ini sebagai penyumbang utama keuntungan kewangan kita.

Memandang jauh ke hadapan tahun 2008, keadaan pasaran dijangka bertambah baik kerana China telah menarik balik rebet ke atas cukai nilai tambah dan mengenakan duti eksport ke atas produk paip. Akibat daripada itu, pengeksportan paip dari China akan dikurangkan dengan nyata dan memberi peluang pengeksportan paip kepada SPM. Oleh demikian hasil jualan dan keuntungan kewangan syarikat dijangka akan meningkat pada tahun depan.

LAPORAN KENYATAAN PENGERUSI (sambungan)

SYARIKAT BERSEKUTU

Steel Industries (Sabah) Sdn Bhd ("SIS") iaitu syarikat bersekutu kita terus memberi sumbangan yang menggalakkan dalam hasil keuntungan kewangan Kumpulan tahun ini. Dengan kepesatan kegiatan dalam bidang pembinaan di bawah rancangan Malaysia ke-9, 2008 akan terus merupakan tahun yang bagus bagi SIS.

TAHUN KEHADAPAN

Walaupun kemelesetan ekonomi di USA dijangka membawa kesan buruk, Kumpulan syarikat masih berpendapat positif terhadap pasaran besi keluli di negara kita dan wilayah serantau. Dengan adanya pelancaran projek-projek di bawah rancangan Malaysia ke-9, Kumpulan syarikat berada di kedudukan yang baik untuk mengeksploitasi permintaan yang hebat. Perubahan policy produk besi keluli di China masih membawa kesan positif di peringkat antarabangsa. Walaupun persaingan dijangka meningkat pada tahun-tahun akan datang disebabkan segala tarif di wilayah serantau akan kurang beransur-ansur di bawah ACFTA, tetapi dengan adanya duti export China, Kumpulan percaya bahawa tahun 2008 masih merupakan tahun yang cemerlang pada keseluruhannya.

PENGHARGAAN DAN PEMBERITAHUAN

Saya ingin mengambil kesempatan ini untuk mengucapkan terima kasih kepada pihak pengurusan dan semua kakitangan kerana sumbangan dan usaha mereka terhadap Kumpulan syarikat. Saya juga berterima kasih kepada para pelanggan, pembekal-pembekal, semua pemegang saham dan bank-bank atas sokongan serta keyakinan mereka terhadap Kumpulan ini.

Kwek Leng San
Pengerusi

CORPORATE SOCIAL RESPONSIBILITY

Introduction

Southern Steel Berhad ("SSB")'s objective is to be the company of choice – creating sustainable value for our shareholders, employees, contractors, suppliers, customers, business partners and the community. We recognise the link between sustainable development and long term business viability, and the importance of triple bottom lines i.e.,

- Good economic performance;
- Good social practices, and
- Good environmental practices.

To link excellent business performance with social responsibility, we have set up our Group Corporate Values:

1. Integrity
2. Competence
3. Teamwork
4. Innovation
5. Technology
6. Social Responsibilities

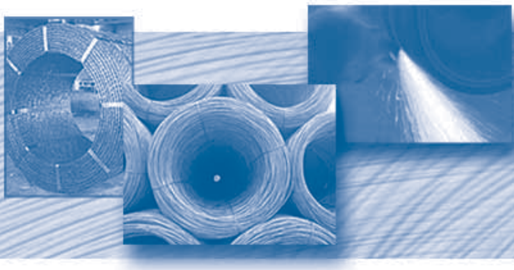
Environment

To promote greater environmental responsibilities, we have actively pursued pollution reduction activities and effective resource management. By making steel from scrap iron, we are contributing to recycling of waste materials within the country and other parts of the world. Our process consumes a lot of energy and releases a lot of dust embedded in the scrap iron and solid slag.

Since 1991, when our first steelmaking plant was set up, we have installed the most advanced dust collection systems available in the market. In order to deal with slag, the biggest waste generated by volume, we have initiated a slag processing plant which extracts usable iron from the slag and converts the residue into slag stone that can be used for paving roads with higher durability. In addition, we have also implemented energy conservation projects and waste water treatment plants.

Environmental impact extends to noise and harmonics generated during steelmaking and transmitted back to the national power grid system. To reduce the impact, we chose the DC electric arc system, making us one of the few steelmakers to help pioneer the new generation of DC arc furnace in the world.

Various trainings have been conducted regularly in the aspect of environmental impact, identification and management of health hazards and risks (including chemical hazards and risks) and waste management. We have set up an environment master plan with the view to further improve on our environment control to world standards. As part of that effort, we are now in the process of obtaining certification for ISO 14001 on Environmental Management System. SSB Group has set aside more than RM25 million in 2007 and 2008 for environmental projects, including upgrading the dedusting system for steelmaking plant number 1, scrap cleaning equipment, supplementary dust control systems throughout the plant and enhancement in waste water treatment. We have also undertaken an intensive tree planting campaign with the aim of achieving one tree for every employee.



CORPORATE SOCIAL RESPONSIBILITY (cont'd)

Workplace

On occupational safety, SSB Group strives to comply with all Department of Safety and Health Malaysia ("DOSH") standards on health and safety. The compliance is in place with enhancement of the system with the embarkment of Occupational Health and Safety Management Systems ("OHSAS") 18001 since August 2006. Regular occupational and road safety and awareness programmes are also being conducted for our employees. These included onsite industrial nurses, in-house doctor, regular health talk and checks, and periodic defensive driving campaign with the support of the Traffic Police Department.

We are also committed to continued staff development, which is evident in the various learning and development programmes conducted throughout the years, notably:

- Project Hang Tuah - a supervisory development programme for supervisors to develop a competent workforce.
- Skill Up programme - to build up a technically competent and flexible workforce.
- Young Engineers Programme - in collaboration with Selangor Human Resource Development Centre for fresh graduate engineers in Industrial Automation, to develop competent engineers to fulfill the needs of SSB Group.

These programmes, covering both soft skills and technical development, included classroom training programmes, work-based learning programmes, as well as outdoor training programmes.

SSB Group grants education aids to children of Group staff to encourage and promote the importance of learning and education.

SSB Group carries out various sports and social activities such as provision of suitable facilities and organisation of sports carnivals and family day celebrations to encourage a healthy lifestyle.

Community

SSB Group supports the charity activities of the Heart To Heart Club ("H2H Club"). The H2H Club is run on a voluntary basis, initiated by a group of enthusiastic employees but involving most employees. Financially, SSB Group contributes to its welfare funds periodically to top up funds collected via its own fund raising activities. Over the years, various charitable organisations have benefited from the activities of the H2H Club. Regular blood donation drives have also been organised on a yearly basis.

At the Corporate level, SSB Group donates to old folks' homes, schools, hospitals and other institutions for their regular expenses as well as building funds. We also respond to appeals for aid for victims of natural disasters such as tsunami, floods and etc.

Market place

As we consider Corporate Social Responsibility part of good corporate governance, we are fully supportive of local suppliers. We treasure our relationships with our key customers and conduct annual satisfaction surveys as part of our efforts to improve our products and services.

CORPORATE GOVERNANCE STATEMENT

The Board of Southern Steel Berhad ("SSB") is pleased to report on the manner in which it has applied the Principles of Good Governance ('Principles') and the extent to which it has complied with the Code of Best Practice ('Code'). Any areas where the Company has not complied with the Code are indicated herein.

THE BOARD OF DIRECTORS

The Board of Directors comprises six (6) directors, five (5) of whom are non-executive and two (2) of whom are considered independent. A brief profile of each director and their attendance records are provided in the Annual Report.

Mr. Kwek Leng San, the Chairman of the Board, is a non-independent non-executive director. The Board considers that the Principles of Good Governance have already been observed by virtue of Mr. Kwek's substantial knowledge and experience in business and his non-executive position which is clearly separated from that of the Group Managing Director. Further, the balance of the Board is such that there is adequate countervailing pressure, including those of independent directors, to provide the appropriate "checks and balances". The Board will review its composition and size from time to time to ensure its continued effectiveness. The Chairman of the Audit Committee is the Senior Independent Non-Executive Director identified by the Board to whom concerns may be conveyed.

As in previous years, all major investments and other strategic decisions are reserved for the Board, which is also responsible for corporate governance matters, senior executive remuneration and succession planning for top management.

Supply of Information

Prior to each Board meeting, Directors are sent an agenda and accompanying Board papers for each agenda item to be discussed at the meeting. At each meeting, there is a full financial and business review and discussion. Items reviewed include performance comparison against the annual budget / financial plan previously approved and management proposals that require the approval of the Board.

Appointment to the Board

The Company does not have a Nomination Committee as all new nominations received are assessed and approved by the entire Board in line with its policy of ensuring nominees are persons of sufficient calibre and experience. Under the Company's Articles of Association, the Board is subject to retirement and re-election at least once in every three (3) years.

The process of assessing the performance of directors is an on-going responsibility of the entire Board.

DIRECTORS' TRAINING

The Company does not have a formal training programme for new directors. However, familiarisation programme with the operations of the Group is arranged for any new appointee to the Board.

All the directors of the Company have completed the Mandatory Accreditation Programme and are supportive of the Continuous Education Programme.

In the course of the financial year ended 31 December 2007, the Board has been regularly updated on the business of the Group, its operations, corporate governance, finance and any changes to the companies and other legislation, rules and regulations. The majority of the Directors have also attended various trainings conducted by their respective in-house companies and/or by external professionals.

CORPORATE GOVERNANCE STATEMENT (cont'd)

DIRECTORS' REMUNERATION

The Company's Remuneration Committee was established by the Board on 9 May 2005. The members of the Committee are Mr Kwek Leng San, YM Raja Dato' Seri Abdul Aziz bin Raja Salim and Y Bhg Dato' Dr Tan Tat Wai.

The Group's remuneration scheme is linked to performance, service seniority, experience and scope of responsibility and is periodically benchmarked to market/industry surveys conducted by human resource consultants. Performance is measured against profits and targets set in the Group's annual business plan and budget.

The Committee ascertains and approves remuneration packages of executive directors in accordance with the Company's policy guidelines which set a proportionately high variable pay component to the remuneration package so as to link remuneration to performance. For non-executive directors, the level of remuneration reflects the level of responsibilities undertaken by them.

The aggregate remuneration of directors distinguishing between executive and non-executive directors for the financial year ended 31 December 2007 is set out below: -

	Fees (RM)	Salaries & Other Emoluments (RM)	Total (RM)
Executive Directors	45,000	1,694,662	1,739,662
Non-Executive Directors	320,000	0	320,000

The number of directors distinguishing between executive and non-executive directors whose remuneration falls into the following bands is set out below: -

Range of remuneration (RM)	Executive	Non-Executive
50,000 and below	0	1
50,001 to 100,000	0	4
1,000,000 and above	1	0

Relations with Shareholders

The Board acknowledges the need for shareholders to be informed of all material business matters affecting the Group. In addition to various announcements made during the year, the timely release of financial results on a quarterly basis provides shareholders with an overview of the Group's performance and operations.

The Annual General Meeting, usually held in May each year, is the principal forum for dialogue with private shareholders. There is also an open question and answer session in which shareholders may ask questions both about the resolutions being proposed at the meeting and also about the business in general. Members of the Board are in attendance to answer questions about matters relating to the Group and Company's business.

Information about the Group and the Company such as history, quality achievements, product specifications and manufacturing process etc, are available on www.southsteel.com.

CORPORATE GOVERNANCE STATEMENT (cont'd)

FINANCIAL REPORTING

In presenting the annual financial statements and quarterly announcements to shareholders, the Directors aim to present a balanced and understandable assessment of the Group's position and prospects. This also applies to other price-sensitive public reports and reports to regulators.

INTERNAL CONTROL

Please refer to the relevant section of the Annual Report on Internal Control Statement.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are required by the Companies Act, 1965 ("the Act") to prepare financial statements for each financial year which have been made out in accordance with applicable approved accounting standards. The financial statements should give a true and fair view of the state of affairs of the Group and the Company at the end of the financial year and the results and cash flows of the Group and the Company for the financial year.

The Directors have considered the audit findings of both the external and internal auditors, and are of the view that appropriate accounting policies have been consistently applied. The basis of the preparation of the annual financial statements is supported by reasonable and prudent judgments and accounting estimations. All applicable approved accounting standards have also been followed for the preparation of the financial statements.

STATEMENT ON INTERNAL CONTROL

Responsibility

The Board acknowledges its responsibility for the Group's system of internal control and for reviewing its adequacy and integrity. However, such a system is designed to manage rather than eliminate risk of failure to achieve business objectives. Accordingly, such system can provide only reasonable and not absolute assurance against material misstatement or loss. The concept of reasonable assurance also recognises that the cost of control procedures should not exceed the expected benefits.

Risk Management Framework

The framework and the key elements of the Group's system of internal control are as follows:

- A management structure exists with clearly defined delegation of responsibilities to the management of the Group's main operating companies, including authorisation level for all aspects of the business. Each operating company has clear accountabilities for ensuring that appropriate risk management and control procedures are in place. Ongoing monitoring of risks and updating of the enterprise-wide key risk register were carried out by the management of the respective main operating companies within the Group.

- The Board has appointed the Group Managing Director as Chief Risk Officer to administer the risk management framework since 2001. Business risk assessment and evaluation is an ongoing exercise undertaken by the Board and management. The Internal Audit Department submits yearly to the Audit Committee its review report on risk management for each main operating company within the Group.

- For associated company, the Board nominates representatives to sit as directors and take a proactive stance in assessing the performance of the associated company with the goal of safeguarding the investment of the Group. Monthly financial and operating information is submitted for review by the Group's management.

The key elements of the Group's internal control system are described below:-

- Detailed budgeting process where main operating companies prepare budgets, which are approved by the Board, on an annual basis.

- Monthly monitoring of results against budget, with major variances being followed up and management action taken, where necessary.

- Major decisions require the final approval of the Board and are made after appropriate in-depth analysis.

- Regular and comprehensive information is provided to management, covering the performance of key financial and operational indicators.

- The Internal Audit Department independently reviews the control processes implemented by management and reports its findings and recommendations independently to the Audit Committee.

- In addition to the monthly operational meetings, senior management meetings are also held monthly to consider the Group's financial performance, business development, strategic and corporate issues.

- The Audit Committee, with the assistance of the Internal Audit Department assesses the effectiveness of the Group's internal control system, by reviewing the internal audit reports presented to the Audit Committee. All internal control weaknesses identified during the period have all been, or are being, addressed. None of the weaknesses have resulted in any material losses, contingencies or uncertainties that would require mention in the Group's annual report.

AUDIT COMMITTEE REPORT

COMPOSITION AND MEMBERSHIP

The Audit Committee was appointed by the Board from amongst its directors and is composed of a minimum of 3 members with a majority of independent directors. No alternate director shall be appointed as a member of the Audit Committee. The Chairman of the Committee shall be an independent non-executive director.

At least one member of the Audit Committee must be a member of the Malaysian Institute of Accountants (MIA) or non-member of MIA with a minimum of 3 years' working experience and passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967 or is a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967.

The following 3 directors have been appointed as members:-

1. YA Bhg Tun Dato' Seri Dr Lim Chong Eu, Chairman
2. YM Raja Dato' Seri Abdul Aziz bin Raja Salim
3. Yap Peng Leong

MEETINGS AND MINUTES

Meetings shall be held not less than four times a year. The external auditors may request a meeting if they consider that one is necessary.

The Group Managing Director, the Group Financial Controller and the Head of Internal Audit shall attend the meetings. A representative of the external auditors is to be in attendance at meetings where matters relating to the audit of the statutory financial statements and / or the external auditors are to be discussed. A quorum shall be 2 members present, a majority of whom must be independent directors.

During the financial year ended 31 December 2007, a total of 5 meetings were held.

Name	Status of directorship	Eligible to attend	Attended
YA Bhg Tun Dato' Seri Dr Lim Chong Eu (Chairman)	Independent Non-Executive Director	5	5
YM Raja Dato' Seri Abdul Aziz bin Raja Salim	Independent Non-Executive Director	5	5
Yap Peng Leong	Non-independent Non-Executive Director	5	5

To encourage a greater exchange of views, the Audit Committee has also met with the external auditors and the Head of Internal Audit privately without the presence of the Management.

REPORTING PROCEDURES

The Company Secretary shall be the secretary of the Committee. Minutes of each meeting shall be circulated to the members of the Committee and all members of the Board.

AUDIT COMMITTEE REPORT (cont'd)

TERMS OF REFERENCE

Responsibility

Where the Audit Committee is of the view that a matter reported by it to the Board of Directors has not been satisfactorily resolved resulting in a breach of the Listing Requirements of Bursa Malaysia Securities Berhad, the Audit Committee shall promptly report such matter to Bursa Malaysia Securities Berhad.

Authority

To ensure that wherever necessary and reasonable for the performance of its duties, the Audit Committee, in accordance with a procedure determined by the board of directors and at the cost of the Company, is conferred the following rights by the Board:

1. authority to investigate any matter within its terms of reference;
2. provided with the resources which are required to perform its duties;
3. full and unrestricted access to any information pertaining to the Company;
4. direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity;
5. able to obtain independent professional or other advice; and
6. able to convene meetings with the external auditors, the internal auditors or both, excluding the attendance of the other directors and employees of the Company, whenever deemed necessary.

Duties

The duties of the Committee shall be:

1. To discuss with the external auditors before the audit commences the nature and scope of the audit and ensure co-ordination where more than one audit firm is involved.
2. To review with the external auditors their evaluation of the internal control system.
3. To review the assistance given by the employees of the Group / Company to the external auditors.
4. To review the adequacy of the scope, functions, competency and resources of the internal audit function and that it has the necessary authority to carry out its work, and also to consider the major findings of internal audit investigations and management's response and ensure co-ordination between the internal and external auditors.
5. To review the quarterly and annual financial statements before submission to the Board, focusing particularly on:
    a. Any changes in accounting policies and practices;
    b. Major judgmental areas including accounting estimates;
    c. Significant adjustments resulting from the audit;
    d. The going concern assumption;
    e. Compliance with accounting standards;
    f. Compliance with stock exchange and legal requirements; and
    g. Significant and unusual events.

AUDIT COMMITTEE REPORT (cont'd)

6. To review any related party transaction and conflict of interest situation that may arise within the Group including any transaction, procedure or course of conduct that raises questions of management integrity.
7. To consider the appointment of the external auditor and any question of resignation or dismissal and the fixing of audit fees.
8. To review any appraisal or assessment of the performance, and approve any appointment or termination of the Head of Internal Audit.
9. To consider other topics, as defined.

SUMMARY OF ACTIVITIES

In line with the terms of reference, the main activities carried out during the financial year by the Audit Committee in discharging its duties are summarised as follows:

1. review of both the internal and external audit plans of the Group and the Company for the year ended 31 December 2007;
2. review of internal audit reports on internal controls and risk management presented by the Internal Auditors for the Group and the Company;
3. review of unaudited quarterly results before presenting to the Board for approval;
4. review of the related party transactions entered into by the Group and the Company in the quarterly and annual reports of the Company;
5. review of draft audited financial statements of the Group and the Company with the external auditors before presenting to the Board for approval; and
6. consider appointment of external auditors and discuss (without presence of management team) the cooperation rendered by the management to the external auditors.

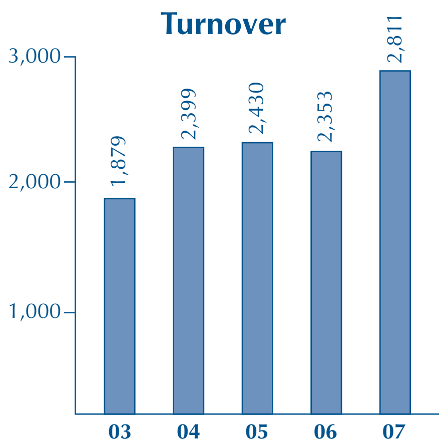
INTERNAL AUDIT FUNCTION

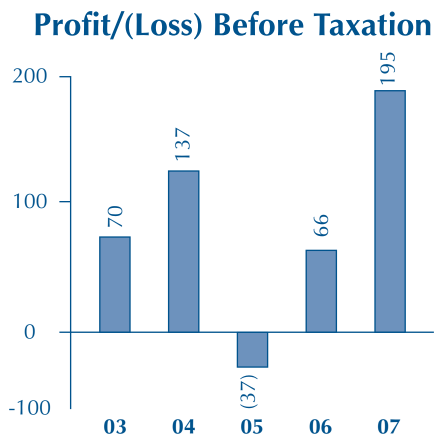
The Group has an Internal Audit Department which reports to the Audit Committee and assists the Board in monitoring and managing risks and internal controls. The principal responsibility of the Internal Audit Department is to undertake regular and systematic review of the operations, policies and procedures in order to provide reasonable assurance that internal controls and risks are satisfactorily monitored and managed within the Group.

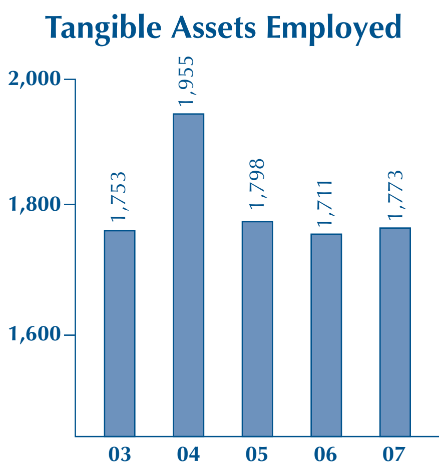
GROUP FINANCIAL HIGHLIGHTS
RM Million

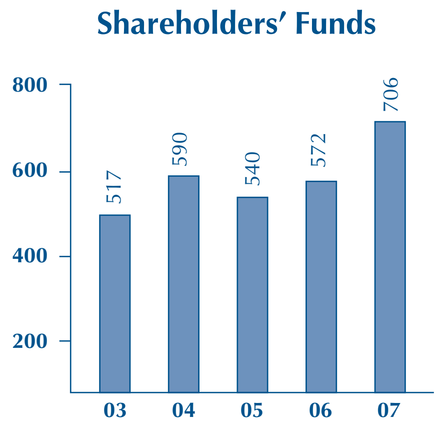
	2003	2004	2005	2006	2007
Turnover	1,879	2,399	2,430	2,353	2,811
Profit/(Loss) Before Taxation	70 *	137 *	(37)*	66#	195
Profit/(Loss) Attributable to Shareholders	52	98	(31)	85#	192
Tangible Assets Employed	1,753	1,955	1,798	1,711#	1,773
Shareholders' Funds	517	590	540	572#	706
Paid-up Share Capital	287	319	362	362	399
Net Tangible Assets per Share (sen)	158	168	135	144#	165
Earnings/(Loss) Per Share (sen)	15 *	23 *	(7)*	20#	46
Dividend - Tax exempt (%)	5	10	2.5	5.0	7.5
Dividend - Tax exempt (sen per share)	5	10	2.5	5.0	7.5

* The effect of adoption of FRS101 and FRS133 are included in 2005 and prior results.
# The effect of change in accounting policy from the revaluation model to the cost model is included in 2007 results.
Comparative results relates to 2006 and before are not restated as it is impracticable to do so.



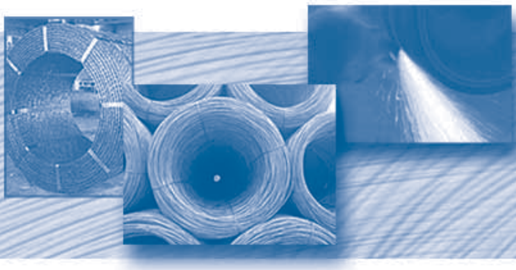






Reports and Financial Statements

Contents



DIRECTORS' REPORT

for the financial year ended 31 December 2007

The Directors present their report to the members together with the audited financial statements of the Group and the Company for the financial year ended 31 December 2007.

1 PRINCIPAL ACTIVITIES

The principal activities of the Company are the manufacturing of, sales and trading in billets, steel bars and wire rods. The principal activities of its subsidiary companies and associated companies are described in Notes 14 and 15 to the financial statements respectively. There have been no significant changes in the nature of these activities during the financial year.

2 FINANCIAL RESULTS

	Group RM'000	**Company RM'000**
Profit for the financial year	191,793	193,562

3 DIVIDENDS

The dividends paid or declared by the Company since the end of the previous financial year are as follows:

	RM'000
In respect of the financial year ended 31 December 2006:	
First and final tax exempt dividend of 5 sen per share on 390,772,436 ordinary shares, paid on 15 June 2007	
- as shown in the Directors' report for the financial year ended 31 December 2006	18,122
- dividend on 28,327,215 shares arising from conversion of 5.5% 5-year Irredeemable Convertible Unsecured Loan Stocks 2003/2008 ("ICULS")	1,416
	19,538
In respect of the financial year ended 31 December 2007:	
- first interim dividend (tax exempt) of 2.5 sen per share on 390,775,348 ordinary shares, paid on 5 October 2007	9,768
- second interim dividend (tax exempt) of 5.0 sen per share on 404,272,451 ordinary shares, paid on 4 January 2008	20,214
	29,982
	49,520

The directors do not propose the payment of any final dividend for the financial year ended 31 December 2007.

4 RESERVES AND PROVISIONS

There were no material transfers to or from reserves and provisions during the financial year except for those disclosed in the financial statements.

DIRECTORS' REPORT
for the financial year ended 31December 2007 (cont'd)

5 SHARE CAPITAL

During the financial year, 41,827,230 new ordinary shares of RM1.00 each with carrying value of RM36,930,030 were issued by the Company arising from the conversion of 43,082,053 5.5% 5-year Irredeemable Convertible Unsecured Loan Stocks ("ICULS"). The newly issued ordinary shares rank *pari passu* in all respects with the existing ordinary shares of the Company except that the said new shares will not be entitled to any dividends, rights, allotments or other distributions where the relevant entitlement date precedes the date of allotment of the new shares.

6 DIRECTORS

The Directors who have held office during the period since the date of the last report are as follows:

Non-independent Non-Executive Directors
Kwek Leng San (Chairman)
Yap Peng Leong
Koushik Chatterjee
Oo Soon Hee (alternate to Koushik Chatterjee)

Non-independent Executive Director
Y. Bhg Dato' Dr. Tan Tat Wai (Group Managing Director)

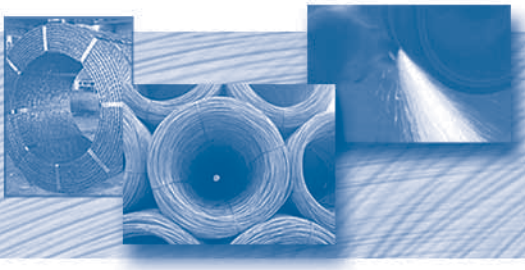
Independent Non-Executive Directors
Y.A. Bhg Tun Dato' Seri Dr. Lim Chong Eu
YM Raja Dato' Seri Abdul Aziz bin Raja Salim

7 DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings kept by the Company for the purpose of Section 135 of the Companies Act, 1965, particulars of interests of Directors who held office at the end of the financial year in shares in the Company are as follows:

	Number of ordinary shares of RM1.00 each			
The Company	At 1.1.2007	Acquired/ Allotted	Disposed	**At 31.12.2007**
Y. Bhg Dato' Dr. Tan Tat Wai				
- Direct interest	14,854	0	0	**14,854**
- Deemed interest	32,980,223	0	0	**32,980,223**

Other than as disclosed above, no other Directors in office at the end of the financial year held any interest in shares in the Company and its related corporations and ICULS of the Company during the financial year.



DIRECTORS' REPORT

for the financial year ended 31December 2007 (cont'd)

8 DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than the fees and other emoluments shown in Note 7 to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

During and at the end of the financial year, no arrangement subsisted to which the Company is a party, being arrangements with the object or objects of enabling the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

9 STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

Before the income statements and balance sheets of the Group and the Company were made out, the Directors took reasonable steps:

(a) to ascertain that proper actions had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and had satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and

(b) to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business their values as shown in the accounting records of the Group and the Company had been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

(a) which would render the amounts written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and the Company inadequate to any substantial extent;

(b) which would render the values attributed to current assets in the financial statements of the Group and the Company misleading; or

(c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and the Company misleading or inappropriate.

No contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group or the Company to meet their obligations as and when they fall due.

At the date of this report, there does not exist:

(a) any charge on the assets of the Group and the Company which has arisen since the end of the financial year which secures the liability of any other person; or

(b) any contingent liability of the Group and the Company which has arisen since the end of the financial year.

DIRECTORS' REPORT

for the financial year ended 31December 2007 (cont'd)

9 STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (cont'd)

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements misleading.

In the opinion of the Directors,

(a) the results of the Group's and the Company's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature except for the gain on disposals of certain associated companies during the financial year as disclosed in Note 20 to the financial statements; and

(b) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group and the Company for the current financial year in which this report is made.

10 AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with their resolution dated 19 March 2008.

Kwek Leng San
Chairman

Y. Bhg Dato' Dr. Tan Tat Wai
Group Managing Director

STATEMENT BY DIRECTORS

pursuant to Section 169(15) of the Companies Act, 1965

We, the undersigned, being two of the Directors of Southern Steel Berhad, state that in the opinion of the Directors, the accompanying financial statements set out on pages 30 to 93 are drawn up so as to give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2007 and of the results and cash flows of the Group and the Company for the financial year ended on that date in accordance with the provisions of the Companies Act, 1965 and the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities.

Signed on behalf of the Board of Directors in accordance with their resolution dated 19 March 2008.

Kwek Leng San
Chairman

Y. Bhg Dato' Dr. Tan Tat Wai
Group Managing Director

STATUTORY DECLARATION

pursuant to Section 169(16) of the Companies Act, 1965

I, Koay Chong Beng, being the General Manager - Group Financial Controller primarily responsible for the financial management of Southern Steel Berhad, do solemnly and sincerely declare that the financial statements set out on pages 30 to 93 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Koay Chong Beng

Subscribed and solemnly declared by the abovenamed Koay Chong Beng at Georgetown in the State of Penang on 19 March 2008.

Before me

Huang Peter
Commissioner for Oaths
(No P006)

REPORT OF THE AUDITORS

to the Members of Southern Steel Berhad

We have audited the financial statements set out on pages 30 to 93. These financial statements are the responsibility of the Company's Directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with approved auditing standards in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

(a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities so as to give a true and fair view of:

  (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and

  (ii) the state of affairs of the Group and the Company as at 31 December 2007 and of the results and cash flows of the Group and the Company for the financial year ended on that date;

and

(b) the accounting and other records and the registers required by the Act to be kept by the Company and by the subsidiary companies of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

The names of the subsidiary companies of which we have not acted as auditors are indicated in Note 14 to the financial statements. We have considered the financial statements of these subsidiary companies and the auditors' reports thereon.

We are satisfied that the financial statements of the subsidiary companies that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The auditors' reports on the financial statements of the subsidiary companies were not subject to any qualification and did not include any comment made under sub-section (3) of Section 174 of the Act.

PRICEWATERHOUSECOOPERS
(No. AF-1146)
Chartered Accountants

CHO CHOO MENG
(2082/09/08 (J/PH))
Partner of the firm

Penang
19 March 2008

INCOME STATEMENTS
for the financial year ended 31 December 2007

In RM'000 unless otherwise stated

	Note	Group 2007	Group 2006	Company 2007	Company 2006
REVENUE		**2,811,042**	2,353,284	**2,335,935**	1,923,924
COST OF SALES		**(2,485,976)**	(2,163,959)	**(2,068,313)**	(1,784,691)
GROSS PROFIT		**325,066**	189,325	**267,622**	139,233
OTHER OPERATING INCOME		**40,750**	40,731	**41,458**	32,375
ADMINISTRATION EXPENSES		**(59,606)**	(52,122)	**(30,768)**	(26,060)
DISTRIBUTION COSTS		**(58,835)**	(54,615)	**(34,258)**	(34,363)
OTHER OPERATING EXPENSES		**(14,085)**	(9,684)	**(7,186)**	(2,255)
OPERATING PROFIT	7	**233,290**	113,635	**236,868**	108,930
FINANCE COSTS	8	**(42,957)**	(45,740)	**(31,561)**	(36,291)
SHARE OF RESULTS OF ASSOCIATED COMPANIES		**4,819**	(1,763)	**0**	0
PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION		**195,152**	66,132	**205,307**	72,639
TAXATION	9	**(3,359)**	18,823	**(11,745)**	17,311
PROFIT AFTER TAXATION		**191,793**	84,955	**193,562**	89,950
Attributable to:					
EQUITY HOLDERS OF THE COMPANY		**191,690**	84,706	**193,562**	89,950
MINORITY INTERESTS		**103**	249	**0**	0
PROFIT FOR THE FINANCIAL YEAR		**191,793**	84,955	**193,562**	89,950
DIVIDENDS PER SHARE (SEN)	10	**7.5**	5.0	**7.5**	5.0
EARNINGS PER SHARE (SEN) - BASIC AND FULLY DILUTED	11	**45.7**	20.2		

The accompanying notes form an integral part of the financial statements.

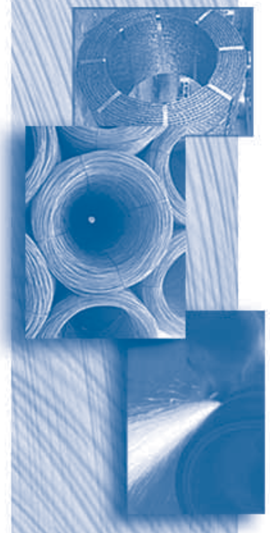
BALANCE SHEETS
as at 31 December 2007

In RM'000 unless otherwise stated

	Note	Group 2007	Group 2006	Company 2007	Company 2006
NON-CURRENT ASSETS					
Property, plant and equipment	12	**696,969**	736,706	**549,380**	577,007
Prepaid lease	13	**65,443**	66,939	**38,643**	39,622
Subsidiary companies	14	**0**	0	**398,659**	398,659
Associated companies	15	**16,251**	13,076	**5,500**	5,500
Other investments	16	**860**	860	**708**	708
Goodwill on consolidation	17	**48,991**	48,991	**0**	0
		828,514	866,572	**992,890**	1,021,496
CURRENT ASSETS					
Inventories	18	**675,830**	584,771	**509,144**	440,897
Receivables	19	**253,935**	174,407	**131,313**	68,476
Tax recoverable		**6,375**	6,879	**2,171**	3,567
Deposits with licensed banks	30	**3,000**	14,530	**0**	12,255
Cash and bank balances	30	**54,219**	50,218	**28,590**	39,758
		993,359	830,805	**671,218**	564,953
Non-current assets held for sale	20	**0**	63,941	**0**	46,720
		993,359	894,746	**671,218**	611,673
CURRENT LIABILITIES					
Payables	21	**206,207**	228,355	**268,347**	297,193
Short term borrowings	22	**701,189**	687,563	**427,133**	454,795
Current tax liabilities		**3,836**	301	**3,585**	0
Provisions	23	**978**	766	**521**	426
Dividend payable		**20,214**	0	**20,214**	0
		932,424	916,985	**719,800**	752,414
NET CURRENT ASSETS / (LIABILITIES)		**60,935**	(22,239)	**(48,582)**	(140,741)
NON-CURRENT LIABILITIES					
Long term borrowings	24	**90,915**	180,996	**90,915**	180,996
Deferred tax liabilities	25	**66,433**	65,189	**65,938**	58,498
Provisions	23	**23,697**	23,675	**9,345**	9,652
		181,045	269,860	**166,198**	249,146
TOTAL NET ASSETS		**708,404**	574,473	**778,110**	631,609
CAPITAL AND RESERVES					
Share capital	26	**398,959**	362,029	**398,959**	362,029
ICULS *(equity component)	27	**12,482**	46,953	**12,482**	46,953
Reserves	28	**294,851**	163,482	**366,669**	222,627
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		**706,292**	572,464	**778,110**	631,609
MINORITY INTERESTS		**2,112**	2,009	**0**	0
TOTAL EQUITY		**708,404**	574,473	**778,110**	631,609

*5.5% 5-year Irredeemable Convertible Unsecured Loan Stocks 2003/2008

The accompanying notes form an integral part of the financial statements.



In RM'000 unless otherwise stated

	Issued and fully paid ordinary shares of RM1.00 each		Non-distributable									
	Share capital	**ICULS* (equity component)**	**Share premium**	**Revalua-tion reserve**	**Merger reserve**	**Reserve on consoli-dation**	**Capital redemp-tion reserve**	**Exchange fluctua-tion reserve**	**(Accumulated losses)/ retained profits**	**Total**	**Minority interests**	**Total equity**
At 1 January 2006												
- as previously reported	361,780	47,174	35,852	72,557	30,000	3,065	50	11,651	(21,682)	540,447	2,345	542,792
- effects of change in accounting policy (Note 29(c))	0	0	0	(72,499)	0	0	0	0	20,632	(51,867)	(585)	(52,452)
- as restated	361,780	47,174	35,852	58	30,000	3,065	50	11,651	(1,050)	488,580	1,760	490,340
Exchange differences - associated companies	0	0	0	0	0	0	0	(850)	0	(850)	0	(850)
Compulsory acquisition of property, plant and equipment by Government	0	0	0	(58)	0	0	0	0	58	0	0	0
Derecognised upon adoption of FRS 3	0	0	0	0	0	(3,065)	0	0	3,065	0	0	0
Income and expense recognised directly in equity	0	0	0	(58)	0	(3,065)	0	(850)	3,123	(850)	0	(850)
Net profit for the financial year	0	0	0	0	0	0	0	0	84,706	84,706	249	84,955
Total recognised income and expense for the financial year	0	0	0	(58)	0	(3,065)	0	(850)	87,829	83,856	249	84,105
Issue of shares arising from conversion of ICULS (Notes 26 and 27)	249	(221)	0	0	0	0	0	0	0	28	0	28
At 31 December 2006	**362,029**	**46,953**	**35,852**	**0**	**30,000**	**0**	**50**	**10,801**	**86,779**	**572,464**	**2,009**	**574,473**

* 5.5% 5-year Irredeemable Convertible Unsecured Loan Stocks 2003/2008

The accompanying notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

	Issued and fully paid ordinary shares of RM1.00 each		Non-distributable					Distributable			
	Share capital	**ICULS* (equity component)**	**Share premium**	**Revaluation reserve**	**Merger reserve**	**Capital redemption reserve**	**Exchange fluctuation reserve**	**Retained profits**	**Total**	**Minority interests**	**Total equity**
At 1 January 2007											
- as previously reported	362,029	46,953	35,852	72,499	30,000	50	10,801	65,959	624,143	2,563	626,706
- effects of change in accounting policy (Note 29(c)(ii))	0	0	0	(72,499)	0	0	0	20,820	(51,679)	(554)	(52,233)
- as restated	362,029	46,953	35,852	0	30,000	50	10,801	86,779	572,464	2,009	574,473
Realisation of exchange fluctuation reserve from disposal of associated companies (Note 20)	0	0	0	0	0	0	(10,801)	0	(10,801)	0	(10,801)
Income and expense recognised directly in equity	0	0	0	0	0	0	(10,801)	0	(10,801)	0	(10,801)
Net profit for the financial year	0	0	0	0	0	0	0	191,690	191,690	103	191,793
Total recognised income and expense for the financial year	0	0	0	0	0	0	(10,801)	191,690	180,889	103	180,992
Dividends for the financial year ended: (Note 10)											
- 31 December 2006	0	0	0	0	0	0	0	(19,538)	(19,538)	0	(19,538)
- 31 December 2007	0	0	0	0	0	0	0	(29,982)	(29,982)	0	(29,982)
Issue of shares arising from conversion of ICULS (Notes 26 and 27)	36,930	(34,471)	0	0	0	0	0	0	2,459	0	2,459
At 31 December 2007	**398,959**	**12,482**	**35,852**	**0**	**30,000**	**50**	**0**	**228,949**	**706,292**	**2,112**	**708,404**

* 5.5% 5-year Irredeemable Convertible Unsecured Loan Stocks 2003/2008

The accompanying notes form an integral part of the financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

for the financial year ended 31 December 2007

In RM'000 unless otherwise stated

	Issued and fully paid ordinary shares of RM1.00 each		Non-distributable			Distributable	
	Share capital	**ICULS* (equity component)**	**Share premium**	**Revaluation reserve**	**Merger reserve**	**Retained profits**	**Total**
At 1 January 2006							
- as previously reported	361,780	47,174	35,852	44,733	33,600	57,002	580,141
- effects of change in accounting policy (Note 29(c))	0	0	0	(44,733)	0	6,223	(38,510)
- as restated	361,780	47,174	35,852	0	33,600	63,225	541,631
Net profit for the financial year	0	0	0	0	0	89,950	89,950
Issue of shares arising from conversion of ICULS (Notes 26 and 27)	249	(221)	0	0	0	0	28
At 31 December 2006	362,029	46,953	35,852	0	33,600	153,175	631,609
At 1 January 2007							
- as previously reported	362,029	46,953	35,852	44,733	33,600	145,903	669,070
- effects of change in accounting policy (Note 29(c)(ii))	0	0	0	(44,733)	0	7,272	(37,461)
- as restated	362,029	46,953	35,852	0	33,600	153,175	631,609
Net profit for the financial year	0	0	0	0	0	193,562	193,562
Dividend for the financial year ended: (Note 10)							
- 31 December 2006	0	0	0	0	0	(19,538)	(19,538)
- 31 December 2007	0	0	0	0	0	(29,982)	(29,982)
Issue of shares arising from conversion of ICULS (Notes 26 and 27)	36,930	(34,471)	0	0	0	0	2,459
At 31 December 2007	**398,959**	**12,482**	**35,852**	**0**	**33,600**	**297,217**	**778,110**

* 5.5% 5-year Irredeemable Convertible Unsecured Loan Stocks 2003/2008.

The accompanying notes form an integral part of the financial statements.

CASH FLOW STATEMENTS

for the financial year ended 31 December 2007

In RM'000 unless otherwise stated

	Note	Group		Company	
		2007	2006	**2007**	2006
CASH FLOWS FROM OPERATING ACTIVITIES					
Net profit for the financial year		**191,690**	84,706	**193,562**	89,950
Adjustments for:					
Share of results of associated companies		**(4,819)**	1,763	**0**	0
Taxation		**3,359**	(18,823)	**11,745**	(17,311)
Minority interests		**103**	249	**0**	0
Dividend income		**(10)**	(37)	**(1,650)**	(582)
Interest expense		**42,957**	45,740	**31,561**	36,291
Interest income		**(493)**	(621)	**(579)**	(749)
Net unrealised foreign exchange gain		**(8,745)**	(22,396)	**(9,001)**	(23,135)
Bad debts written off		**0**	7	**0**	0
Allowance for doubtful debts		**4,590**	3,771	**994**	1,027
Allowance for doubtful debts written back		**(3,699)**	(912)	**0**	0
Property, plant and equipment:					
- depreciation		**78,366**	80,797	**53,142**	51,984
- write off		**4,647**	257	**4,634**	33
- net gain on disposals		**(27)**	(188)	**(20)**	(44)
Amortisation of prepaid lease		**1,496**	1,497	**979**	980
Inventories:					
- write off		**917**	884	**917**	884
- write down to net realisable value		**162**	2,241	**0**	321
- allowance for inventories obsolescence		**16,543**	17,512	**16,101**	17,256
- write back of allowance for inventories obsolescence		**(87)**	(618)	**0**	0
- write down to net realisable value no longer required		**(626)**	(3,997)	**(626)**	0
Provision for retirement benefits		**2,874**	2,598	**1,230**	1,093
Gain on disposals of investments		**0**	(442)	**0**	0
Gain on disposal of associated companies		**(2,467)**	0	**(19,688)**	0
Realisation of exchange fluctuation reserve from disposal of associated companies		**(10,801)**	0	**0**	0
Provision for sales tax reassessment written back		**0**	(1,841)	**0**	0
Unrealised profit on sales to associated company		**(4)**	166	**0**	0
		315,926	192,313	**283,301**	157,998

The accompanying notes form an integral part of the financial statements.

CASH FLOW STATEMENTS

for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

	Note	Group 2007	Group 2006	Company 2007	Company 2006
Changes in working capital:					
Inventories		**(107,968)**	(19,103)	**(84,639)**	(25)
Receivables		**(80,495)**	(27,696)	**(63,929)**	(6,400)
Payables		**(17,857)**	16,856	**(19,437)**	13,931
Cash generated from operations		**109,606**	162,370	**115,296**	165,504
Interest paid		**(48,838)**	(48,056)	**(37,512)**	(38,611)
Tax paid		**(809)**	(1,952)	**(720)**	(336)
Tax refunded		**2,733**	0	**1,396**	0
Retirement benefits paid		**(2,640)**	(1,120)	**(1,482)**	(470)
Payment for sales tax reassessment		**0**	(549)	**0**	0
Net operating cash flows		**60,052**	110,693	**76,978**	126,087
CASH FLOWS FROM INVESTING ACTIVITIES					
Dividends received		**1,660**	587	**1,650**	582
Interest received		**493**	593	**579**	749
Property, plant and equipment:					
- proceeds from disposals		**107**	440	**66**	44
- additions		**(43,801)**	(27,810)	**(35,368)**	(22,669)
Proceeds from disposal of quoted investments		**0**	761	**0**	0
Proceeds from disposal of associated companies		**66,408**	0	**66,408**	0
Net investing cash flows		**24,867**	(25,429)	**33,335**	(21,294)
CASH FLOWS FROM FINANCING ACTIVITIES					
Net repayment of revolving credits		**(70,828)**	(29,705)	**(70,578)**	(27,555)
Net proceeds from/(repayment of) foreign currency loans		**7,626**	(3,777)	**3,880**	0
Net proceeds from/(repayment of) bankers' acceptance		**91,613**	2,511	**50,942**	(20,597)
Repayment of long term borrowings (exclude ICULS)		**(69,471)**	(53,769)	**(69,471)**	(53,769)
Dividends paid		**(29,306)**	0	**(29,306)**	0
Net financing cash flows		**(70,366)**	(84,740)	**(114,533)**	(101,921)
Net change in cash and cash equivalents		**14,553**	524	**(4,220)**	2,872
Cash and cash equivalents at beginning of the financial year		**34,571**	34,047	**27,893**	25,021
Cash and cash equivalents at end of the financial year	30	**49,124**	34,571	**23,673**	27,893

The accompanying notes form an integral part of the financial statements.

CASH FLOW STATEMENTS

for the financial year ended 31 December 2007 (cont'd)

NON-CASH TRANSACTIONS - ADDITIONS OF PROPERTY, PLANT AND EQUIPMENT ("PPE")

	Group		Company	
	2007	2006	**2007**	2006
PPE additions	**43,356**	28,480	**34,923**	23,339
Less: cash payment	**(37,798)**	(22,477)	**(29,365)**	(17,336)
Balances included in other payables and accruals as at 31 December 2007	**5,558**	6,003	**5,558**	6,003
Analysis of total cash payment for cash flow purposes:				
In respect of PPE acquired during the financial year ended 31 December 2007	**37,798**	22,477	**29,365**	17,336
In respect of PPE acquired during the financial year ended 31 December 2006/31 December 2005 (included in other payables and accruals)	**6,003**	5,333	**6,003**	5,333
	43,801	27,810	**35,368**	22,669

The accompanying notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007

In RM'000 unless otherwise stated

1 GENERAL INFORMATION AND PRINCIPAL ACTIVITIES

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and listed on the Main Board of Bursa Malaysia Securities Berhad.

The registered office of the Company is located at Level 3, 2723 Lorong Perusahaan 12, Prai Industrial Estate, 13600 Prai, Penang. The principal place of business of the Company is located at 2435, Lorong Perusahaan 12, Prai Industrial Estate, 13600 Prai, Penang.

The principal activities of the Company are the manufacturing of, sales and trading in billets, steel bars and wire rods. The principal activities of its subsidiary companies and associated companies are described in Notes 14 and 15 to the financial statements respectively. There have been no significant changes in the nature of these activities during the financial year.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group and the Company have been prepared under the historical cost convention except as disclosed in the summary of significant accounting policies in Note 3 to the financial statements and in accordance with the provisions of the Companies Act, 1965 and Financial Reporting Standards ("FRS"), the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities.

The preparation of financial statements in conformity with FRS requires management to exercise its judgement in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. Critical accounting estimates and assumptions used that are significant to the financial statements, and areas involving a higher degree of judgement or complexity, are disclosed in Note 5 to the financial statements.

(a) STANDARDS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE APPLICABLE TO THE GROUP AND ARE EFFECTIVE

The new accounting standards and amendments to published standards to existing standards effective for the Group's financial year ended 31 December 2007 and applicable to the Group are as follows:

FRS 117	Leases
FRS 124	Related Party Disclosures
Amendment to FRS 119_{2004}	Employee Benefits – Actuarial Gain and Losses, Group Plans and Disclosures

All changes in accounting policies have been made in accordance with the transition provisions in the respective standards and amendments to published standards. All standards and amendments adopted by the Group require retrospective application.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (cont'd)

(a) STANDARDS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE APPLICABLE TO THE GROUP AND ARE EFFECTIVE (cont'd)

A summary of the impact of the new accounting standards and amendments to published standards interpretations to existing standards on the financial statements of the Group and the Company is set out in Note 4 to the financial statements.

(b) STANDARDS TO PUBLISHED STANDARDS TO EXISTING STANDARDS THAT ARE APPLICABLE TO THE GROUP BUT NOT YET EFFECTIVE

The new standards that are mandatory for the Group's financial periods beginning on or after 1 January 2007, but which the Group does not opt for early adoption, are as follows:

(i) The following revised FRS effective for accounting period beginning on or after 1 July 2007 have no significant changes as compared to the original standards:

FRS 107 Cash Flow Statements
FRS 118 Revenue
FRS 134 Interim Financial Reporting
FRS 137 Provisions, Contingent Liabilities and Contingent Assets

(ii) FRS 112 Income Taxes (effective for accounting periods beginning on or after 1 July 2007). This revised standard allows recognition of deferred tax asset in respect of reinvestment allowances. However, the Group has decided to continue with the existing method of recognising such tax benefit in the income statement when such allowances are utilised for income tax purposes. Consequently, the amendment has no financial impact to the Group. As at financial year ended 31 December 2007, the Group and the Company have unutilised reinvestment allowances amounting to RM343,172,000 and RM251,748,000 respectively for which no deferred tax asset has been recognised.

(iii) FRS 139 Financial Instruments: Recognition and Measurement (effective date yet to be determined by the MASB). The Group will apply this standard when effective. The Group has applied the transitional provision in FRS 139 which exempts entities from disclosing the possible impact arising from the initial application of this standard on the financial statements of the Group and the Company.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

All significant group accounting policies set out below are consistent with those applied in the previous financial year except as disclosed in Note 3(f) to the financial statements.

(a) BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and all its subsidiary companies, made up to the end of the financial year. A subsidiary company is a company, in which the Group has the power, directly or indirectly to control the financial and operating policies of the company so as to obtain benefits from its activities. All inter-company transactions, balances and the resulting unrealised gains are eliminated on consolidation. Unrealised losses are also eliminated unless cost cannot be recovered.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(a) BASIS OF CONSOLIDATION (cont'd)

The results of all the subsidiary companies are consolidated using the purchase method of accounting except for the consolidation of Southern Steel Holdings Sdn. Bhd. sub-group prior to 1 January 2002 using the merger method of accounting in accordance with Malaysian Accounting Standard No. 2, "Accounting for Acquisitions and Mergers", the generally accepted accounting principles prevailing at that time. The Group has applied FRS 3, "Business Combinations" prospectively. Accordingly, the business combination entered into prior to 1 January 2002 has not been restated to comply with the said FRS.

Under the purchase method of accounting, the results of the subsidiary companies acquired or disposed of during the financial year are included in the consolidated income statement from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases. At the date of acquisition, the fair values of the subsidiary companies' net assets are determined and these values are reflected in the consolidated financial statements. The excess of the purchase consideration over the fair values of the net assets of the subsidiary companies acquired is reflected in the financial statements as goodwill. However, if the purchase consideration is less than the fair value of the net assets of subsidiary companies acquired, the difference is recognised directly in the income statement as negative goodwill.

Goodwill recognised as intangible assets is tested at least annually for impairment and carried at cost less accumulated impairment losses. The accounting policy on the recognition and measurement of impairment losses is disclosed in Note 3(j) to the financial statements.

Under the merger method of accounting, the results of the subsidiary companies are presented as if the merger had been effected throughout the current and previous financial years. The assets and liabilities combined are accounted for based on the carrying amount from the perspective of the common control shareholder at the date of transfer. On consolidation, the cost of the merger is cancelled with the value of the shares received. Any resulting credit difference is classified as equity and regarded as a non-distributable merger reserve. Any resulting debit difference is adjusted against any suitable reserve. Any share premium, capital redemption reserve and any other reserves which are attributable to share capital of the merged enterprises, to the extent that they have not been capitalised by a debit difference, are classified and presented as movement in other capital reserves.

The gain or loss on disposal of a subsidiary is the difference between net disposal proceeds and the Group's share of its net assets as of the date of disposal including the cumulative amount of any exchange differences that relates to the subsidiary is recognised in the consolidated income statement.

(b) SUBSIDIARY COMPANIES

Investments in subsidiary companies, which are eliminated on consolidation, are stated at cost less accumulated impairment losses in the parent company's separate financial statements. The accounting policy on the recognition and measurement of impairment losses is disclosed in Note 3(j) to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) ASSOCIATED COMPANIES

An associated company is a company in which the Group exercises significant influence, but not control, over the financial and operating policies. In the financial statements of the Company, investments in associated companies are stated at cost less accumulated impairment losses. The accounting policy on the recognition and measurement of impairment losses is disclosed in Note 3(j) to the financial statements.

The Group equity accounts for its share of the results and reserves of the associated companies from the date that significant influence effectively commences until the date that significant influence effectively ceases or when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company. Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies.

Unrealised losses on such transactions are also eliminated to the extent of the Group's interest in the associated companies unless cost cannot be recovered.

Goodwill on acquisition represents the excess of the purchase consideration over the fair values of the net assets of the associated companies acquired. Goodwill on acquisition is included in the carrying amount of the investments in the associated companies. Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses (refer to Note 3 (j) to the financial statements).

(d) MINORITY INTERESTS

Minority interests represent that portion of the profit or loss and the net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent. It is measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the acquisition date and the minorities' share of changes in the subsidiaries' equity since that date.

For purchases of a subsidiary's equity shares from minority interests for cash consideration and the purchase price is established at fair value, the accretion of the Group's interests in the subsidiary is treated as purchase of equity interest under the purchase method of accounting. The identifiable assets and liabilities acquired are adjusted to their fair values, with the resulting difference being attributed to goodwill or negative goodwill.

Disposals of equity shares to minority interests for cash consideration and at fair value result in gains and losses for the Group and are recorded in the income statement. The gain and loss is the difference between the Group's share of net assets immediately before and immediately after the disposal and a rateable portion of goodwill is realised.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(d) MINORITY INTERESTS (cont'd)

For purchases or disposals from or to minority interests for consideration other than cash and not at fair value, the accretion or dilution of the Group's interests is treated as an equity transaction between the subsidiary and its shareholders. The difference between the Group's share of net assets immediately before and immediately after the changes in stake and any consideration received or paid is adjusted to or against the Group's reserves.

All other changes in stakes and changes in composition of the Group are treated as equity transactions between the Group and its majority and minority shareholders. The difference between the Group's share of net assets before and after the change, and any consideration received or paid adjusted to or against the Group's reserves.

(e) OTHER INVESTMENTS

Non-current investments are stated at cost. The investments are only written down when the Directors are of the opinion that there is a decline other than temporary in the value of such investments. Such a decline is recognised as an expense in the period in which the decline is identified. Write down in value of investments previously recognised is reversed when the Directors are of the opinion that the increase in value of investments is other than temporary.

Short term investments are carried at the lower of cost and market value, determined on an aggregate portfolio basis by category of investment. Cost is determined using the weighted average basis. Market value is calculated by reference to the stock exchange quoted selling prices at the close of business on the balance sheet date. Reduction in the carrying amount of investments and reversal of such reduction is taken to the income statement.

On disposal of an investment, the gain or loss representing the difference between net disposal proceeds and the carrying amount of investment is credited or charged to the income statement.

(f) PROPERTY, PLANT AND EQUIPMENT

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Prior to 1 January 2007, the land and buildings were subject to periodic revaluation of at least once in every five years. The Directors consider that the change from the revaluation model to the cost model gives a fairer presentation of the results and the financial position of the Group. This change in accounting policy has been accounted for retrospectively and the effects of this change are disclosed in Note 29(c)(i) & (ii) to the financial statements.

In RM'000 unless otherwise stated

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(f) PROPERTY, PLANT AND EQUIPMENT (cont'd)

Freehold land and capital work in progress are not depreciated. All other property, plant and equipment are depreciated over their estimated useful lives on a straight line basis at the following principal annual rates:

Buildings	2% - 12%
Plant and machinery	5% - 20%
Office equipment	5% - 50%
Motor vehicles	20% - 25%

Residual values and useful life of assets are reviewed and adjusted if appropriate, at each balance sheet date.

Gain or loss on disposals of property, plant and equipment are determined by comparing proceeds with carrying amounts of assets and are included in the income statements.

At the balance sheet date, the Group assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. The accounting policy on the recognition and measurement of impairment losses is disclosed in Note 3(j) to the financial statements.

(g) OPERATING LEASE

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating lease. Payments made under operating lease (net of any incentives received from the lessor) are charged to the income statement on the straight line basis over the lease period from 60 to 99 years.

The adoption of the revised FRS 117 Leases has resulted in a retrospective change in the accounting policy relating to the classification of prepaid lease in respect of leasehold land. The up-front payments made for the leasehold land represent prepaid lease and are amortised on the straight-line basis over the lease term. Prior to 1 January 2007, prepaid lease were classified as property, plant and equipment and stated at valuation less accumulated depreciation.

During the financial year, the Group and the Company changed its accounting policies on land and buildings from revaluation model to cost model. On the adoption of FRS 117 Leases, the Group and the Company retained the unamortised cost as the surrogate carrying amount of prepaid lease. Such prepaid lease is amortised over the lease term.

(h) NON-CURRENT ASSETS HELD FOR SALE

Non-current assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(i) RESEARCH AND DEVELOPMENT

Research expenditure is recognised as an expense when incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(i) it is technically feasible to complete the intangible asset so that it will be available for use or sale;

(ii) management intends to complete the intangible asset and use or sell it;

(iii) there is an ability to use or sell the intangible asset;

(iv) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(v) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and

(vi) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditure is recognised as an expense when incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Development costs that have been capitalised are amortised from the commencement of the commercial production of the products to which they relate on a straight line basis over the period of their expected benefits. The accounting policy on the recognition and measurement of impairment losses in respect of development costs capitalised is disclosed in Note 3(j) to the financial statements.

(j) IMPAIRMENT OF ASSETS

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

The impairment loss is charged to the income statement. Impairment losses on goodwill are not reversed. In respect of other assets, any subsequent increase in recoverable amount is recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(k) INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined principally on the weighted average basis. Cost of raw materials comprises all costs of purchases and other costs incurred in bringing the raw materials to their present locations and conditions. Costs of billets (included in raw materials), work in progress and finished goods comprise direct materials, direct labour, other direct costs and an appropriate proportion of production overheads (based on normal operating capacity) but exclude borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

(l) RECEIVABLES

Receivables are carried at anticipated realisable value. Known bad debts are written off and allowance is made for debts which are considered doubtful.

(m) FOREIGN CURRENCIES

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Ringgit Malaysia, which is the Group and the Company's functional and presentation currency.

(ii) Transactions and balances

Transactions in foreign currencies are converted into Ringgit Malaysia at the rates of exchange approximating to those ruling at transaction dates, unless hedged by forward foreign exchange contracts, in which case the rates specified in such forward contracts are used. Foreign exchange gain and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(iii) Group companies

For inclusion in the consolidated financial statements, assets and liabilities of foreign operations are translated into Ringgit Malaysia at rates of exchange approximating those prevailing at the balance sheet date while income statements of foreign operations are translated at average exchange rates for the financial year. Exchange differences arising from the retranslation of net investment in foreign operations is dealt with through the exchange fluctuation reserve. On disposal of the foreign operations, such exchange differences are recognised in the income statement as part of the gain or loss on disposal. All other exchange differences are dealt with through the income statement.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(m) FOREIGN CURRENCIES (cont'd)

(iii) Group companies (cont'd)

The principal closing rates used in the translation of the currency amounts are as follows:

Foreign currency	31.12.2007 RM	31.12.2006 RM
1 US Dollar	**3.33**	3.53
1 Singapore Dollar ("SGD")	**2.30**	2.30
1 Euro	**4.87**	4.65

(n) FINANCIAL INSTRUMENTS

(i) Financial instruments recognised on the balance sheet

Financial instruments are recognised when the Group and the Company have become a party to the contractual provisions of an instrument. Financial instruments, or their component parts, are classified as assets, liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a financial liability are reported in the income statement as income or expense. Distributions to holders of financial instruments classified as equity are debited directly to equity.

Financial instruments are offset and the net amount presented in the balance sheet when the Group and the Company have a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

(ii) Other financial instruments

Forward foreign exchange contracts are entered into by the Group to hedge the risk exposure to fluctuations in foreign currency exchange rates. Forward foreign exchange contracts and their fair values are not recognised in the financial statements at inception. Gains or losses on foreign exchange relating to forward foreign exchange contracts entered into by the Group as hedges for receivables/payables are recognised in the income statements in the financial year in which the exchange differences on the underlying hedged items are recognised.

(iii) Fair value estimation for disclosure purpose

<u>Financial instruments recognised on the balance sheet</u>
The face values of financial assets (less any estimated credit adjustments) and financial liabilities with maturity of less than one year or financial liabilities at floating rates are assumed to approximate their fair values.

<u>Other financial instruments</u>
Fair value of forward foreign exchange contracts is determined using forward foreign exchange market rates obtainable at the balance sheet date for contracts with similar remaining period to maturity.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(o) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand, bank balances, demand deposits, bank overdrafts and short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(p) PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed and the reimbursement is virtually certain, the reimbursement is recognised as a separate asset.

(q) BORROWINGS AND BORROWING COSTS

Borrowings are initially recognised based on the proceeds received, net of transaction cost incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method. Any difference between proceeds (net of transaction cost) and the redemption value is recognised in the income statement over the period of the borrowings.

Interest expense on the ICULS is calculated on an effective yield basis by applying the effective interest rate of 8.00% per annum for an equivalent irredeemable non-convertible loan stock to the liability component of the ICULS.

Interest expense and other related costs incurred on borrowings are charged to the income statement in the financial year in which the interest expense and other related costs are incurred.

(r) INCOME TAXES

Current tax expense is determined according to the tax laws of each jurisdiction in which the Group operates and includes all taxes based upon the taxable profits, including withholding taxes payable by foreign subsidiary company or associated company on distributions of retained profits to companies in the Group.

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements unless the temporary differences arise from initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit. Deferred tax is recognised on temporary differences arising from investment in subsidiary companies and associated companies except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(r) INCOME TAXES (cont'd)

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the underlying deductible temporary differences or unused tax losses or credits can be utilised.

Tax rate enacted or substantively enacted by the balance sheet date are used to determine deferred tax. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off deferred tax assets against deferred tax liabilities and when the deferred taxes relate to the same tax authority.

(s) RECOGNITION OF INCOME

Revenue of the Group and the Company represents the invoiced value of goods, net of discounts and returns. Revenue from sales of goods is recognised when the goods have been delivered and significant risks and rewards have been transferred to the buyer.

Interest income is recognised on a time proportion basis, taking into account the principal outstanding and effective rate over the period to maturity, when it is determined that such income will accrue to the Group and the Company.

Dividend income is recognised when the rights to receive payment is established.

Other income is recognised on an accrual basis.

(t) EMPLOYEE BENEFITS

(i) Short term employee benefits

Short term employee benefits are accrued in the financial year in which the associated services are rendered by employees of the Group.

(ii) Post-employment benefits

Defined contribution plan
The Company and its subsidiary companies contribute to a defined contribution plan, the Employees Provident Fund ("EPF"). The Company and its subsidiary companies' contributions to the plan are charged to the income statement in the financial year to which they relate. Once the contributions have been paid, the Company and its subsidiary companies have no further payment obligations.

Defined benefit plans
The Company and its subsidiary companies have 4 unfunded plans and a funded plan.

Included in the unfunded plans is a plan established pursuant to the Collective Agreement between certain subsidiary companies and The Metal Industry Employees' Union for a duration of 3 years ending 30 June 2009. The unfunded defined benefits plan obligations are provided for based on actuarial valuations carried out in December 2007.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(t) EMPLOYEE BENEFITS (cont'd)

(ii) Post-employment benefits (cont'd)

Defined benefit plans (cont'd)
The assets of the funded plan are held separately from those of the relevant subsidiary company in an independently administered fund. The most recent actuarial valuation for the funded defined benefit plan was carried out in December 2007.

Effective 1 April 2002, the defined benefit plans of all eligible non-unionised employees of the Company and its subsidiary companies were changed to that of higher EPF contributions depending on years of service. The defined benefit obligation in respect of these employees up to 31 March 2002 under the old plans is carried forward as provision for retirement benefits in the financial statements. For other eligible employees, the defined benefit obligation is determined based on years of service of employees up to the balance sheet date.

The liability in respect of defined benefit plans is the present value of the defined benefit obligation at the balance sheet date minus the fair value of plan assets, together with adjustments for actuarial gains/losses and past service cost. The defined benefit obligation, calculated using the projected unit credit method, is determined by independent actuaries, considering the estimated future cash outflows using market yields at the balance sheet date of government securities which have currency and terms to maturity approximating the terms of the related liability. The Group determines the present value of defined benefit obligation and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the balance sheet date.

Plan assets in excess of the defined benefit obligation are subject to the limitation on recognition of assets as specified in FRS 119_{2004} Employee Benefits. Actuarial gains and losses arise from experience adjustments and changes in actuarial assumptions. The amount of net actuarial gains and losses recognised in the income statement is determined by the corridor method in accordance with FRS 119_{2004} and is charged or credited to income statement over the average remaining service lives of the related employees participating in the defined benefit plans.

(u) SHARE CAPITAL

(i) Classification

Ordinary shares are classified as equity.

(ii) Dividends

Dividends on ordinary shares are recognised as liabilities when approved for payment.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(v) SEGMENT REPORTING

Segment reporting is presented for enhanced assessment of the Group's risks and returns. A business segment is a group of assets and operations engaged in providing products or services that are subject to risk and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those components.

Segment revenue, expenses, assets and liabilities are those amounts resulting from the operating activities of a segment that are directly attributable to the segment and the relevant portion that can be allocated on a reasonable basis to the segment. Segment revenue, expense, assets and segment liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

(w) COMPOUND INSTRUMENT

On issue of a financial instrument that contains both liability and an equity component, the fair value of the liability portion of a compound financial instrument is determined using the market interest rate for an equivalent financial instrument with no conversion rights; this amount is carried as a liability on an amortised cost basis until extinguished upon conversion or maturity of the instrument. The remainder of the proceeds is allocated to the conversion option, which is recognised and included in shareholders' equity. The value of the conversion option allocated at inception is not changed at subsequent periods although its balance is reduced upon conversion of the compound instrument.

4 EFFECTS ON FINANCIAL STATEMENTS ON ADOPTION OF NEW OR REVISED FRS

The effects on adoption of the new or revised FRS as set out in Note 2 to the financial statements are set out below:

(a) THE ADOPTION OF FRS 119_{2004} EMPLOYEE BENEFITS AND FRS 124 RELATED PARTY DISCLOSURES

The adoption of FRS 119_{2004} Employee Benefits and FRS 124 Related Party Disclosures did not have a significant impact to the financial statements of the Group and the Company except for additional disclosures for the current and previous financial year as set out in Notes 23 and 32 to the financial statements respectively.

(b) THE ADOPTION OF FRS 117 LEASES

The effects of the change to the financial statements of the Group and the Company as a result of the adoption of FRS 117 Leases are set out in Note 29(b) and 29(c)(i) & (ii) to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) ESTIMATED IMPAIRMENT OF GOODWILL

The Group tests goodwill for impairment annually in accordance with the accounting policy stated in Note 3(j) to the financial statements. More regular reviews are performed if events indicate that this is necessary.

The recoverable amounts of cash-generating units were determined based on value-in-use calculations. These calculations require the use of estimates as set out in Note 17 to the financial statements.

(b) INCOME TAXES

The Group is subject to income taxes whereby significant judgement is required in determining the capital allowances and deductibility of certain expenses during the estimation of the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

6 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a variety of financial risks, including foreign currency exchange risk, credit risk, interest rate risk, liquidity risk and cash flow risks. The Group's overall financial risk management objective is to ensure that the Group minimises its exposure to financial downside risks at reasonable costs. The Directors regularly review and assess the financial risk management policies to mitigate potential adverse effects from the unpredictability of financial markets on its financial performance. The Group uses forward foreign exchange contracts to hedge its risk exposures to fluctuations in foreign currency exchange rates. It does not trade in financial instruments.

Foreign currency exchange risk
The Group is exposed to foreign currency exchange risk which is mainly in US Dollar. The Group, however, monitors development in the government's policy and market conditions to take necessary actions should there be any indication of unfavourable foreign exchange movement.

Credit risk
The Group seeks to control credit risk by applying due credit control procedures on a regular basis to review and monitor the financial viability of its customers. Sales of products and services are made to customers with an appropriate credit history, and sales are suspended when the outstanding debts consistently exceed the credit period/limit granted.

Interest rate, liquidity and cash flow risks
Interest risk exposure arises from the Group's borrowings, and is managed through the use of fixed and floating rate debts with the objectives of minimising interest burden whilst maintaining an acceptable debt maturity profile. The Group also seeks to maintain flexibility in funding by maintaining adequate committed credit lines.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

7 OPERATING PROFIT

(a) Expenses by nature:

	Group		Company	
	2007	2006	**2007**	2006
Raw material and consumables used	**2,109,811**	1,766,792	**1,815,869**	1,500,041
Changes in inventories of finished goods and work in progress	**7,701**	22,880	**22,880**	(5,995)
Staff costs *	**111,723**	99,295	**62,234**	55,078
Auditors' remuneration:				
- statutory audit	**243**	228	**85**	85
- underprovision in prior year	**5**	0	**0**	0
- others	**12**	12	**12**	12
Directors' remuneration:				
- fees	**240**	240	**225**	225
- fees payable to corporations in respect of services provided by certain Directors	**155**	155	**140**	140
- other emoluments *	**1,698**	1,142	**1,695**	1,142
Bad debts written off	**0**	7	**0**	0
Allowance for doubtful debts	**4,590**	3,771	**994**	1,027
Inventories:				
- write off	**917**	884	**917**	884
- write down to net realisable value	**162**	2,241	**0**	321
- allowance for inventory obsolescence	**16,543**	17,512	**16,101**	17,256
Property, plant and equipment:				
- depreciation	**78,366**	80,797	**53,142**	51,984
- write off	**4,647**	257	**4,634**	33
- loss on disposals	**0**	24	**0**	0
Amortisation of prepaid lease	**1,496**	1,497	**979**	980
Rental:				
- land and buildings	**402**	266	**342**	303
- equipment and furniture	**788**	609	**244**	139
Research and development expenditure	**683**	5,974	**683**	5,974

* Included in the staff costs and Directors' other emoluments are contributions to a defined contribution plan of approximately RM8,899,000 (2006: RM8,378,000) and RM4,953,000 (2006: RM4,596,000) for the Group and the Company respectively. Also included in the staff costs is the provision for retirement benefits of approximately RM2,874,000 (2006: RM2,598,000) and RM1,230,000 (2006: RM1,093,000) for the Group and the Company respectively.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

7 OPERATING PROFIT (cont'd)

(b) The following amounts have been credited in arriving at operating profit:

	Group		Company	
	2007	2006	**2007**	2006
Allowance for doubtful debts written back	**3,699**	912	**0**	0
Gross dividends from:				
- shares quoted in Malaysia	**10**	37	**0**	32
- associated company in Malaysia	**0**	0	**1,650**	550
Interest income	**493**	621	**579**	749
Inventories:				
- write back of allowance for inventory obsolescence	**87**	618	**0**	0
- write down to net realisable value no longer required	**626**	3,997	**626**	0
Gain on disposals of property, plant and equipment	**27**	212	**20**	44
Rental income	**88**	92	**89**	92
Net foreign exchange gain:				
- unrealised	**8,745**	22,396	**9,001**	23,135
- realised	**5,773**	1,777	**6,804**	2,775
Provision for sales tax reassessment written back	**0**	1,841	**0**	0
Gain on disposals of investments	**0**	442	**0**	0
Gain on disposal of associated companies	**2,467**	0	**19,688**	0
Realisation of exchange fluctuation reserve from disposal of associated companies	**10,801**	0	**0**	0

Number of employees of the Group and the Company at end of the financial year was 2,646 (2006: 2,706) and 1,210 (2006: 1,197) respectively.

8 FINANCE COSTS

	Group		Company	
	2007	2006	**2007**	2006
Interest expense on:				
- Borrowings	**(42,761)**	(45,134)	**(31,367)**	(35,704)
- ICULS	**(190)**	(501)	**(190)**	(501)
- Others	**(6)**	(105)	**(4)**	(86)
	(42,957)	(45,740)	**(31,561)**	(36,291)

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

9 TAXATION

	Group		Company	
	2007	2006	**2007**	2006
Current tax	**(2,115)**	396	**(4,305)**	439
Deferred tax	**(1,244)**	18,372	**(7,440)**	16,817
	(3,359)	18,768	**(11,745)**	17,256
Real property gains tax	**0**	55	**0**	55
	(3,359)	18,823	**(11,745)**	17,311
Current tax				
Current financial year	**(4,488)**	(316)	**(4,305)**	0
Over provision in prior financial years	**2,373**	712	**0**	439
	(2,115)	396	**(4,305)**	439
Deferred tax				
Origination and reversal of temporary differences	**(8,272)**	23,015	**(10,692)**	20,735
Over/(under) provision in prior financial years	**3,939**	(10,468)	**134**	(9,682)
Effects of change in tax rate	**3,089**	5,825	**3,118**	5,764
	(1,244)	18,372	**(7,440)**	16,817
	(3,359)	18,768	**(11,745)**	17,256
Real property gains tax				
Over provision in prior financial years	**0**	55	**0**	55
Tax (expense)/credit	**(3,359)**	18,823	**(11,745)**	17,311

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

9 TAXATION (cont'd)

The explanation of the relationship between income tax (expense)/credit and profit from ordinary activities before taxation is as follows:

	Group		Company	
	2007	2006	**2007**	2006
Profit from ordinary activities before taxation	**195,152**	66,132	**205,307**	72,639
Tax calculated at income tax rate of 27% (2006: 28%):	**(52,691)**	(18,517)	**(55,433)**	(20,339)
Tax effects of:				
Share of results of associated companies	**1,301**	(493)	**0**	0
Change in tax rate*	**3,089**	5,825	**3,118**	5,764
Different tax rates in small & medium industry	**(21)**	(11)	**0**	0
Income not subject to tax	**9,356**	6,524	**11,507**	6,660
Expenses not deductible for tax purposes	**(5,065)**	(6,831)	**(3,498)**	(5,144)
Expenses eligible for double deduction	**496**	429	**351**	261
Utilisation of reinvestment allowance	**32,228**	10,226	**31,785**	9,504
Future tax benefits arising from allowance for increase in export	**0**	26,836	**0**	26,836
Utilisation of allowance for increase in export	**0**	2,897	**0**	2,897
Benefit from previously unrecognised deductible temporary differences arising from property, plant and equipment	**1,478**	2,558	**0**	0
Temporary differences not recognised:				
- property, plant and equipment	**(534)**	(741)	**0**	0
- accruals	**426**	35	**0**	0
- others	**62**	(45)	**0**	0
Others	**204**	(168)	**291**	60
	43,020	47,041	**43,554**	46,838
Over/(under)provision in prior financial years:				
- current tax	**2,373**	712	**0**	439
- deferred tax	**3,939**	(10,468)	**134**	(9,682)
Over provision of real property gains tax in prior financial years	**0**	55	**0**	55
Tax (expense)/credit	**(3,359)**	18,823	**(11,745)**	17,311

* As gazetted in the Finance Act 2007, the income tax rate is 26% and 25% for Year of Assessment 2008 and Year of Assessment 2009 onwards respectively (2007: 27%).

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

9 TAXATION (cont'd)

(a) UNUTILISED TAX LOSSES AND TAX CREDITS

The Group and the Company have, subject to confirmation by the Inland Revenue Board, the following unused tax losses and tax credits as at 31 December 2007:

	Group		Company	
	2007	2006	**2007**	2006
Tax losses carried forward	**96,859**	144,793	**0**	47,715
Unabsorbed capital allowances	**19,937**	29,184	**0**	0
Unabsorbed reinvestment allowances	**343,172**	437,573	**251,748**	348,262
Unabsorbed investment tax allowances	**1,297**	1,297	**0**	0
Unabsorbed increase export allowances	**83,802**	103,214	**68,871**	103,214
	545,067	716,061	**320,619**	499,191

10 DIVIDENDS PER SHARE

	Group and Company			
	2007		2006	
	Gross dividend per share sen	**Amount of dividend, tax exempt RM**	Gross dividend per share sen	Amount of dividend, tax exempt RM
Paid:				
First interim dividend	**2.5**	**9,768**	0	0
Declared:				
Second interim dividend	**5.0**	**20,214**	0	0
Proposed:				
Final dividend	**0**	**0**	5.0	18,122
	7.5	**29,982**	5.0	18,122

In respect of the financial year ended 31 December 2006, additional dividends of RM1,416,000 were paid based on the 28,327,215 shares issued during the financial year arising from the conversion of 5.5% 5-year Irredeemable Convertible Unsecured Loan Stock 2003/2008.

A first interim tax exempt dividend of 2.5 sen and a second interim tax exempt dividend of 5.0 sen for the financial year ended 31 December 2007 were paid on 5 October 2007 and 4 January 2008 respectively.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

11 EARNINGS PER SHARE

(a) BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the financial year is based on the net profit attributable to ordinary shareholders of RM191,690,000 and the weighted average number of ordinary shares (after conversion of mandatorily convertible instrument) outstanding during the financial year of 419,417,542.

	Group	
	2007	2006
Profit attributable to equity holders of the Company (RM'000)	**191,690**	84,706
Weighted average number of ordinary shares in issue during the financial year ('000)	**381,602**	362,258
Adjustment for conversion of ICULS*	**37,816**	57,160
Weighted average number of ordinary shares	**419,418**	419,418
Basic earnings per share (sen)	**45.7**	20.2

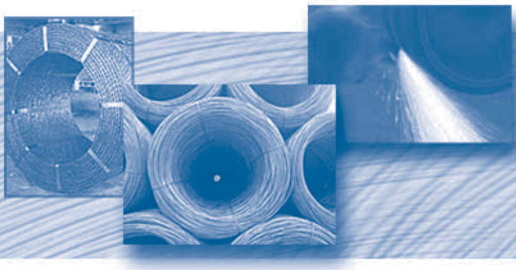
* The adjustment for conversion of ICULS is based on the assumption that all mandatorily convertible instruments such as ICULS are converted into ordinary shares from the date the contract is entered into.

(b) DILUTED EARNINGS PER SHARE

Diluted earnings per share is not calculated as there is no other dilutive event. Conversion of ICULS has already been taken into account in the basic earnings/(loss) per share calculation in accordance with FRS 133.

(c) EFFECTS OF CHANGE IN ACCOUNTING POLICIES

The change in accounting policies during the financial year has been accounted for retrospectively and the effects of change on the Group and the Company's financial statements for current and prior financial years are set out in Note 29 to the financial statements. However, the change did not have a material impact on the earnings per share of the Group.



NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

12 PROPERTY, PLANT AND EQUIPMENT

Financial year ended 31 December 2007

Group

	Cost				
	At 1 January 2007 (As restated)	Additions	Reclassifi-cations	Write offs/ disposals	**At 31 December 2007**
Freehold land	22,140	76	0	0	**22,216**
Buildings	294,341	3,204	0	0	**297,545**
Plant and machinery	1,325,424	25,210	124	(9,090)	**1,341,668**
Office equipment	30,969	12,152	74	(659)	**42,536**
Motor vehicles	12,235	942	0	(791)	**12,386**
Capital work in progress	756	1,772	(198)	0	**2,330**
	1,685,865	43,356	0	(10,540)	**1,718,681**

	Accumulated depreciation				
	At 1 January 2007 (As restated)	Charge for the financial year	Reclassifi-cations	Write offs/ disposals	**At 31 December 2007**
Buildings	128,196	9,747	0	0	**137,943**
Plant and machinery	783,393	65,384	0	(4,447)	**844,330**
Office equipment	26,876	2,571	0	(614)	**28,833**
Motor vehicles	10,694	664	0	(752)	**10,606**
	949,159	78,366	0	(5,813)	**1,021,712**
Net book value	736,706				**696,969**

In RM'000 unless otherwise stated

12 PROPERTY, PLANT AND EQUIPMENT (cont'd)

Financial year ended 31 December 2006

Group

	Cost/Valuation											
		Change in accounting policies (Note 29 (c)(ii))							Change in accounting policies (Note 29 (c)(ii))			
	At 1 January 2006	Reversal of revaluation portion	Transfer to cost	Reinstatement to original cost	Transfer to prepaid lease upon adoption of FRS 117	At 1 January 2006 (As restated)	Additions	Write offs/ disposals	Transfer to cost	Write offs/ disposals (As restated)	Reclassi-fication	Balance at 31 December 2006 (As restated)
At Valuation												
Freehold land	28,240	(9,810)	(18,430)	0	0	0	0	(221)	221	0	0	0
Long term leasehold land	63,526	(8,262)	(55,264)	0	0	0	0	0	0	0	0	0
Short term leasehold land	32,152	(23,913)	(8,239)	0	0	0	0	0	0	0	0	0
Buildings	242,833	(50,907)	(191,926)	0	0	0	0	0	0	0	0	0
At Cost												
Freehold land	323	0	18,430	3,608	0	22,361	0	0	(221)	(221)	0	22,140
Long term leasehold land	68	0	55,264	11,773	(67,105)	0	0	0	0	0	0	0
Short term leasehold land	5,290	0	8,239	3,074	(16,603)	0	0	0	0	0	0	0
Buildings	16,270	0	191,926	85,350	0	293,546	796	0	0	0	(1)	294,341
Plant and machinery	1,300,773	0	0	0	0	1,300,773	25,886	(1,294)	0	(1,294)	59	1,325,424
Office equipment and furniture	30,707	0	0	0	0	30,707	1,294	(1,032)	0	(1,032)	0	30,969
Motor vehicles	12,751	0	0	0	0	12,751	56	(572)	0	(572)	0	12,235
Capital expenditure in progress	366	0	0	0	0	366	448	0	0	0	(58)	756
	1,733,299	(92,892)	0	103,805	(83,708)	1,660,504	28,480	(3,119)	0	(3,119)	0	1,685,865
		*		*	#				*			

* The adjustment to cost/valuation as a result of change in policy as indicated in Note 29(a) & (c)(ii) = RM10,913
# The adjustment to cost/valuation as a result of change in policy as indicated in Note 29(b) & (c)(ii) = (RM83,708)

In RM'000 unless otherwise stated

12 PROPERTY, PLANT AND EQUIPMENT (cont'd)

Financial year ended 31 December 2006

Group

	Accumulated depreciation													
		Change in accounting policies (Note 29 (c)(i) & (ii))						Change in accounting policies (Note 29 (c)(i) & (ii))						
	At 1 January 2006	Reversal of revaluation portion	Transfer to cost	Reinstate-ment to original cost	Transfer to prepaid lease upon adoption of FRS 117	At 1 January 2006 (As restated)	Charge for the financial year	Reversal of revaluation portion	Transfer to cost	Reinstate-ment to original cost	Transfer to prepaid lease upon adoption of FRS 117	Charge for the financial year (As restated)	Write offs/ disposals	Balance at 31 December 2006 (As restated)
At Valuation														
Long term leasehold land	5,313	(1,501)	(3,812)	0	0	0	1,164	(145)	(1,019)	0	0	0	0	0
Short term leasehold land	3,036	(2,986)	(50)	0	0	0	913	(685)	(228)	0	0	0	0	0
Buildings	42,049	(7,413)	(34,636)	0	0	0	11,131	(2,742)	(8,389)	0	0	0	0	0
At Cost														
Long term leasehold land	0	0	3,812	6,827	(10,639)	0	1	0	1,019	83	(1,103)	0	0	0
Short term leasehold land	141	0	50	4,442	(4,633)	0	130	0	228	36	(394)	0	0	0
Buildings	1,384	0	34,636	82,553	0	118,573	635	0	8,389	599	0	9,623	0	128,196
Plant and machinery	716,218	0	0	0	0	716,218	68,200	0	0	0	0	68,200	(1,025)	783,393
Office equipment and furniture	25,521	0	0	0	0	25,521	2,368	0	0	0	0	2,368	(1,013)	26,876
Motor vehicles	10,660	0	0	0	0	10,660	606	0	0	0	0	606	(572)	10,694
	804,322	(11,900)	0	93,822	(15,272)	870,972	85,148	(3,572)	0	718	(1,497)	80,797	(2,610)	949,159
		*		*	#			*		*	#			
Net book value	928,977					789,532								736,706

* The adjustment to accumulated depreciation as a result of change in policy as indicated in Note 29(a), (c)(i) & (ii) = RM79,068
\# The adjustment to accumulated depreciation as a result of change in policy as indicated in Note 29(b), (c)(i) & (ii) = (RM16,769)

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

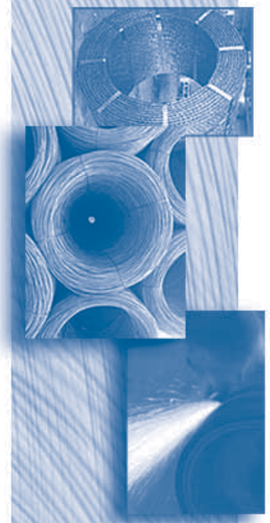
12 PROPERTY, PLANT AND EQUIPMENT (cont'd)

Financial year ended 31 December 2007

Company

	Cost				
	At 1 January 2007 (As restated)	Additions	Transfers	Write offs/ disposals	**At 31 December 2007**
Freehold land	7,382	76	0	0	**7,458**
Buildings	198,681	2,095	0	0	**200,776**
Plant and machinery	927,392	20,878	(7,945)	(8,859)	**931,466**
Office equipment and furniture	17,131	11,425	(1,127)	(197)	**27,232**
Motor vehicles	11,324	449	(99)	(619)	**11,055**
	1,161,910	34,923	(9,171)	(9,675)	**1,177,987**

	Accumulated depreciation				
	At 1 January 2007 (As restated)	Charge for the financial year	Transfers	Write offs/ disposals	**At 31 December 2007**
Buildings	96,495	6,366	0	0	**102,861**
Plant and machinery	463,269	44,520	(3,300)	(4,235)	**500,254**
Office equipment and furniture	15,291	1,669	(1,044)	(180)	**15,736**
Motor vehicles	9,848	587	(99)	(580)	**9,756**
	584,903	53,142	(4,443)	(4,995)	**628,607**
Net book value	577,007				**549,380**



In RM'000 unless otherwise stated

12 PROPERTY, PLANT AND EQUIPMENT (cont'd)

Financial year ended 31 December 2006

Company

	Cost/Valuation									
		Change in accounting policies (Note 29 (c)(ii))								
	At 1 January 2006	Reversal of revaluation portion	Transfer to cost	Reinstatement to original cost	Transfer to prepaid lease upon adoption of FRS 117	At 1 January 2006 (As restated)	Additions	Write offs/ disposals	Reclassi- fication	Balance at 31 December 2006 (As restated)
At Valuation										
Freehold land	11,900	(4,841)	(7,059)	0	0	0	0	0	0	0
Long term leasehold land	32,741	(2,276)	(30,465)	0	0	0	0	0	0	0
Short term leasehold land	23,005	(17,676)	(5,329)	0	0	0	0	0	0	0
Buildings	164,822	(35,730)	(129,092)	0	0	0	0	0	0	0
At Cost										
Freehold land	323	0	7,059	0	0	7,382	0	0	0	7,382
Long term leasehold land	68	0	30,465	9,275	(39,808)	0	0	0	0	0
Short term leasehold land	5,290	0	5,329	1,169	(11,788)	0	0	0	0	0
Buildings	6,333	0	129,092	63,137	0	198,562	120	0	(1)	198,681
Plant and machinery	904,685	0	0	0	0	904,685	22,741	(35)	1	927,392
Office equipment and furniture	16,923	0	0	0	0	16,923	426	(218)	0	17,131
Motor vehicles	11,532	0	0	0	0	11,532	52	(260)	0	11,324
	1,177,622	(60,523)	0	73,581	(51,596)	1,139,084	23,339	(513)	0	1,161,910
		*		*	#					

* The adjustment to cost/valuation as a result of change in policy as indicated in Note 29(a) & (c)(ii) = RM13,058
# The adjustment to cost/valuation as a result of change in policy as indicated in Note 29(b) & (c)(ii) = (RM51,596)

In RM'000 unless otherwise stated

12 PROPERTY, PLANT AND EQUIPMENT (cont'd)

Financial year ended 31 December 2006

Company

	Accumulated depreciation												
		Change in accounting policies (Note 29 (c)(i) & (ii))						Change in accounting policies (Note 29 (c)(i) & (ii))					
	At 1 January 2006	Reversal of revaluation portion	Transfer to cost	Reinstatement to original cost	Transfer to prepaid lease upon adoption of FRS 117	At 1 January 2006 (As restated)	Charge for the financial year	Reversal of revaluation portion	Transfer to cost	Transfer to prepaid lease upon adoption of FRS 117	Charge for the financial year (As restated)	Write offs/ disposals	Balance at 31 December 2006 (As restated)
At Valuation													
Long term leasehold land	2,606	(401)	(2,205)	0	0	0	695	40	(735)	0	0	0	0
Short term leasehold land	2,333	(1,906)	(427)	0	0	0	621	(507)	(114)	0	0	0	0
Buildings	30,875	(5,508)	(25,367)	0	0	0	8,240	(2,225)	(6,015)	0	0	0	0
At Cost													
Long term leasehold land	0	0	2,205	5,691	(7,896)	0	1	0	735	(736)	0	0	0
Short term leasehold land	140	0	427	2,531	(3,098)	0	130	0	114	(244)	0	0	0
Buildings	260	0	25,367	64,591	0	90,218	262	0	6,015	0	6,277	0	96,495
Plant and machinery	419,411	0	0	0	0	419,411	43,874	0	0	0	43,874	(16)	463,269
Office equipment and furniture	14,227	0	0	0	0	14,227	1,268	0	0	0	1,268	(204)	15,291
Motor vehicles	9,543	0	0	0	0	9,543	565	0	0	0	565	(260)	9,848
	479,395	(7,815)	0	72,813	(10,994)	533,399	55,656	(2,692)	0	(980)	51,984	(480)	584,903
		*		*	#			*		#			
Net book value	698,227					605,685							577,007

* The adjustment to accumulated depreciation as a result of change in policy as indicated in Note 29(a), (c)(i) & (ii) = RM62,306
\# The adjustment to accumulated depreciation as a result of change in policy as indicated in Note 29(b), (c)(i) & (ii) = (RM11,974)

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

12 PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Group		Company	
	2007	2006	**2007**	2006
Net book value				
Freehold land	**22,216**	22,140	**7,458**	7,382
Buildings	**159,602**	166,145	**97,915**	102,186
Plant and machinery	**497,338**	542,031	**431,212**	464,123
Office equipment	**13,703**	4,093	**11,496**	1,840
Motor vehicles	**1,780**	1,541	**1,299**	1,476
Capital work in progress	**2,330**	756	**0**	0
	696,969	736,706	**549,380**	577,007

13 PREPAID LEASE

Financial year ended 31 December 2007

Group

	Long term leasehold land	Short term leasehold land	Total
Cost			
At 1 January 2007 (As restated)/ 31 December 2007	67,105	16,603	83,708
Accumulated amortisation			
At 1 January 2007 (As restated)	11,742	5,027	16,769
Amortisation for the financial year	1,103	393	1,496
At 31 December 2007	12,845	5,420	18,265
Net book value	54,260	11,183	65,443

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

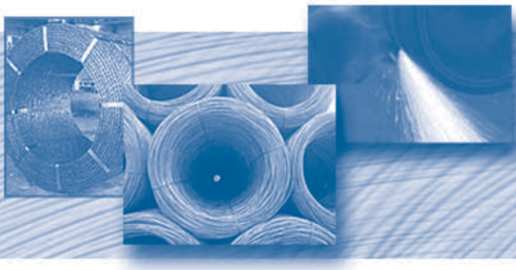
In RM'000 unless otherwise stated

13 PREPAID LEASE (cont'd)

Financial year ended 31 December 2006

Group

	Long term leasehold land	Short term leasehold land	Total
Cost			
At 1 January 2006	0	0	0
Transfer from property, plant & equipment upon adoption of FRS 117 (Note 29(c)(ii))	67,105	16,603	83,708
At 1 January 2006/31 December 2006 (As restated)	67,105	16,603	83,708
Accumulated amortisation			
At 1 January 2006	0	0	0
Transfer from property, plant & equipment upon adoption of FRS 117 (Note 29(c)(i) & (ii))	10,639	4,633	15,272
Transfer from property, plant & equipment upon adoption of FRS 117 (Note 29(c)(i) & (ii))	1,103	394	1,497
At 31 December 2006 (As restated)	11,742	5,027	16,769
Net book value	55,363	11,576	66,939



NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

13 PREPAID LEASE (cont'd)

Financial year ended 31 December 2006

Company

	Long term leasehold land	Short term leasehold land	Total
Cost			
At 1 January 2007 (As restated)/ 31 December 2007	39,808	11,788	51,596
Accumulated amortisation			
At 1 January 2007 (As restated)	8,632	3,342	11,974
Amortisation for the financial year	736	243	979
At 31 December 2007	9,368	3,585	12,953
Net book value	30,440	8,203	38,643

Financial year ended 31 December 2006

Company

	Long term leasehold land	Short term leasehold land	Total
Cost			
At 1 January 2006	0	0	0
Transfer from property, plant & equipment upon adoption of FRS 117 (Note 29(c)(ii))	39,808	11,788	51,596
At 1 January 2006/31 December 2006 (As restated)	39,808	11,788	51,596
Accumulated amortisation			
At 1 January 2006	0	0	0
Transfer from property, plant & equipment upon adoption of FRS 117 (Note 29(c)(i) & (ii))	7,896	3,098	10,994
Transfer from property, plant & equipment upon adoption of FRS 117 (Note 29(c)(i) & (ii))	736	244	980
At 31 December 2006 (As restated)	8,632	3,342	11,974
Net book value	31,176	8,446	39,622

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

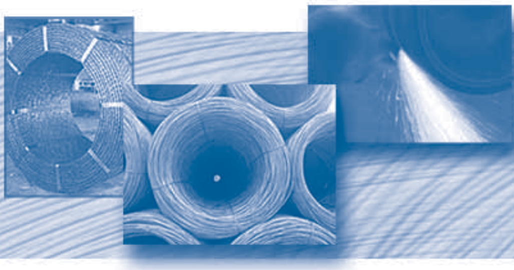
14 SUBSIDIARY COMPANIES

	Company 2007	Company 2006
Shares in unquoted corporations, at cost	**358,659**	358,659
Investment in Redeemable Convertible Cumulative Preference Shares ("RCCPS") in a subsidiary company	**40,000**	40,000
	398,659	398,659

On 6 May 2005, the Company together with a subsidiary company restructured the subsidiary's RM40,000,000 loan into 100,000 redeemable convertible cumulative preference shares ("RCCPS") of RM1.00 each at an issue price of RM400.00 per share for a total consideration of RM40,000,000.

The subsidiary companies of the Company, all of which are incorporated in Malaysia are as follows:

DIRECT SUBSIDIARY COMPANIES	PRINCIPAL ACTIVITIES	EQUITY INTEREST 2007 (%)	EQUITY INTEREST 2006 (%)
* Southern Steel Holdings Sdn. Bhd.	Investment holding	**100**	100
* Southern Steel Properties Sdn. Bhd.	Rental of properties	**100**	100
* Danstil Sdn. Bhd.	Rental of properties	**100**	100
* Southern Steel Trading Sdn. Bhd.	Dormant	**#100**	100
Southern Coated Wire Sdn. Bhd.	Dormant	**100**	100
Southern Galvanised Wire Sdn. Bhd.	Dormant	**100**	100
* Southern Steel Solutions Sdn. Bhd.	Dormant	**100**	100
* Southern Steel Management Sdn. Bhd.	Dormant	**100**	100
* Southern Steel Mesh Sdn. Bhd.	Manufacture and marketing of steel wire mesh, concrete wires, cut and bend bar and trading in steel bar	**100**	100
Southern Wire Industries (Malaysia) Sdn. Bhd.	Manufacture and sale of steel wire, wire ropes, tyre bead wire and welding wire, galvanised wire and strand	**100**	100
Southern Pipe Industry (Malaysia) Sdn. Bhd.	Manufacture and sale of steel pipes	**83.7**	83.7
Southern Speciality Wire Sdn. Bhd.	Manufacture and sale of all types of fine steel wire	**75**	75
SUBSIDIARY COMPANIES OF:			
SOUTHERN STEEL HOLDINGS SDN. BHD.			
* Southern Steel Bar Sdn. Bhd.	Dormant	**100**	100
* Southern Steel Industries Sdn. Bhd.	Dormant	**100**	100
SOUTHERN STEEL MESH SDN. BHD.			
* Southern Mesh Sdn. Bhd.	Supply of contract labour	**100**	100
* E-Tatt Steel Wires Sdn. Bhd.	Trading in steel wire mesh and concrete wire.	**100**	100



NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

14 SUBSIDIARY COMPANIES (cont'd)

SUBSIDIARY COMPANIES OF:	PRINCIPAL ACTIVITIES	EQUITY INTEREST 2007 (%)	EQUITY INTEREST 2006 (%)
SOUTHERN WIRE INDUSTRIES (MALAYSIA) SDN. BHD.			
Southern PC Steel Sdn. Bhd.	Manufacture and sale of pre-stressed concrete strands and wires	**100**	100
Cempaka Raya Sdn. Bhd.	Supply of contract labour	**100**	100
* Trend Staples Industry Sdn. Bhd.	Manufacture and sale of staples and related products	**100**	100
SOUTHERN PIPE INDUSTRY (MALAYSIA) SDN. BHD.			
* Asia Seamless Pipes Sdn. Bhd.	Dormant	**100**	100

* Subsidiary companies not audited by PricewaterhouseCoopers, Malaysia.
# Southern Steel Trading Sdn. Bhd. transferred its operation of providing transportation services to Southern Steel Berhad in the current financial year and became dormant.

15 ASSOCIATED COMPANIES

	Group 2007	Group 2006	Company 2007	Company 2006
Unquoted shares, at cost	**15,635**	62,355	**15,635**	62,355
Accumulated impairment losses	**0**	0	**(10,135)**	(10,135)
	15,635	62,355	**5,500**	52,220
Share of post acquisition reserves less losses, amortisation of goodwill and net of translation differences	**616**	14,662	**0**	0
Associated companies classified as non-current assets held for sale (Note 20)	**0**	(63,941)	**0**	(46,720)
	16,251	13,076	**5,500**	5,500
Represented by:				
Share of net assets	**16,251**	13,076		

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

15 ASSOCIATED COMPANIES (cont'd)

The associated companies of the Group, which are held directly by the Company are as follows:

ASSOCIATED COMPANIES	PRINCIPAL ACTIVITIES	COUNTRY OF INCORPORATION	EQUITY INTEREST 2007 (%)	2006 (%)
Southern Oriental Sdn. Bhd.	Investment holding	Malaysia	**50.0**	50.0
Steel Industries (Sabah) Sdn. Bhd.	Manufacture and sale of steel products	Malaysia	**27.5**	27.5

16 OTHER INVESTMENTS

	Group		Company	
	2007	2006	**2007**	2006
Non-current				
Shares in corporations quoted in Malaysia				
At cost	**6,586**	6,586	**6,434**	6,434
Allowance for diminution in value	**(5,726)**	(5,726)	**(5,726)**	(5,726)
	860	860	**708**	708
Market value	**4,703**	2,283	**4,562**	2,181

The market values of the quoted investments at the balance sheet date approximated their fair values.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

17 GOODWILL ON CONSOLIDATION

	Group	
	2007	2006
At 1 January and 31 December	**48,991**	48,991

(a) Impairment tests for goodwill

The carrying amounts of goodwill allocated to the Group's cash-generating units are as follows:

	2007	2006
Southern Wire Industries (Malaysia) Sdn. Bhd.	**28,419**	28,419
Danstil Sdn. Bhd.	**805**	805
Southern Steel Mesh Sdn. Bhd.	**19,767**	19,767
	48,991	48,991

The Group undertakes an annual test for impairment. No impairment loss was required for the carrying amount of goodwill assessed as at 31 December 2007 as their recoverable amounts were in excess of their carrying amounts.

(b) Recoverable amount based on value in use

The recoverable amount of cash generating units containing the above goodwill is determined based on value in use calculations. These calculations use pre-tax cash flow projections based on recent financial budgets and projections prepared by the management and approved by the Board of Directors. These projections cover a period of ten years as a going concern, using projected growth rate of approximately 9% for the first five years which is consistent with forecasts included in industry reports. Projected cash flow beyond the fifth year uses terminal growth rate. The discount rate of 14% is a pre-tax rate that is applied to the cash flow projections and represents estimated weighted average cost of capital used.

The budgeted gross margin used in the budget and projections were based on past experience and expectations of market development.

(c) Impact of possible change in key assumptions

The Group's review includes an impact assessment of changes in key assumptions. Based on the sensitivity analysis performed, management has concluded that no reasonable change in the base case key assumptions would cause the carrying amounts of the cash-generating units to exceed their recoverable amounts.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

18 INVENTORIES

	Group		Company	
	2007	2006	**2007**	2006
Raw materials	**427,765**	364,323	**350,795**	302,799
Work in progress	**22,203**	16,134	**0**	0
Finished goods	**141,841**	116,748	**97,452**	74,572
General consumables and other stores	**84,021**	87,566	**60,897**	63,526
	675,830	584,771	**509,144**	440,897

Included in raw materials are goods-in-transit in respect of the Group and the Company amounting to RM89,038,000 (2006: RM61,311,000) and RM88,088,000 (2006: RM56,178,000) respectively.

19 RECEIVABLES

	Group		Company	
	2007	2006	**2007**	2006
Trade receivables	**237,288**	166,858	**32,128**	41,653
Amounts due from:				
Subsidiary companies	**0**	0	**88,890**	19,326
Associated companies	**95**	1,592	**95**	1,592
Other related parties *	**8,639**	8,516	**8,639**	8,516
Other receivables	**18,912**	13,882	**4,548**	4,321
	264,934	190,848	**134,300**	75,408
Less: Allowance for doubtful debts				
Trade receivables	**(17,418)**	(16,900)	**(5,464)**	(4,828)
Amounts due from:				
Associated companies	**0**	(1,575)	**0**	(1,575)
Other related parties *	**(3,682)**	(1,748)	**(3,682)**	(1,748)
Other receivables	**(722)**	(1,126)	**(722)**	(1,126)
	(21,822)	(21,349)	**(9,868)**	(9,277)
	243,112	169,499	**124,432**	66,131
Deposits	**2,282**	235	**2,169**	113
Prepayments	**8,541**	4,673	**4,712**	2,232
	253,935	174,407	**131,313**	68,476

* Other related parties are mainly those companies referred to in Note 32 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

19 RECEIVABLES (cont'd)

The range of credit terms of receivables of the Group and the Company (in days) is as follows:

	Group		Company	
	2007	2006	**2007**	2006
Trade receivables	**14-120**	14-120	**14**	14
Amounts due from:				
Subsidiary companies (trade)	**-**	-	**14**	14
Associated companies and other related parties (trade)	**14**	14	**14**	14

Included in amounts due from subsidiary companies are the following:

	Company	
	2007	2006
Trade balances	**64,662**	15,219
Non-trade balances	**24,228**	4,107
	88,890	19,326

Amounts due from associated companies and other related parties are mainly trade in nature. Non-trade amounts due from subsidiary companies are unsecured and with no fixed terms of repayment.

Non-trade amounts due from subsidiary companies of approximately RM3,317,000 (2006: RM3,374,000) at the balance sheet date carried an effective interest rate of 6.23% (2006: 6.93%) per annum.

The currency exposure profile of receivables (excluding prepayments) is as follows:

	Group		Company	
	2007	2006	**2007**	2006
Ringgit Malaysia	**194,924**	136,860	**119,654**	66,224
US Dollar	**34,885**	21,544	**6,947**	20
Singapore Dollar	**12,543**	10,017	**0**	0
Others	**3,042**	1,313	**0**	0
	245,394	169,734	**126,601**	66,244

Concentration of credit risk with respect to trade receivables is limited due to the large number of customers of the Group and the Company, which are locally and internationally dispersed, covering a broad spectrum of manufacturing and distribution operations and have a variety of end markets. The historical experience of the Group and the Company in the collection of account receivables falls within the credit period. The Directors believe that there is no additional credit risk beyond the allowance for doubtful debts made.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

20 NON-CURRENT ASSETS HELD FOR SALE

On 27 September 2006, the Company entered into three conditional sale and purchase agreements for the proposed disposals of its entire equity interest of 40% in NatSteel Trade International Pte. Ltd., 50% in Southern NatSteel (Xiamen) Limited and 22.6% in NatSteelVina Company Ltd. to NatSteel Asia Pte. Ltd., on a willing-buyer willing-seller basis for a total cash consideration of SGD29 million. The Company completed the disposal on 24 January 2007 with a gain from disposal of these associated companies in respect of the Group and the Company amount to RM2,467,000 and RM19,688,000 respectively as well as the realisation of exchange fluctuation reserve from the disposal amounting to RM10,801,000.

21 PAYABLES

	Group		Company	
	2007	2006	**2007**	2006
Trade payables	**114,283**	119,935	**89,974**	99,908
Other payables and accruals	**87,121**	71,442	**65,368**	57,449
	201,404	191,377	**155,342**	157,357
Amounts due to:				
Subsidiary companies	**0**	0	**108,202**	102,858
Associated companies	**0**	96	**0**	96
Other related parties *	**4,803**	36,882	**4,803**	36,882
	206,207	228,355	**268,347**	297,193

* Other related parties are mainly those companies referred to in Note 32 to the financial statements.

Credit terms of payables of the Group and the Company range from 5 days to 90 days (2006: 5 days to 90 days).

Amounts due to subsidiary companies, which are primarily non-trade balances, are unsecured, interest free and with no fixed terms of repayment.

Credit terms of amounts due to other related parties range from 4 days to 60 days (2006: 4 days to 60 days).

The currency exposure profile of payables is as follows:

	Group		Company	
	2007	2006	**2007**	2006
Ringgit Malaysia	**195,172**	184,866	**257,542**	254,543
US Dollar	**8,786**	42,075	**8,600**	41,469
Euro	**1,977**	1,234	**1,960**	1,006
Others	**272**	180	**245**	175
	206,207	228,355	**268,347**	297,193

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

22 SHORT TERM BORROWINGS

	Group		Company	
	2007	2006	**2007**	2006
Unsecured				
Bank overdrafts	**8,095**	30,177	**4,917**	24,120
Bankers' acceptance	**522,617**	431,004	**322,985**	272,043
Revolving credits	**85,500**	156,356	**18,000**	88,606
Foreign currency loans	**7,626**	0	**3,880**	0
Long term borrowings due within 12 months (Note 24)	**77,351**	70,026	**77,351**	70,026
	701,189	687,563	**427,133**	454,795

The currency exposure profile of the short term borrowings is as follows:

	Group		Company	
	2007	2006	**2007**	2006
Ringgit Malaysia	**616,698**	549,881	**346,388**	317,113
US Dollar	**84,491**	137,682	**80,745**	137,682
	701,189	687,563	**427,133**	454,795

The effective interest rates of the short term borrowings (other than long term borrowings due within 12 months) of the Group and the Company at the balance sheet date range from 3.39% to 8.00% (2006: 3.37% to 8.00%) and 3.79% to 5.75% (2006: 3.37% to 7.08%) per annum respectively. The effective interest rates of long term borrowings due within 12 months are as disclosed in Note 24 to the financial statements.

Short term borrowings are held against negative pledge over all the assets of the respective companies within the Group (Note 24).

23 PROVISIONS

	Group		Company	
	2007	2006	**2007**	2006
Non-current				
Retirement benefits	**23,414**	23,392	**9,345**	9,652
Others	**283**	283	**0**	0
	23,697	23,675	**9,345**	9,652
Current				
Retirement benefits	**978**	766	**521**	426
	24,675	24,441	**9,866**	10,078

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

23 PROVISIONS (cont'd)

Retirement benefits - Defined benefit plan

The amounts recognised on the balance sheet are as follows:

	Group		Company	
	2007	2006	**2007**	2006
Funded plan				
Present value of obligations	**381**	362	**0**	0
Fair value of plan assets	**(1,045)**	(979)	**0**	0
	(664)	(617)	**0**	0
Unrecognised actuarial gain	**105**	106	**0**	0
Assets not recognised	**559**	511	**0**	0
	0	0	**0**	0
Unfunded plans				
Present value of obligations	**24,462**	23,544	**9,855**	10,078
Unrecognised net actuarial gain/(loss)	**(70)**	614	**11**	0
	24,392	24,158	**9,866**	10,078
	24,392	24,158	**9,866**	10,078
Current	**978**	766	**521**	426
Non-current	**23,414**	23,392	**9,345**	9,652
	24,392	24,158	**9,866**	10,078

The plan assets of the Group represent portfolio value of the funds of a subsidiary company's defined benefit plan placed with an investment manager.

Movements in provision for retirement benefits during the financial year are as follows:

	Group		Company	
	2007	2006	**2007**	2006
At 1 January	**24,158**	22,680	**10,078**	9,455
Charged to income statement:				
- current financial year (included in staff costs)	**2,874**	2,598	**1,230**	1,093
Retirement benefits paid	**(2,640)**	(1,120)	**(1,482)**	(470)
Transfer of employees from a subsidiary	**0**	0	**40**	0
At 31 December	**24,392**	24,158	**9,866**	10,078

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

23 PROVISIONS (cont'd)

Retirement benefits - Defined benefit plan (cont'd)

The amounts recognised in the income statement are as follows:

	Group		Company	
	2007	2006	**2007**	2006
Current service cost	**1,478**	1,276	**633**	516
Interest cost	**1,421**	1,358	**597**	577
Expected return on plan assets	**(66)**	(62)	**0**	0
Adjustment for limit on net assets	**48**	41	**0**	0
Actuarial gain	**(7)**	(15)	**0**	0
	2,874	2,598	**1,230**	1,093
Included as staff costs in:				
Cost of sales	**2,444**	2,248	**1,027**	988
Administration expenses	**430**	350	**203**	105
	2,874	2,598	**1,230**	1,093

The actual return of the Group on plan assets was RM68,440 (2006: RM98,952).

Changes in the present value of the defined benefit obligation are as follows:

	Group		Company	
	2007	2006	**2007**	2006
Opening defined benefit obligation	**23,906**	23,093	**10,078**	9,455
Current service cost	**1,478**	1,276	**633**	516
Interest cost	**1,421**	1,358	**597**	577
Actuarial (gain)/loss	**678**	(701)	**(11)**	0
Retirement benefits paid	**(2,640)**	(1,120)	**(1,482)**	(470)
Transfer of employees from a subsidiary	**0**	0	**40**	0
	24,843	23,906	**9,855**	10,078

Changes in the fair value of plan assets are as follows:

	Group	
	2007	2006
Opening fair value of plan assets	**979**	880
Expected return on plan assets	**66**	62
Actuarial gain	**0**	37
	1,045	979

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

23 PROVISIONS (cont'd)

Retirement benefits - Defined benefit plan (cont'd)

Plan assets comprised of:

	Group	
	2007	2006
	%	%
Equity	**70**	68
Debt	**22**	26
Cash and other	**8**	6
	100	100

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy.

No further contribution is to be paid to the plan assets subsequent to the change in defined benefit plans effective 1 April 2002 as disclosed in Note 3(t) to the financial statements.

The principal actuarial assumptions used in respect of the defined benefit plans of the Group and the Company are as follows:

	Group		Company	
	2007	2006	**2007**	2006
	%	%	**%**	%
Discount rate	**6.00 – 7.00**	6.00 - 7.00	**6.00**	7.00
Expected rates of salary increases	**5.00 – 6.50**	5.00 - 6.00	**6.00**	6.00
Expected return on plan assets	**7.00**	7.00	**N/A**	N/A

Amounts for the current and previous four financial periods are as follows:

Group

	2007	2006	2005	2004	2003
Funded plan					
Defined benefit obligation	**381**	362	410	383	398
Plan assets	**1,045**	979	880	822	706
Surplus	**(664)**	(617)	(470)	(439)	(308)
Unfunded plans					
Defined benefit obligation	**24,462**	23,544	22,680	21,124	20,318

Company

	2007	2006	2005	2004	2003
Defined benefit obligation	**9,855**	10,078	9,455	8,666	8,461

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

24 LONG TERM BORROWINGS

	Group and Company	
	2007	2006
Unsecured		
- USD85 million Term Loan	**154,556**	225,057
- USD4 million Term Loan	**13,224**	21,182
ICULS (liability component) (Note 27)	**486**	4,783
	168,266	251,022
Less: Amounts due within 12 months (Note 22)		
- USD85 million Term Loan	**70,253**	60,015
- USD4 million Term Loan	**6,612**	7,061
ICULS (liability component) (Note 27)	**486**	2,950
	77,351	70,026
	90,915	180,996
Repayable:		
- not later than 1 year (Note 22)	**77,351**	70,026
- later than 1 year but not later than 5 years	**90,915**	180,996
	168,266	251,022

The carrying value of the term loans at the balance sheet date approximated their fair values.

All the above term loans are repayable by half yearly instalments.

On 9 August 2004, the Company entered into a USD85 million Term Loan facility agreement to refinance the outstanding balance of the USD125 million Term Loan facility previously restructured on 8 and 11 March 2002, amounting to USD74 million. The USD85 million Term Loan is repayable in 10 unequal instalments, the amount of which ranges from 5% to 15% of the principal loan amount, commencing from May 2005.

The effective interest rates of the USD85 million Term Loan facility are based on the USD SIBOR* plus applicable margin for the relevant periods. The applicable margin for the first 12 months from the date of drawdown is at 1.45% per annum and thereafter, ranging from 1.05% to 1.45% per annum, which will be determined annually based on the ratio of total funded debt/profit before taxation, interest, depreciation and amortisation of the Group.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

24 LONG TERM BORROWINGS (cont'd)

Under the USD85 million Term Loan facility agreement, the Company and/or Group undertake to maintain certain prescribed financial value or ratios in respect of Times Interest Cover, Gearing ratios, and Minimum Consolidated Tangible Assets. There is also a negative undertaking whereby certain restrictions are imposed on the amount of dividend that can be paid in any financial year unless the prior consent of the lenders is obtained.

The effective interest rates per annum of long term bank borrowings at balance sheet date range from 6.38% to 6.59% (2006: 6.83% to 7.11%).

All term loans are held against negative pledge over the assets of the companies.

* (SIBOR denotes the Singapore Interbank Offer Rate for USD)

The currency exposure profile of the total long term borrowings is as follows:

	Group and Company	
	2007	2006
Ringgit Malaysia	**486**	4,783
US Dollar	**167,780**	246,239
	168,266	251,022

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

25 DEFERRED TAX LIABILITIES

	Group		Company	
	2007	2006	**2007**	2006
Deferred tax liabilities				
- Subject to income tax	**(66,433)**	(65,189)	**(65,938)**	(58,498)
Subject to income tax:				
Deferred tax assets				
Unutilised capital allowances	**56**	99	**0**	0
Tax losses	**3,604**	14,831	**0**	12,406
Allowance for doubtful debts	**3,584**	3,089	**1,204**	993
Allowance for inventories obsolescence	**173**	880	**0**	0
Accruals	**7,739**	5,121	**6,665**	3,509
Provision for retirement benefits	**4,824**	4,897	**2,466**	2,620
Future tax benefits arising from allowance for increase in export	**21,340**	26,836	**17,309**	26,836
ICULS (liability component)	**11**	395	**11**	395
Other deductible temporary differences	**992**	450	**0**	0
	42,323	56,598	**27,655**	46,759
Deferred tax liabilities				
Excess of capital allowances over depreciation charge	**(108,756)**	(121,787)	**(93,593)**	(105,257)
	(66,433)	(65,189)	**(65,938)**	(58,498)

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

25 DEFERRED TAX LIABILITIES (cont'd)

Movements in deferred tax during the financial year are as follows:

	Group		Company	
	2007	2006	**2007**	2006
At 1 January	**(81,111)**	(102,118)	**(70,285)**	(88,745)
Effects of change in accounting policies (Note 29(c)(ii))	**15,922**	19,084	**11,787**	13,430
	(65,189)	(83,034)	**(58,498)**	(75,315)
Credited/(charged) to income statement:				
Property, plant and equipment	**12,988**	7,683	**11,664**	4,836
Tax losses	**(11,227)**	(15,007)	**(12,406)**	(15,853)
Allowance for doubtful debts	**495**	(577)	**211**	(171)
Allowance for inventory obsolescence	**(707)**	(1,420)	**0**	0
Accruals	**2,618**	2,089	**3,156**	1,781
Provision for retirement benefits	**(73)**	50	**(154)**	(27)
ICULS (liability component)	**(384)**	(585)	**(384)**	(585)
Other temporary differences	**542**	70	**0**	0
Future tax benefits arising from allowance for increase in export	**(5,496)**	26,836	**(9,527)**	26,836
	(1,244)	19,139	**(7,440)**	16,817
Credited/(charged) equity:				
Revaluation surplus/(deficit)	**0**	(1,294)	**0**	0
At 31 December	**(66,433)**	(65,189)	**(65,938)**	(58,498)

The amounts of deductible temporary differences and unutilised tax losses (both of which have no expiry date) for which no deferred tax asset is recognised at the balance sheet date are as follows:

	Group	
	2007	2006
Deductible temporary differences		
- accruals	**4,252**	4,193
- property, plant and equipment	**3,480**	5,709
- others	**0**	169
Tax losses	**82,582**	88,408

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

26 SHARE CAPITAL

	Group and Company	
	2007	2006
Authorised:		
Ordinary shares of RM1.00 each	**500,000**	500,000
Preference shares of RM1.00 each	**2,000**	2,000
	502,000	502,000
Issued and fully paid:		
Ordinary shares of RM1.00 each		
At 1 January	**362,029**	361,780
Issue of shares arising from conversion of ICULS	**36,930**	249
At 31 December	**398,959**	362,029

During the financial year, 41,827,230 (2006: 269,417) new ordinary shares of RM1.00 each with a carrying value of RM36,930,030 (2006: RM249,027) were issued by the Company arising from the conversion of 43,082,053 (2006: 277,500) ICULS. The newly issued ordinary shares rank *pari passu* in all respects with the existing ordinary shares of the Company except that the said new shares will not be entitled to any dividends, rights, allotments or other distributions where the relevant entitlement date precedes the date of allotment of the new shares.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

27 IRREDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS ("ICULS")

The Irredeemable Convertible Unsecured Loan Stocks ("ICULS") are classified as compound instruments. Upon issuance of the ICULS on 1 August 2003, the total nominal value of the ICULS of RM141,176,000 were segregated as equity and liability components of RM109,264,000 and RM31,912,000 respectively.

	Group and Company			
	2007		2006	
	Equity component	**Liability component**	Equity component	Liability component
At 1 January	**46,953**	**4,783**	47,174	7,309
Conversion of ICULS into ordinary shares^	**(34,471)**	**(2,459)**	(221)	(27)
Coupon interest paid/payable*	**0**	**(2,028)**	0	(3,000)
Finance costs	**0**	**190**	0	501
At 31 December	**12,482**	**486**	46,953	4,783
Repayable:				
- not later than 1 year		**486**		2,950
- later than 1 year but not later than 5 years		**0**		1,833
		486		4,783

^ Included in equity component of ICULS converted is tax effect of approximately RM1,000,000 (2006: RM7,000).

* Coupon interest payable included in other payables and accruals at the balance sheet date is approximately RM358,000 (2006: RM1,346,000).

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

27 IRREDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS ("ICULS") (cont'd)

The principal terms and conditions of ICULS are as follows:

The nominal amount of the ICULS issued on 1 August 2003 is RM141,176,500 in denominations and multiples of RM1.00 and constituted by a Trust Deed.

The ICULS bear interest at the rate of 5.50% per annum, payable annually in arrears commencing from the date of issue of the ICULS and the last payment shall be made on the maturity date on 31 July 2008.

The registered holders of the ICULS have the right to convert the ICULS into new ordinary shares of the Company on any day between Monday and Friday that is not a public holiday during the tenure of the ICULS.

The Conversion Price is fixed at RM1.03 for every new ordinary share of the Company and shall be satisfied solely by tender of ICULS by the ICULS holders for cancellation by the Company.

The ICULS will not be redeemed for cash except upon occurrence of an event of default as provided in the Trust Deed. At the close of business on the maturity date, all outstanding ICULS will be mandatorily converted into new ordinary shares by the Company.

The ICULS shall constitute an unsecured obligation of the Company and shall rank *pari passu* in all respects without priority amongst itself and ranks *pari passu* to all other present and future unsecured and unsubordinated obligations of the Company from time to time outstanding.

New ordinary shares arising from the conversion of the ICULS shall, upon allotment, rank *pari passu* in all respects with the then existing ordinary shares of the Company, except that the said new ordinary shares will not be entitled to any dividends, rights, allotments or other distributions where the relevant entitlement date precedes the date of allotment of the new ordinary shares.

The carrying amount of the liability component of ICULS at the balance sheet date approximates its fair value.

28 RESERVES

	Group		Company	
	2007	2006	**2007**	2006
Non-distributable				
Share premium	**35,852**	35,852	**35,852**	35,852
Merger reserve	**30,000**	30,000	**33,600**	33,600
Capital redemption reserve	**50**	50	**0**	0
Exchange fluctuation reserve	**0**	10,801	**0**	0
	65,902	76,703	**69,452**	69,452
Retained profits	**228,949**	86,779	**297,217**	153,175
	294,851	163,482	**366,669**	222,627

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

28 RESERVES (cont'd)

Subject to confirmation by the Inland Revenue Board, the Company has sufficient tax exempt income and Section 108 tax credit to frank approximately RM170,168,000 (2006: RM47,602,000) of the retained profits of the Company at the balance sheet date if paid out as dividends. The extent of the retained profits not covered at that date amounted to approximately RM127,049,000 (2006: RM98,301,000).

29 EFFECTS OF CHANGE IN ACCOUNTING POLICIES

(a) CHANGE IN ACCOUNTING POLICY FROM REVALUATION MODEL TO COST MODEL ON LAND AND BUILDINGS

Prior to 1 January 2007, the Group maintained a revaluation policy on its land and buildings and was subject to periodic revaluation of at least once in every five years. The last revaluation was performed in the year 2002. During the financial year, the Group decided to change this policy from a revaluation model to cost model on the basis that the land and buildings are not held for the purpose of capital appreciation. The Board of Directors is of the opinion that the voluntary change in accounting policy from a revaluation model to cost model provides a more relevant and fairer presentation of the results and the financial position of the Group as the value of the Group lies in its ability to generate revenue and profits from operations rather than holding land and buildings for capital appreciation. This change in accounting policy has been accounted for retrospectively and the effects of this change are stated in Note 29(c)(i) & (ii) to the financial statements.

(b) FRS 117 LEASES

The adoption of the revised FRS 117 Leases has resulted in a retrospective change in the accounting policy relating to the classification of prepaid lease in respect of leasehold land. The up-front payments made for the leasehold land represent prepaid lease and are amortised on the straight-line basis over the lease term. Prior to 1 January 2007, prepaid lease were classified as property, plant and equipment and stated at valuation less accumulated depreciation. During the financial year, the Group and the Company changed its accounting policies on land and buildings from revaluation model to cost model. The unamortised cost of leasehold land for the Group and the Company of RM66,939,000 and RM39,622,000 respectively are retained as the surrogate carrying amount of prepaid lease as allowed by the transitional provisions of FRS 117 Leases. This change in accounting policy has been accounted for retrospectively and the effects of this change are stated in Note 29(c)(i) & (ii) to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

29 EFFECTS OF CHANGE IN ACCOUNTING POLICIES (cont'd)

(c) SUMMARY OF EFFECTS OF CHANGE IN ACCOUNTING POLICIES ON:

(i) Effects of change in accounting policies on the Income Statement for the financial year ended 31 December 2006

The following table discloses the effects of change in accounting policies that has been made to each of the line items in the Group and the Company's income statement for the financial year ended 31 December 2006.

	As previously reported	Change in accounting policy (Note 29(a))	As restated
Group			
Cost of sales	(2,166,724)	2,765	(2,163,959)
Gross profit	186,560	2,765	189,325
Administration expenses	(52,211)	89	(52,122)
Operating profit	110,781	2,854	113,635
Profit from ordinary activities before taxation	63,278	2,854	66,132
Taxation	21,458	(2,635)	18,823
Profit after taxation	84,736	219	84,955
Minority interest	(218)	(31)	(249)
Profit attributable to equity shareholders of the company	84,518	188	84,706
Company			
Cost of sales	(1,787,383)	2,692	(1,784,691)
Gross profit	136,541	2,692	139,233
Profit from ordinary activities before taxation	69,947	2,692	72,639
Taxation	18,954	(1,643)	17,311
Profit after taxation	88,901	1,049	89,950

In addition, the change in accounting policies also affected the following disclosures:

	As previously reported	Change in accounting policies		As restated
		Note 29(a)	Note 29(b)	
Group				
Depreciation	85,148	(2,854)	(1,497)	80,797
Amortisation of prepaid lease	0	0	1,497	1,497
Company				
Depreciation	55,656	(2,692)	(980)	51,984
Amortisation of prepaid lease	0	0	980	980

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

29 EFFECTS OF CHANGE IN ACCOUNTING POLICIES (cont'd)

(c) SUMMARY OF EFFECTS OF CHANGE IN ACCOUNTING POLICIES ON: (cont'd)

(ii) Effects of change in accounting policies on the Balance Sheet for the financial year ended 31 December 2006

The following table discloses the effects of change in accounting policies that has been made to each of the line items in the Group and the Company's balance sheet for the financial year ended 31 December 2006.

		Change in accounting policies		
	As previously reported	Note 29(a)	Note 29(b)	As restated
Group				
Property, plant and equipment				
- cost/valuation	1,758,660	10,913	(83,708)	1,685,865
- accumulated depreciation	886,860	79,068	(16,769)	949,159
Prepaid lease				
- cost/valuation	0	0	83,708	83,708
- accumulated amortisation	0	0	16,769	16,769
Deferred tax liabilities	81,111	(15,922)	0	65,189
Reserve				
- revaluation reserve	72,499	(72,499)	0	0
- retained profits	65,959	20,820	0	86,779
Minority interest	2,563	(554)	0	2,009
Company				
Property, plant and equipment				
- cost/valuation	1,200,448	13,058	(51,596)	1,161,910
- accumulated depreciation	534,571	62,306	(11,974)	584,903
Prepaid lease				
- cost/valuation	0	0	51,596	51,596
- accumulated amortisation	0	0	11,974	11,974
Deferred tax liabilities	70,285	(11,787)	0	58,498
Reserve				
- revaluation reserve	44,733	(44,733)	0	0
- retained profits	145,903	7,272	0	153,175

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

30 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statements comprise the following:

	Group		Company	
	2007	2006	**2007**	2006
Deposits with licensed banks	**3,000**	14,530	**0**	12,255
Cash and bank balances	**54,219**	50,218	**28,590**	39,758
	57,219	64,748	**28,590**	52,013
Bank overdrafts (Note 22)	**(8,095)**	(30,177)	**(4,917)**	(24,120)
	49,124	34,571	**23,673**	27,893

The currency exposure profile of deposits with licensed banks and cash and bank balances is as follows:

	Group		Company	
	2007	2006	**2007**	2006
Ringgit Malaysia	**44,730**	49,771	**16,101**	37,036
US Dollar	**12,489**	14,977	**12,489**	14,977
	57,219	64,748	**28,590**	52,013

The effective interest rates of the deposits with licensed banks of the Group at the balance sheet date range from 2.30% to 3.20% (2006: 1.50% to 3.20%) per annum. The effective interest rates of the deposits with licensed banks of the Company at the balance sheet date ranged 1.50% to 2.75% per annum for the financial year 2006.

Deposits with licensed banks of the Group at 31 December 2007 have an average maturity of 7 days (2006: 1 to 7 days). Bank balances are deposits held at call with banks. Deposits with licensed banks of the Company at 31 December 2006 was 1 day.

31 CAPITAL COMMITMENTS

Capital expenditure not provided for in the financial statements are as follows:

	Group		Company	
	2007	2006	**2007**	2006
Capital expenditure commitments in respect of property, plant and equipment:				
- approved and contracted for	**33,939**	15,188	**27,014**	12,565
- approved but not contracted for	**31,305**	38,516	**27,327**	37,586
	65,244	53,704	**54,341**	50,151

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

32 RELATED PARTY TRANSACTIONS

The related parties and their relationship with the Group are as follows:

Related parties	Relationship
Hong Leong Company (Malaysia) Berhad Group	Enterprises controlled by the same enterprises which exercises significant influence over the Company
Hong Bee Group	Enterprises that are indirectly controlled by a Director of its subsidiary company
Chin Well Holdings Berhad Group	Enterprises that has a director in common with the Company*
NatSteel Trade International Pte. Ltd.	Enterprises controlled by the same enterprise which exercises significant influence over the Company
Su Hock Group	Enterprises in which substantial interest is owned indirectly by a director, who is also a substantial shareholder of the Company**

* The common director is Y.A. Bhg Tun Dato' Seri Dr. Lim Chong Eu
** The director and substantial shareholder is Y. Bhg Dato' Dr. Tan Tat Wai

(A) The following transactions were carried out with related parties:

	Group		Company	
	2007	2006	**2007**	2006
(a) Sales of goods and services				
Sales of goods to:				
- Subsidiary companies	**0**	0	**570,530**	332,862
- Associated company	**125,797**	69,981	**125,797**	69,981
- Other related parties	**375,807**	315,035	**324,782**	271,439
Sales of services to:				
- Associated company	**1,834**	1,568	**1,834**	1,568
(b) Purchase of goods and services				
Purchase of goods from:				
- Subsidiary companies	**0**	0	**392,141**	2,664
- Other related parties	**770,503**	628,871#	**770,503**	628,871#
(c) Dividend income				
Dividend income from:				
- Associated company	**0**	0	**1,650**	550

Related parties include NatSteel Trade International Pte. Ltd., which was previously an associated company of the Company. The disposal of overseas associated companies was completed on 24 January 2007.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

32 RELATED PARTY TRANSACTIONS (cont'd)

These related party transactions, which were conducted in accordance with the general mandate obtained from shareholders for recurrent related party transactions, were entered into in the normal course of business and have been established based on terms and conditions negotiated between the Group and its related parties.

(B) Amounts due from related parties:

	Group		Company	
	2007	2006	**2007**	2006
Nature of transaction				
Trade				
- Subsidiary companies	**0**	0	**64,662**	15,219
- Other related parties	**5,825**	8,516	**5,825**	8,516
Non trade				
- Subsidiary companies	**0**	0	**24,228**	4,107
- Associated company	**95**	1,592	**95**	1,592
- Other related parties	**2,814**	0	**2,814**	0

The terms and conditions of amount due from related parties are included in Note 19 to the financial statements.

(C) Amounts due to related parties:

	Group		Company	
	2007	2006	**2007**	2006
Nature of transaction				
Trade				
- Subsidiary company	**0**	0	**6,570**	669
- Other related parties	**4,702**	36,882	**4,702**	36,882
Non trade				
- Subsidiary companies	**0**	0	**101,632**	102,189
- Associated company	**0**	96	**0**	96
- Other related parties	**101**	0	**101**	0

The terms and conditions of amount due to related parties are included in Note 21 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

32 RELATED PARTY TRANSACTIONS (cont'd)

(D) Key management personnel compensation is as follows:

	Group		Company	
	2007	2006	**2007**	2006
Short-term employee benefits*	**3,761**	2,961	**6,288**	5,127
Post-employment benefits	**5**	5	**659**	659
	3,766	2,966	**6,947**	5,786

* Included in the short-term employee benefits are Directors' remuneration of approximately RM2,093,000 (2006: RM1,537,000) and RM2,060,000 (2006: RM1,507,000) for the Group and the Company respectively as disclosed in Note 7 to the financial statements.

33 SEGMENTAL REPORTING

(a) Primary reporting format - business segments

No business segmental reporting has been prepared as the Group's activities involve only one business segment, i.e. the manufacturing and sale of steel products.

(b) Secondary reporting format - geographical segments

	Revenue		Total assets		Capital expenditure	
	2007	2006	**2007**	2006	**2007**	2006
ASEAN countries	**2,373,985**	2,011,663	**1,805,622**	1,684,301	**43,356**	28,480
Others	**437,057**	341,621	**0**	0	**0**	0
	2,811,042	2,353,284	**1,805,622**	1,684,301	**43,356**	28,480
Associates			**16,251**	13,076		
Non-current assets held for sale			**0**	63,941		
			1,821,873	1,761,318		

In determining the geographical segments of the Group, revenue is based on the geographical areas in which the customers are located. Total assets and capital expenditure are determined based on the locations of assets.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

34 FORWARD FOREIGN EXCHANGE CONTRACTS

The details of forward foreign exchange contracts of the Group and the Company which are due for maturity within 1 to 4 months (2006: 1 to 3 months) from the balance sheet date are as follows:

Hedged items	Currency bought	Currency sold	Equivalent	Average contractual rate
Group				
At 31 December 2007				
Payables	**USD**	**RM**	**2,352**	**RM3.34 per US Dollar**
Repayment of foreign term loan	**USD**	**RM**	**4,126**	**RM3.43 per US Dollar**
Trade receivables	**RM**	**Singapore Dollar**	**8,338**	**RM2.30 per Singapore Dollar**
	RM	**USD**	**603**	**RM3.36 per US Dollar**
			8,941	
			15,419	
At 31 December 2006				
Payables	USD	RM	144,369	RM3.54 per US Dollar
Disposal of associated companies	RM	Singapore Dollar	59,900	RM2.30 per Singapore Dollar
Trade receivables	RM	USD	556	RM3.54 per US Dollar
			204,825	
Company				
At 31 December 2007				
Repayment of foreign term loan	**USD**	**RM**	**4,126**	**RM 3.43 per US Dollar**
At 31 December 2006				
Payables	USD	RM	140,760	RM3.54 per US Dollar
Disposal of associated companies	RM	Singapore Dollar	59,900	RM2.30 per Singapore Dollar
			200,660	

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2007 (cont'd)

In RM'000 unless otherwise stated

34 FORWARD FOREIGN EXCHANGE CONTRACTS (cont'd)

The foreign exchange market rates obtainable by the Group and the Company at the balance sheet date approximated the contractual rates. The unrecognised gains or losses on open contracts which hedge payables and receivables are deferred until the related transactions are completed, at which time they are included in the measurement of such transactions.

The fair value of the outstanding forward foreign exchange contracts of the Group and the Company as at balance sheet date is a favourable net position of RM20,014 (2006: unfavourable net position of RM253,325) and an unfavourable net position of RM7,053 (2006: unfavourable net position of RM246,325) respectively.

35 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors dated 19 March 2008.

OTHER INFORMATION

1 PROPERTIES OWNED BY SOUTHERN STEEL AND ITS SUBSIDIARIES/ *HARTANAH MILIK SOUTHERN STEEL DAN SUBSIDIARI*

Land and Building/Tanah dan Bangunan

	Location *Lokasi*	**Description** *Keterangan*	**Tenure** *Pegangan*	**Approximate Area** *Anggaran Kawasan*	**Approximate Age (Years)** *Anggaran Jangkamasa (Tahun)*	**Date of Acquisition** *Tarikh Perolehan*	**Net Book Value As At** *Nilai Buku pada* **31/12/2007 (RM'000)**
1	No PT 3171 Mukim 1 Seberang Perai Tengah	Factories	Leasehold expiring on 21-03-2050	4.77716 acres	10-12	19-10-1990	
	No PT 3178 Mukim 1 Seberang Perai Tengah	Factories	Leasehold expiring on 09-04-2050	2.60451 acres	10	19-10-1990	
	2595 Lorong Perusahaan 12 Prai Industrial Estate 13600 Prai	Factories	Leasehold expiring on 09-04-2050	2.60451 acres	10	7-10-1991	
	2613 Lorong Perusahaan 12 Prai Industrial Estate 13600 Prai	Factories	Leasehold expiring on 21-03-2050	5.09674 acres	10	23-9-1991	71,932
	No PT 3831 Mukim 1 Seberang Perai Tengah	Factory	Leasehold expiring on 21-10-2054	1.31359 acres	12	25-5-1993	
	No PT 3980 Mukim 1 Seberang Perai Tengah	Drains	Leasehold expiring on 25-01-2059	2.12715 acres	-	12-8-1996	
	No PT 4271 (formerly Plot 596) Mukim 1, Seberang Perai Tengah	Vacant Land	Leasehold expiring on 04-11-2064	0.1187 hectares	-	18-3-1998	
2	2435 Lorong Perusahaan 12 Prai Industrial Estate 13600 Prai	Factories	Leasehold expiring on 31-01-2039	50.9 acres	17-25	6-9-1982	21,752
3	2590 Lorong Perusahaan 12 Prai Industrial Estate 13600 Prai, Penang	Factory Vacant land	Leasehold expiring on 07-11-2049 & 06-06-2050	7.83140 acres	17	20-12-1996	10,844
4	2624 Lorong Perusahaan 12 Prai Industrial Estate 13600 Prai, Penang	Factory	Leasehold expiring on 05-06-2046	9.53048 acres	15	6-4-2004	6,636

OTHER INFORMATION (cont'd)

1 PROPERTIES OWNED BY SOUTHERN STEEL AND ITS SUBSIDIARIES/ *HARTANAH MILIK SOUTHERN STEEL DAN SUBSIDIARI* (cont'd)

Land and Building/Tanah dan Bangunan

	Location *Lokasi*	**Description** *Keterangan*	**Tenure** *Pegangan*	**Approximate Area** *Anggaran Kawasan*	**Approximate Age (Years)** *Anggaran Jangkamasa (Tahun)*	**Date of Acquisition** *Tarikh Perolehan*	**Net Book Value As At** *Nilai Buku pada* **31/12/2007 (RM'000)**
5	4457 Mukim 15, Jalan Chain Ferry 12100 Butterworth, Penang	Factory Godown	Freehold	413,427 sq ft	13-39	12-6-1989	17,623
6	3081 Jalan Besar Nibong Tebal, Penang	Factory	Freehold	304,210 sq ft	12-44	22-6-1998	11,127
7	Plot 2 Taman Meru Industrial Estate Jelapang, 30020 Ipoh, Perak	Land Factory	Leasehold expiring on 06-09-2043	43,240 sq m	26	1-12-1989	14,854
8	Lot 4808 Jalan Utas 15/7 Shah Alam Industrial Estate 40000 Shah Alam, Selangor	Factories	Leasehold expiring on 11-02-2069 & 02-12-2072	634,950 sq ft & 328,800 sq ft	10.5-33	25-6-1992	43,033
9	5 1/2 Miles, Jalan Kapar 42100 Klang, Selangor	Factories	Freehold	8.0069 acres	12-27	3-2-1981	14,278
10	Rawang Integrated Industrial Park	Factory	Freehold	497,838 sq ft	11	20-4-1994	10,055

OTHER INFORMATION (cont'd)

2 ANALYSIS OF SHAREHOLDINGS AS AT 11 MARCH 2008

Authorised Capital	:	500,000,000 ordinary shares 2,000,000 preference shares
Issued and Fully Paid	:	404,870,360 ordinary shares of RM1.00 each
No. of Shareholders	:	3,552

Voting Rights

On show of hands	:	1 vote
On poll	:	1 vote for each share held

DISTRIBUTION SCHEDULE OF SHAREHOLDERS AS AT 11 MARCH 2008

Holdings	No. of Holders	Total Holdings	%
Less than 100	14	617	0.0002
100 - 1,000	1,815	1,787,511	0.4415
1,001 - 10,000	1,343	5,324,855	1.3152
10,001 - 100,000	290	9,190,751	2.2700
100,001 - less than 5% of issued shares	87	89,671,023	22.1481
5% and above of issued shares	3	298,895,603	73.8250
TOTAL	3,552	404,870,360	100.0000

THIRTY LARGEST SHAREHOLDERS

According to the Register of Depositors, the 30 largest shareholders of the Company as at 11 March 2008 are as follows:

	Name of Shareholders	No. of Shares	%
1	Assets Nominees (Tempatan) Sdn Bhd Hume Industries (Malaysia) Berhad	163,961,324	40.4972
2	NatSteel Asia Pte Ltd	113,381,912	28.0045
3	HDM Nominees (Tempatan) Sdn Bhd HDM Capital Sdn Bhd for Southern Amalgamated Co Sdn Bhd	21,552,367	5.3232
4	Southern Properties Sdn Bhd	14,000,399	3.4580
5	Hwang Enterprises Sdn Bhd	13,123,309	3.2414
6	CIMB Group Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Southern Amalgamated Co Sdn Bhd (28358 PPNG)	10,935,439	2.7009
7	Hong Bee Hardware Company, Sdn Berhad	6,344,309	1.5670
8	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (Par 1)	3,201,800	0.7908
9	HSBC Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Hwang Enterprises Sdn Bhd (201-468246-089)	3,000,000	0.7410

OTHER INFORMATION (cont'd)

2 ANALYSIS OF SHAREHOLDINGS AS AT 11 MARCH 2008 (cont'd)

THIRTY LARGEST SHAREHOLDERS (cont'd)

	Name of Shareholders	No. of Shares	%
10	Cartaban Nominees (Tempatan) Sdn Bhd MIDF Amanah Asset Nominees (Tempatan) Sdn Bhd for Employees Provident Fund Board (JF404)	2,351,700	0.5809
11	Cartaban Nominees (Tempatan) Sdn Bhd Exempt An for MIDF Amanah Asset Nominees (Tempatan) Sdn Bhd (Account 1)	2,166,200	0.5350
12	Amanah Raya Nominees (Tempatan) Sdn Bhd Public Islamic Sector Select Fund	2,046,400	0.5054
13	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (DR)	2,022,400	0.4995
14	Amanah Raya Nominees (Tempatan) Sdn Bhd Public SmallCap Fund	1,900,900	0.4695
15	Seri Pinang Sdn Bhd	1,522,200	0.3760
16	Liao York	1,384,427	0.3419
17	Amanah Raya Nominees (Tempatan) Sdn Bhd Public Sector Select Fund	1,099,000	0.2714
18	Insotech Sdn Bhd	1,067,761	0.2637
19	Mayban Nominees (Tempatan) Sdn Bhd Avenue Invest Berhad for Kumpulan Wang Amanah Pencen (E00170-220136)	1,003,900	0.2480
20	Su Hock Company Sdn Bhd	972,815	0.2403
21	Amanah Raya Nominees (Tempatan) Sdn Bhd Skim Amanah Saham Bumiputera	960,400	0.2372
22	Choong Chew Kheng	950,332	0.2347
23	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (LGF)	911,000	0.2250
24	Citigroup Nominees (Asing) Sdn Bhd CBNY for DFA Emerging Markets Fund	865,300	0.2137
25	Choong Cheow Sai	840,944	0.2077
26	Universal Trustee (Malaysia) Berhad CIMB Islamic Small Cap Fund	817,900	0.2020
27	HLB Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Goh Sin Bong	734,100	0.1813
28	Mayban Nominees (Tempatan) Sdn Bhd Mayban Trustees Berhad for Public Balanced Fund (N14011950210)	700,300	0.1730
29	Pacific & Orient Insurance Co Berhad	649,000	0.1603
30	Quarry Lane Sdn Bhd	560,000	0.1383
		375,027,838	92.6288

OTHER INFORMATION (cont'd)

2 ANALYSIS OF SHAREHOLDINGS AS AT 11 MARCH 2008 (cont'd)

SUBSTANTIAL SHAREHOLDERS

According to the Register of Substantial Shareholders, the substantial shareholders of the Company as at 11 March 2008 are as follows:

Name of shareholders	No. of shares held				
	Direct	%	Indirect	%	
Hume Industries (Malaysia) Berhad	163,961,324	40.50	-	-	
Hong Leong Company (Malaysia) Berhad	-	-	163,961,324	40.50	①
Y Bhg Tan Sri Quek Leng Chan	-	-	170,305,633	42.06	②
HL Holdings Sdn Bhd	-	-	163,961,324	40.50	①
Hong Realty (Private) Limited	-	-	170,305,633	42.06	②
Hong Leong Investment Holdings Pte Ltd	-	-	170,305,633	42.06	②
Kwek Holdings Pte Ltd	-	-	170,305,633	42.06	②
Kwek Leng Beng	-	-	170,305,633	42.06	②
Davos Investment Holdings Private Limited	-	-	170,305,633	42.06	②
Kwek Leng Kee	-	-	170,305,633	42.06	②
Quek Leng Chye	-	-	170,305,633	42.06	②
NatSteel Asia Pte Ltd	113,381,912	28.00	-	-	
Tata Steel Limited	-	-	113,381,912	28.00	③
Southern Amalgamated Co Sdn Bhd	32,487,806	8.02	-	-	
Su Hock Company Sdn Bhd	972,815	0.24	32,487,806	8.02	④
Y Bhg Dato' Seri Tan Hoay Eam	-	-	32,487,806	8.02	④
Y Bhg Dato' Dr Tan Tat Wai	14,854	0.00	32,980,223	8.15	⑤

① Deemed interest through Hume Industries (Malaysia) Berhad
② Deemed interest through Hume Industries (Malaysia) Berhad and Hong Bee Hardware Company, Sdn Berhad
③ Deemed interest through NatSteel Asia Pte Ltd
④ Deemed interest through Southern Amalgamated Co Sdn Bhd
⑤ Deemed interest through Southern Amalgamated Co Sdn Bhd, Hock Kheng Industries Sdn Bhd and spouse

OTHER INFORMATION (cont'd)

3 ANALYSIS OF IRREDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS ("ICULS") HOLDINGS AS AT 11 MARCH 2008

Nominal value of outstanding ICULS 2003/2008	:	RM14,982,588
No. of ICULS 2003/2008 Holders	:	626
Voting Rights		
On show of hands	:	1 vote
On poll	:	1 vote for each RM1.00 nominal amount of ICULS held

DISTRIBUTION SCHEDULE OF ICULS 2003/2008 HOLDERS AS AT 11 MARCH 2008

Holdings	No. of ICULS 2003/2008 Holders	Nominal Value of ICULS 2003/2008 (RM)	%
Less than 100	15	651	0.0043
100 - 1,000	380	332,820	2.2214
1,001 - 10,000	176	559,005	3.7310
10,001 - 100,000	48	1,233,450	8.2326
100,001 - less than 5% of issued 2003/2008 ICULS	4	800,900	5.3455
5% and above of issued 2003/2008 ICULS	3	12,055,762	80.4652
TOTAL	626	14,982,588	100.0000

THIRTY LARGEST ICULS 2003/2008 HOLDERS

According to the Register of Depositors, the 30 largest ICULS 2003/2008 holders of the Company as at 11 March 2008 are as follows:

	Name of ICULS 2003/2008 Holders	Nominal Value of ICULS 2003/2008 (RM)	%
1	Assets Nominees (Tempatan) Sdn Bhd Hume Industries (Malaysia) Berhad	10,215,262	68.1809
2	Hong Bee Hardware Company, Sdn Berhad	1,058,000	7.0615
3	Chua Holdings Sdn Bhd	782,500	5.2227
4	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (Par 1)	259,400	1.7313
5	Santomi Sdn Bhd	223,000	1.4884
6	Choong Cheow Sai	216,300	1.4437
7	Ng Boo Kean @ Ng Beh Kian	102,200	0.6821
8	Zaidan Bin Hj Othman	90,000	0.6007
9	Leong Kok Tai	62,500	0.4172

OTHER INFORMATION (cont'd)

3 ANALYSIS OF IRREDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS ("ICULS") HOLDINGS AS AT 11 MARCH 2008 (cont'd)

THIRTY LARGEST ICULS 2003/2008 HOLDERS (cont'd)

	Name of ICULS 2003/2008 Holders	Nominal Value of ICULS 2003/2008 (RM)	%
10	Boey Kok Wooi	61,800	0.4125
11	Steel Industries (Sabah) Sdn Bhd	51,000	0.3404
12	Lee Oi Hian	50,000	0.3337
13	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (Par 2)	45,800	0.3057
14	Yap Koon Chai	40,000	0.2670
15	Ong Chin Teik	36,200	0.2416
16	Ong Guat Li	33,500	0.2236
17	Nar Swee Kim	33,000	0.2203
18	Chee See Giap @ Sin Chien	32,000	0.2136
19	Ong Yih Yeong	31,900	0.2129
20	Lim Chiew Sheah	31,600	0.2109
21	Koay Seng Leong @ Koih Soon Pit	30,000	0.2002
22	Lim Cheng Teik	30,000	0.2002
23	Tan Liew Cheun	29,300	0.1956
24	HLG Nominee (Tempatan) Sdn Bhd Pledged Securities Account for Mohd Khamil Bin Jamil	29,000	0.1936
25	Koe Seng Seong	26,000	0.1735
26	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (GGGF)	23,000	0.1535
27	Mayban Securities Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Goh Han Chuan (REM 893)	22,000	0.1468
28	Sai Yee @ Sia Say Yee	20,750	0.1385
29	Onn Kok Puay (Weng GuoPei)	20,500	0.1368
30	Ngan Bee Poh	20,000	0.1335
		13,706,512	91.4829

4 DIRECTORS' INTERESTS AS AT 11 MARCH 2008

Subsequent to the financial year end, there is no change as at 11 March 2008 to the Directors' interests in the ordinary shares and/or irredeemable convertible unsecured loan stocks of the Company and/or its related corporations, appearing in the Directors' Report on page 25 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 135 of the Companies Act, 1965.

OTHER INFORMATION (cont'd)

5 DISCLOSURE REQUIREMENTS

Pursuant to the Listing Requirements of Bursa Malaysia Securities Berhad

UTILISATION OF PROCEEDS

During the financial year, there were no proceeds raised by the Group and the Company from any corporate proposals.

SHARE BUYBACKS

During the financial year, there were no share buybacks by the Group and the Company.

OPTIONS, WARRANTS OR CONVERTIBLE SECURITIES

During the financial year, RM43,082,053 nominal amount of ICULS were converted into 41,827,230 ordinary shares of RM1.00 each.

AMERICAN DEPOSITORY RECEIPT (ADR) OR GLOBAL DEPOSITORY RECEIPT (GDR) PROGRAMME

During the financial year, the Group and the Company did not sponsor any ADR or GDR programme.

IMPOSITION OF SANCTIONS/PENALTIES

There were no sanctions and/or penalties imposed on the Group and the Company, Directors or Management by the relevant regulatory bodies.

NON-AUDIT FEES

Non-audit fee of RM1,600 was paid to the external auditors by the Group and the Company for the financial year.

PROFIT ESTIMATE, FORECAST OR PROJECTION

The Group and the Company did not release any profit estimate, forecast or projection for the financial year. There is no significant variance between the results for the financial year and the unaudited results previously released by the Group.

PROFIT GUARANTEES

During the financial year, there were no profit guarantees given by the Group and the Company.

MATERIAL CONTRACTS INVOLVING DIRECTORS' AND MAJOR SHAREHOLDERS' INTEREST

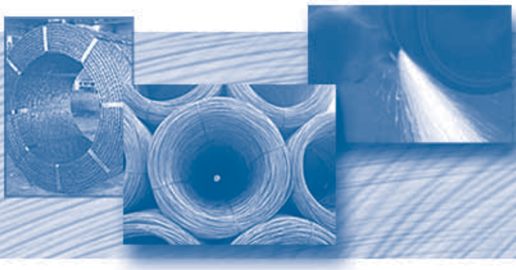
There were no material contracts involving directors' and major shareholders' interest.

RELATED PARTY TRANSACTIONS

Significant related party transactions of the Group during the financial year are disclosed in Note 32 to the financial statements in accordance with the general mandate obtained from shareholders at the Annual General Meeting held on 14 May 2007 setting out the aggregate value of recurrent transactions conducted during the financial year.

REVALUATION OF LANDED PROPERTIES

Land and buildings are stated at cost less accumulated depreciation subsequent to change in accounting policy as disclosed in Note 29 to the financial statements.



NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Forty-Sixth Annual General Meeting of Southern Steel Berhad (the "Company") will be held at the Level 1 Training Room B, Southern Steel Berhad, 2723 Lorong Perusahaan 12, Prai Industrial Estate, 13600 Prai, Penang on Monday, 5 May 2008 at 3.00 pm in order:

1 To receive the audited financial statements for the year ended 31 December 2007 and the Directors' and Auditors' Reports thereon; RESOLUTION 1

2 To re-elect the following retiring Directors:

(a) Mr Kwek Leng San RESOLUTION 2
(b) Mr Koushik Chatterjee RESOLUTION 3

3 To consider and, if thought fit, pass the following resolution:

"THAT pursuant to Section 129(6) of the Companies Act, 1965, YA Bhg Tun Dato' Seri Dr Lim Chong Eu who has attained the age of 70 be re-appointed as a Director of the Company to hold office as a Director until the conclusion of the next annual general meeting of the Company"; RESOLUTION 4

4 To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Company and authorise the Directors to fix their remuneration; RESOLUTION 5

5 To approve the payment of Directors' fees of RM365,000.00 for the year ended 31 December 2007, to be divided amongst the Directors in such manner as the Directors may determine. RESOLUTION 6

AS SPECIAL BUSINESS
To consider and, if thought fit, pass the following resolutions:

6 **Ordinary Resolution:**

Authority To Issue Shares

"THAT pursuant to Section 132D of the Companies Act, 1965, the Directors be and are hereby empowered to issue shares in the Company at any time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit, provided that the aggregate number of shares issued pursuant to this resolution in any one financial year does not exceed 10% of the issued capital of the Company for the time being and that the Directors be and are hereby empowered to obtain the approval for the listing of and quotation for the additional shares so issued on Bursa Malaysia Securities Berhad and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company"; RESOLUTION 7

NOTICE OF ANNUAL GENERAL MEETING (cont'd)

7 **Ordinary Resolution:**

Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a revenue or trading nature

"THAT approval be and is hereby given to the Company and its subsidiaries to enter into the recurrent related party transactions of a revenue or trading nature referred to in Section 5 of the Circular to Shareholders dated 11 April 2008 (the "Circular") with the parties who fall within the Mandated Related Parties referred to in the Circular, provided that such transactions are undertaken in the ordinary course of business of the Company and its subsidiaries, made at arm's length, and are on terms not more favourable to the related parties than those generally available to the public and not to the detriment of the minority shareholders; RESOLUTION 8

AND THAT such approval shall only continue to be in force until:-

(a) the conclusion of the next Annual General Meeting ("AGM") of the Company;

(b) the expiration of the period within which the next AGM of the Company after the date it is required to be held pursuant to Section 143(1) of the Companies Act, 1965 (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Companies Act, 1965); or

(c) revoked or varied by resolution passed by the shareholders in general meeting,

whichever is the earlier.

AND THAT the aggregate value of the transactions conducted pursuant to this shareholders' mandate during the financial year be disclosed in accordance with the Listing Requirements of Bursa Malaysia Securities Berhad in the annual report of the Company.

AND THAT the Directors of the Company be and are hereby authorised to complete and do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to this resolution."

8 To consider any other business of which due notice shall have been given.

By Order of the Board

Lim Gim Siok
Secretary

Penang
11 April 2008

NOTICE OF ANNUAL GENERAL MEETING (cont'd)

NOTES:

1. *A member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy but not more than two (2) proxies to attend and vote in his stead. A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least 1 proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.*

2. *The Form of Proxy must be deposited at the Registered Office of the Company not later than forty-eight (48) hours before the time appointed for holding the meeting or any adjournment thereof.*

3. *Explanatory Notes on Special Business*

   Ordinary Resolutions:

   (a) Authority To Issue Shares

   Subject to exceptions provided in the Companies Act, 1965, the Directors would have to call for a General Meeting to approve the issue of new shares even though the number involved is less than 10% of the issued capital.

   In order to avoid any delay and costs involved in convening a general meeting to approve such issue of shares, it is thus considered appropriate that the Directors be now empowered to issue shares in the Company up to an amount not exceeding in total 10% of the issued share capital of the Company for the time being for such purposes as they consider would be in the interest of the Company. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next Annual General Meeting of the Company.

   (b) Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature

   This Ordinary Resolution proposed under item 7, if passed, will authorise the Company and/or its subsidiary companies to enter into recurrent related party transactions of a revenue or trading nature. This authority, unless revoked or varied by the Company at a general meeting, will expire at the conclusion of the next Annual General Meeting of the Company. Please refer to the Circular for more information.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

(Pursuant to Paragraph 8.28(2) of the Listing Requirements of Bursa Malaysia Securities Berhad)

A Further details of Directors who are standing for re-election or re-appointment as per Agenda 2 and 3 of the Notice of 46th Annual General Meeting respectively

1. Mr Kwek Leng San

(Non-Independent Non-Executive Director) **Resolution 2**

Mr Kwek Leng San, aged 52, a Singaporean, obtained a Bachelor of Science (Engineering) degree from University of London and a Master of Science (Finance) degree from City University, London. He has extensive business experience in various business sectors, including financial services and manufacturing.

Presently, he is the Executive Chairman of Malaysian Pacific Industries Berhad, President & Chief Executive Officer of Hong Leong Industries Berhad and Hume Industries (Malaysia) Berhad, Managing Director of Narra Industries Berhad and a Director of Hong Leong Company (Malaysia) Berhad and Hong Leong Foundation.

Mr Kwek is a brother of Y Bhg Tan Sri Quek Leng Chan and Mr Quek Leng Chye, both deemed major shareholders of the Company.

2. Mr Koushik Chatterjee

(Non-Independent Non-Executive Director) **Resolution 3**

Koushik Chatterjee, aged 39, an Indian, is an Honours Graduate in Commerce from Calcutta University and a Fellow Member of the Institute of Chartered Accountants of India.

Mr Chatterjee began his career as Industrial Trainee in Britannia Industries and worked as an Audit Senior in S B Billimoria & Company before joining Tata Steel Limited ("Tata Steel") in 1995.

In 1999 he was transferred to Tata Sons Limited in the Group Executive Office and was promoted as General Manager – Corporate Finance in 2002 and re-joined Tata Steel in 2003. He was appointed Vice President (Finance) in August 2004 and appointed as the Group Chief Financial Officer of the Tata Steel Group from January 1, 2008.

As the Group Chief Financial Officer, he is responsible for Financial Strategy, Financial Reporting and Control, Financial Planning & Funds Management, Project Finance & Treasury, Mergers & Acquisitions, Corporate & International Taxation and Investor Relations of the Company.

He has no family relationship with any other Directors or major shareholders of the Company.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

(Pursuant to Paragraph 8.28(2) of the Listing Requirements of Bursa Malaysia Securities Berhad) (cont'd)

3. YA Bhg Tun Dato' Seri Dr Lim Chong Eu
(Independent Non-Executive Director) **Resolution 4**

YA Bhg Tun Dato' Seri Dr Lim Chong Eu, aged 88, a Malaysian, is renowned as a leading statesman and holds the distinction of being the former Chief Minister of Penang. He has had a long and illustrious record as a political leader and representative of the people in many fields of national interests. He graduated with a Bachelor of Medicine and Bachelor of Surgery (M.B. Ch B.) from Edinburgh University of Scotland in 1944.

His other directorships in public companies are as follows:
- Chairman of Suiwah Corporation Bhd, a public listed company.
- Chairman of Chin Well Holdings Berhad, a public listed company.
- Chairman of Berjaya Vacation Club Berhad, a public company.
- Director of United Overseas Bank (Malaysia) Berhad, a public company.

He has no family relationship with any other Directors or major shareholders of the Company.

Note:
Save as disclosed, the above Directors have no conflict of interest with the Company and have not been convicted for any offence within the past 10 years.

B The above Directors do not have any interests in the securities of the Company as at 11 March 2008.

C Details of attendance of Directors at Board of Directors' Meetings

Please refer to the Board of Directors' attendance as set out in the Directors' Profile appearing on pages 4 to 7 of the Annual Report 2007.

This page is intentionally left blank.

This page is intentionally left blank.

SOUTHERN STEEL BERHAD (5283-X)

2723, Lorong Perusahaan 12,
Prai Industrial Estate, 13600 Prai,
Penang, Malaysia.
Tel: 604-390 6540 Fax: 604-390 8060

www.southsteel.com