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If you are in any doubt as to the course of action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional advisers immediately.

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Southern Steel Berhad (5283-X)

A Member of the Hong Leong Group

CIRCULAR TO SHAREHOLDERS

IN RELATION TO THE

- (I) **PROPOSED RENOUNCEABLE RIGHTS ISSUE OF UP TO RM209,708,604 NOMINAL VALUE OF FIVE (5)-YEAR 5% REDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS AT 100% OF ITS NOMINAL VALUE ("RCULS") ON THE BASIS OF RM1.00 NOMINAL VALUE OF RCULS FOR EVERY TWO (2) EXISTING ORDINARY SHARES OF RM1.00 EACH HELD IN SOUTHERN STEEL BERHAD ("SSB") ("SSB SHARES") ON AN ENTITLEMENT DATE TO BE DETERMINED LATER; AND**
- (II) **PROPOSED INCREASE IN THE AUTHORISED SHARE CAPITAL OF SSB FROM RM502,000,000 DIVIDED INTO 500,000,000 SSB SHARES AND 2,000,000 PREFERENCE SHARES OF RM1.00 EACH IN SSB ("PREFERENCE SHARES") TO RM802,000,000 DIVIDED INTO 800,000,000 SSB SHARES AND 2,000,000 PREFERENCE SHARES**

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

Principal Adviser

 **HongLeong Investment Bank**

Hong Leong Investment Bank Berhad (10209-W)

(A Participating Organisation of Bursa Malaysia Securities Berhad)
(A Trading Participant of Bursa Malaysia Derivatives Berhad)

The Notice of Extraordinary General Meeting ("**EGM**") of SSB to be held at Training Room B, Level 1, Southern Steel Berhad, 2723 Lorong Perusahaan 12, Prai Industrial Estate, 13600 Prai, Penang on Friday, 21 November 2014 at 3.15 p.m. or if later, upon the conclusion of the forthcoming 52nd Annual General Meeting of SSB to be held at the same venue at 2.45 p.m. on the same day, or at any adjournment thereof, and the Form of Proxy are sent to you together with this Circular. The Form of Proxy must be lodged at the Registered Office of SSB at Level 9, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur, not less than 48 hours before the time appointed for holding of the meeting or adjourned meeting.

This Circular is dated 30 October 2014

DEFINITIONS

Except where the context otherwise requires, the following definitions shall apply throughout this Circular:

“Act”	: Companies Act, 1965, as amended from time to time and any re-enactment thereof
“Board”	: Board of Directors of our Company
“Bursa Depository”	: Bursa Malaysia Depository Sdn Bhd
“Bursa Securities”	: Bursa Malaysia Securities Berhad
“Code”	: Malaysian Code on Take-Overs and Mergers, 2010
“Conversion Period”	: The period commencing after the Issue Date up to the Maturity Date
“Conversion Price”	: The conversion price of the RCULS, which will be determined and announced by our Board at a later date
“EGM”	: Extraordinary general meeting
“Entitled Shareholders”	: Shareholders of our Company whose names appear in our Record of Depositors on the Entitlement Date
“Entitlement Date”	: The date, to be determined and announced later by our Board, on which shareholders must be registered in our Record of Depositors to be entitled to subscribe for the RCULS to be issued pursuant to the Proposed Rights Issue of RCULS
“Entitlement Undertakings”	: Irrevocable undertakings from the Undertaking Shareholders to subscribe and/or procure the subscription in full of their entitlements under the Proposed Rights Issue of RCULS based on their shareholdings as at the LPD
“EPS”	: Earnings per share
“ESS”	: The executive share scheme of our Company, which was implemented on 28 February 2014
“Foreign Addressed Shareholder”	: Our foreign shareholders on the Entitlement Date who have not provided an address in Malaysia for service of documents to be issued for purposes of the Proposed Rights Issue of RCULS
“FYE”	: Financial year ended/ending, as the case may be
“Guidelines on PDS”	: Guidelines on Private Debt Securities issued by the SC, as amended from time to time
“HLCM”	: Hong Leong Company (Malaysia) Berhad
“HLIB”	: Hong Leong Investment Bank Berhad
“HLMG”	: Hong Leong Manufacturing Group Sdn Bhd
“Issue Date”	: The issue date of the RCULS, which shall be a business day and shall take place within the period commencing from the date of fulfillment of the conditions precedent for issuance of the RCULS and ending on a date falling one (1) year from the date of approval by the SC

DEFINITIONS (Cont'd)

“Listing Requirements”	: Main Market Listing Requirements of Bursa Securities, as amended or modified from time to time
“LPD”	: 13 October 2014, being the latest practicable date prior to the date of this Circular
“M&A”	: Memorandum and Articles of Association
“Maturity Date”	: Five (5) years from the Issue Date
“Maximum Subscription Level”	: The maximum subscription level of RM209,708,604 nominal value of RCULS pursuant to the Proposed Rights Issue of RCULS assuming the RCULS is fully subscribed
“Minimum Subscription Level”	: The minimum subscription level of RM147,080,154 nominal value of RCULS pursuant to the Proposed Rights Issue of RCULS assuming only the Undertaking Shareholders subscribe for the RCULS
“NA”	: Net assets
“Official List”	: A list specifying all securities listed on the Main Market of Bursa Securities
“Preference Share(s)”	: Preference share(s) of RM1.00 each in our Company
“Proposals”	: Collectively, the Proposed Rights Issue of RCULS and the Proposed Increase in Authorised Share Capital
“Proposed Increase in Authorised Share Capital”	: Proposed increase in the authorised share capital of SSB from RM502,000,000 divided into 500,000,000 SSB Shares and 2,000,000 Preference Shares to RM802,000,000 divided into 800,000,000 SSB Shares and 2,000,000 Preference Shares
“Proposed Rights Issue of RCULS”	: Proposed renounceable rights issue of up to RM209,708,604 nominal value of RCULS on the basis of RM1.00 nominal value of RCULS for every two (2) existing SSB Shares held on the Entitlement Date
“RCULS”	: Five (5)-year 5% redeemable convertible unsecured loan stocks at 100% of its nominal value to be issued pursuant to the Proposed Rights Issue of RCULS
“RCULS Holder(s)”	: Registered holder(s) of the RCULS
“Record of Depositors”	: Our Company’s record of depositors maintained by Bursa Depository under the Rules of Bursa Depository
“RM” and “sen”	: Ringgit Malaysia and sen, respectively
“Rules of Bursa Depository”	: Rules of Bursa Depository issued pursuant to the Securities Industry (Central Depositories) Act, 1991, as amended from time to time, including the Securities Industry (Central Depositories) Amendment Act, 1998
“SC”	: Securities Commission Malaysia
“Signaland”	: Signaland Sdn Bhd
“SSB” or the “Company”	: Southern Steel Berhad

DEFINITIONS (Cont'd)

"SSB Group" or the "Group"	:	Our Company and our subsidiaries, collectively
"SSB Share(s)" or "Share(s)"	:	Ordinary share(s) of RM1.00 each in our Company
"Trust Deed"	:	Trust deed constituting the RCULS, which shall be administered by the trustee acting on behalf of the RCULS Holders, and which shall be in compliance with the Trust Deeds Guidelines issued by the SC (effective 12 August 2011), as amended from time to time
"Undertaking Shareholders"	:	HLMG and Signaland, collectively
"VWAMP"	:	Volume-weighted average market price

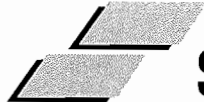
All references to "our Company" in this Circular are to SSB, and references to "our Group" are to our Company and our subsidiaries. References to "we", "us", "our" and "ourselves" are to our Company, and where the context otherwise requires, shall include our subsidiaries. All references to "you" in this Circular are to our shareholders.

Words denoting the singular shall, where applicable, include the plural and vice versa, and words denoting the masculine gender shall, where applicable, include the feminine and/or neuter genders, and vice versa. References to persons shall include corporations, unless otherwise specified.

Any reference in this Circular to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any reference to time of day in this Circular shall be a reference to Malaysia time, unless otherwise stated.

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**Registered Office**

Level 9, Wisma Hong Leong
18 Jalan Perak
50450 Kuala Lumpur

30 October 2014

Board of Directors

YBhg Datuk Kwek Leng San	<i>(Chairman; Non-Executive/Non-Independent)</i>
Mr Chow Chong Long	<i>(Group Managing Director/Non-Independent)</i>
YBhg Dato' Dr Tan Tat Wai	<i>(Executive Director/Non-Independent)</i>
YM Raja Dato' Seri Abdul Aziz bin Raja Salim	<i>(Non-Executive/Independent)</i>
Mr Tang Hong Cheong	<i>(Non-Executive/Non-Independent)</i>
Mr Ang Kong Hua	<i>(Non-Executive/Independent)</i>
Mr Seow Yoo Lin	<i>(Non-Executive/Independent)</i>
Dr Kwa Lay Keng	<i>(Non-Executive/Independent)</i>

To: Our shareholders

Dear Sir/Madam,

- (I) PROPOSED RIGHTS ISSUE OF RCULS**
(II) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

1. INTRODUCTION

On 30 April 2014, HLIB had, on behalf of our Board, announced that our Company proposes to undertake the following:

- (i) a renounceable rights issue of up to RM209,708,604 nominal value of RCULS on the basis of RM1.00 nominal value of RCULS for every two (2) existing SSB Shares held on the Entitlement Date; and
- (ii) an increase in the authorised share capital of our Company from RM502,000,000 comprising 500,000,000 SSB Shares and 2,000,000 Preference Shares to RM802,000,000 comprising 800,000,000 SSB Shares and 2,000,000 Preference Shares.

On 15 October 2014, HLIB had, on behalf of our Board, announced that Bursa Securities had, via its letter on the same date, approved the following subject to the conditions set out in Section 9 of this Circular:

- (i) admission of up to RM209,708,604 nominal value of RCULS to the Official List; and
- (ii) listing of and quotation for up to RM209,708,604 nominal value of RCULS to be issued pursuant to the Proposed Rights Issue of RCULS and up to 209,708,604 new SSB Shares to be issued pursuant to conversion of the RCULS on the Main Market of Bursa Securities.

On 20 October 2014, HLIB had, on behalf of our Board, announced that the SC had, via its letter dated 17 October 2014, approved the issuance of the RCULS subject to the conditions set out in Section 9 of this Circular.

THE PURPOSE OF THIS CIRCULAR IS TO PROVIDE YOU WITH DETAILS OF THE PROPOSALS AND TO SEEK YOUR APPROVAL FOR THE PROPOSED RESOLUTIONS PERTAINING TO THE PROPOSALS TO BE TABLED AT OUR FORTHCOMING EGM. THE NOTICE OF EGM TOGETHER WITH THE FORM OF PROXY ARE ENCLOSED IN THIS CIRCULAR.

YOU ARE ADVISED TO READ AND CAREFULLY CONSIDER THE CONTENTS OF THIS CIRCULAR AND APPENDICES BEFORE VOTING ON THE PROPOSED RESOLUTIONS PERTAINING TO THE PROPOSALS TO BE TABLED AT OUR FORTHCOMING EGM.

2. DETAILS OF THE PROPOSALS

2.1 Proposed Rights Issue of RCULS

2.1.1 Details

Based on the issued and paid-up share capital of our Company as at the LPD of RM419,417,208 comprising 419,417,208 SSB Shares and assuming no new SSB Shares are issued pursuant to the ESS prior to the implementation of the Proposed Rights Issue of RCULS, the Proposed Rights Issue of RCULS would entail a renounceable rights issue of up to RM209,708,604 of RCULS on the basis of RM1.00 nominal value of RCULS for every two (2) existing SSB Shares held by the Entitled Shareholders.

The Proposed Rights Issue of RCULS is renounceable in full or in part. Accordingly, the Entitled Shareholders can subscribe for and/or renounce their entitlements to the RCULS in full or in part.

The RCULS will be provisionally allocated to the Entitled Shareholders. Any fractional entitlements under the Proposed Rights Issue of RCULS will be disregarded and shall be dealt with in such manner as our Board shall in its absolute discretion deem fit or expedient and in the best interest of our Company.

Any RCULS which are not subscribed or validly subscribed shall be made available to the other Entitled Shareholders and/or their renounee(s) under the excess RCULS application. It is the intention of our Board to allocate the excess RCULS in a fair and equitable manner, and on a basis to be determined by our Board and announced later.

The indicative terms of the RCULS are set out in Appendix I of this Circular.

2.1.2 Basis of and justification for arriving at the Conversion Price of the RCULS

The Conversion Price will be determined and announced at a later date by our Board, after taking into consideration the following:

- (i) the prevailing market conditions on the price-fixing date;
- (ii) the five (5)-day VWAMP of SSB Shares immediately preceding the price-fixing date; and
- (iii) the Conversion Price of the RCULS shall not be lower than RM1.00, being the par value of each SSB Share.

Upon determination of the Conversion Price, our Company shall make an immediate announcement on the basis of and justification for arriving at the Conversion Price.

The Conversion Price shall be subject to adjustments under certain circumstances in accordance with the provisions of the Trust Deed.

For illustration purposes, the Conversion Price is assumed to be RM1.30, representing a discount of approximately RM0.30 or 18.75% from the five (5)-day VWAMP of SSB Shares up to and including 29 April 2014, being the date prior to the announcement of the Proposals, of RM1.60 each.

Notwithstanding the above, our Board wishes to emphasise that the illustrative Conversion Price shown above is purely for illustration purposes only and should not be taken as an indication or reference to the final Conversion Price of the RCULS which will be determined by our Board and announced closer to the implementation of the Proposed Rights Issue of RCULS.

2.1.3 Ranking of the new SSB Shares arising from the conversion of RCULS

The new SSB Shares to be issued pursuant to the conversion of the RCULS will, upon allotment and issue, rank *pari passu* in all respects with the then existing SSB Shares in issue except that they will not be entitled to any dividends, rights, allotments and/or any other distributions, in respect of which the entitlement date is prior to the date of allotment of the new SSB Shares to be issued pursuant to the conversion of the RCULS.

2.1.4 Listing of and quotation for the RCULS and new SSB Shares to be issued pursuant to the conversion of the RCULS

Bursa Securities, via its letter dated 15 October 2014, had granted its approval for the admission of the RCULS to the Official List of Bursa Securities as well as the listing of and quotation for the RCULS and the new SSB Shares to be issued pursuant to the conversion of the RCULS on the Main Market of Bursa Securities.

2.1.5 Minimum subscription level and undertakings

The Proposed Rights Issue of RCULS will be undertaken on a minimum subscription basis, based on the Minimum Subscription Level. Accordingly, there will be no underwriting arrangement for the remaining balance of nominal value of RCULS.

The Minimum Subscription Level was determined by our Board after taking into consideration, amongst others, the gearing position and the funding requirements of our Group as detailed in Section 3 of this Circular.

The Company has procured the Entitlement Undertakings from the Undertaking Shareholders to meet the Minimum Subscription Level. The details of the Entitlement Undertakings are set out below:

Undertaking Shareholders	Direct shareholdings as at the LPD		Entitlements under the Proposed Rights Issue of RCULS		Entitlement Undertakings (RM '000)
	No. of Shares ('000)	%	No. of RCULS ('000)	%	
HLMG	173,879	41.46	86,940	41.46	86,940
Signaland	120,281	28.68	60,140	28.68	60,140
Total	294,160	70.14	147,080	70.14	147,080

Pursuant to the Entitlement Undertakings, HLMG has confirmed that it has sufficient financial resources to subscribe in full for its entitlement under the Proposed Rights Issue of RCULS, and to ensure or procure the subscription in full of the entitlement of Signaland under the Proposed Rights Issue of RCULS.

HLIB has verified the sufficiency of financial resources of the Undertaking Shareholders for the purpose of subscribing and/or procuring the subscription in full of their entitlements pursuant to the Proposed Rights Issue of RCULS.

In the event the Minimum Subscription Level is not achieved, our Company will not proceed with the implementation of the Proposed Rights Issue of RCULS. All subscription monies received pursuant to the Proposed Rights Issue of RCULS will be refunded without interest to the subscribing Entitled Shareholders and/or their renounee(s). As at the LPD, our Company does not have any other alternative fund raising plan in the event that the Minimum Subscription Level is not achieved. Hence, in the event that the Proposed Rights Issue of RCULS is not implemented, our Company will continue to utilise our floating-rate bank borrowings and the proceeds to be utilised for working capital will continue to be funded via internally-generated funds and/or other alternative source of external financing.

There will not be any immediate implications under the Code arising from the allotment and issuance of the RCULS pursuant to the Entitlement Undertakings as the RCULS do not carry voting rights in our Company until and unless they are converted into new SSB Shares. However, the conversion of all the RCULS held by the Undertaking Shareholders under the Minimum Scenario (as defined in Section 6 of this Circular and illustrated in Section 6.3 of this Circular) may trigger the provisions of the Code.

In this regard, the Undertaking Shareholders have confirmed that they will observe and comply at all times with the provisions of the Code in relation to their Entitlement Undertakings as it is not their intention to undertake a general offer on SSB.

2.1.6 Foreign Addressed Shareholders

The abridged prospectus together with the accompanying documents to be issued in connection with the Proposed Rights Issue of RCULS are not and will not be made to comply with the laws of any countries or jurisdictions other than Malaysia, and have not and will not be registered under any applicable securities legislation of any countries or jurisdictions other than Malaysia, and the Proposed Rights Issue of RCULS will not be offered for purchase or subscription in any countries or jurisdictions other than Malaysia.

Accordingly, the abridged prospectus together with the accompanying documents will only be sent to Entitled Shareholders who have a registered address or an address for service in Malaysia as registered in our Record of Depositors as at the Entitlement Date. Foreign Addressed Shareholders who wish to provide Malaysian addresses should inform their respective stockbrokers to effect the change of address prior to the Entitlement Date. Alternatively, such Foreign Addressed Shareholders may collect the abridged prospectus from our share registrar who shall be entitled to request for such evidence as they deem necessary to satisfy themselves as to the identity and authority of the person collecting the abridged prospectus.

Our Company will not make or be bound to make any enquiry as to whether the Entitled Shareholders have a registered address other than as stated in our Record of Depositors as at the Entitlement Date and will not accept or be deemed to accept any liability whether or not any enquiry or investigation is made in connection therewith.

Foreign Addressed Shareholders may only exercise their rights in respect of the Proposed Rights Issue of RCULS to the extent that it would be lawful to do so, and our Company and/or HLIB would not, in connection with the Proposed Rights Issue of RCULS, be in breach of the laws of any country or jurisdiction which the Foreign Addressed Shareholders and/or their renounee(s) might be subject to.

Foreign Addressed Shareholders will be responsible for payment of any issue, transfer or any other taxes or other requisite payments due in such foreign country or jurisdiction and our Company shall be entitled to be fully indemnified and held harmless by such foreign applicants for any issue, transfer or any other taxes or duties as such person may be required to pay. They will have no claims whatsoever against our Company, our share registrar and/or HLIB in respect of their rights or entitlements under the Proposed Rights Issue of RCULS. Such applicants should also consult their professional advisers as to whether they require any governmental, exchange control or other consents or need to comply with any other applicable legal requirements to enable them to exercise their rights in respect of the Proposed Rights Issue of RCULS.

Foreign Addressed Shareholders shall be solely responsible to seek advice as to the laws of any jurisdiction to which they may be subject, and participation by the Foreign Addressed Shareholders in the Proposed Rights Issue of RCULS shall be on the basis of a warranty by them that they may lawfully so participate without our Company and/or HLIB being in breach of the laws of any jurisdiction.

Neither our Company, HLIB nor any other advisers to the Proposed Rights Issue of RCULS shall accept any responsibility or liability in the event that any acceptance of a Foreign Addressed Shareholder of his/her rights in respect of the Proposed Rights Issue of RCULS is or shall become illegal, unenforceable, voidable or void in any country or jurisdiction.

Our Company reserves the right in our absolute discretion to treat any acceptance as being invalid if we believe or have reason to believe that such acceptance may violate applicable legal or regulatory requirements.

2.2 Proposed Increase in Authorised Share Capital

The authorised share capital of SSB as at the LPD is RM502,000,000 divided into 500,000,000 SSB Shares and 2,000,000 Preference Shares, of which RM419,417,208 divided into 419,417,208 SSB Shares have been issued and fully paid up as at the LPD.

In order to facilitate the issuance of new SSB Shares pursuant to the conversion of RCULS, our Company proposes to increase our authorised share capital from RM502,000,000 divided into 500,000,000 SSB Shares and 2,000,000 Preference Shares to RM802,000,000 divided into 800,000,000 SSB Shares and 2,000,000 Preference Shares by the creation of an additional 300,000,000 new SSB Shares. As a consequence of the Proposed Increase in Authorised Share Capital, our Company's M&A will be amended accordingly.

3. UTILISATION OF PROCEEDS

The Proposed Rights Issue of RCULS is expected to raise gross proceeds of approximately RM147.1 million under the Minimum Subscription Level and up to RM209.7 million under the Maximum Subscription Level. The proceeds are expected to be utilised in the following manner:

	Note	Minimum Subscription Level Amount (RM '000)	Maximum Subscription Level Amount (RM '000)	Estimated timeframe for utilisation of proceeds
Repayment of bank borrowings	(i)	74,000	105,000	Within 3 months
Working capital	(ii)	72,180	103,809	Within 12 months
Estimated expenses in relation to the Proposals	(iii)	900	900	Within 3 months
Total		147,080	209,709	

Details of the utilisation of proceeds are as follows:

(i) Repayment of bank borrowings

Our Group utilises floating-rate bank borrowings amounting to approximately RM883.9 million (including floating-rate term loans) based on our audited consolidated financial statements for the FYE 30 June 2014. As at the LPD, our floating-rate bank borrowings stood at RM1,082.0 million. The part repayment of our Group's floating-rate bank borrowings of RM74.0 million under the Minimum Subscription Level and RM105.0 million under the Maximum Subscription Level is intended to rebalance our portfolio of bank borrowings with an appropriate mix of floating-rate bank borrowings and fixed-rate borrowings in line with our rationale for the Proposed Rights Issue of RCULS as set out in Section 5.1 of this Circular.

For illustration purposes only, based on our cost of floating-rate borrowings as at the LPD, assuming a rising interest rate environment and no conversion of the RCULS over the tenure of the RCULS, our management has estimated that the part repayment of our Group's floating-rate bank borrowings is expected to result in interest savings of approximately RM1.60 million under the Minimum Subscription Level and RM1.89 million under the Maximum Subscription Level.

(ii) Working capital

The proceeds to be raised of approximately RM72.2 million under the Minimum Subscription Level and RM103.8 million under the Maximum Subscription Level will be used for the general working capital purposes of our Group, including but not limited to the payment of trade creditors, expansion of our Group's business as well as operating and administrative expenses. The exact proceeds to be utilised for each component of working capital has not been determined at this juncture as it would depend on the operating requirements of our Group at the time of utilisation. For illustration purposes only, the proceeds are anticipated to be utilised in the following manner:

	Minimum Subscription Level (RM '000)	Maximum Subscription Level (RM '000)
Payment of trade creditors	51,312	51,312
Expansion of our Group's business	9,837	41,466
Operating and administrative expenses	11,031	11,031
Total	72,180	103,809

The working capital for the expansion of our Group's business mainly relates to the purchase of equipment and machinery for our Group's new hot-rolled coil ("HRC") plant (brief information on the HRC plant is set out in Section 4.3 of this Circular), while operating and administrative expenses include, amongst others, labour costs, electricity costs as well as other production costs.

(iii) Estimated expenses in relation to the Proposals

The estimated expenses relating to the Proposals comprise, amongst others, professional fees, fees payable to the relevant authorities, printing costs of this Circular and the abridged prospectus to be despatched to our shareholders and other miscellaneous expenses. Any surplus or shortfall will be adjusted accordingly from/to the portion being earmarked for funding for working capital.

The actual gross proceeds to be raised from the Proposed Rights Issue of RCULS will depend on the amount of RCULS issued under the Proposed Rights Issue of RCULS.

Pending the utilisation of the proceeds from the Proposed Rights Issue of RCULS upon its issuance, the proceeds will be placed in interest-bearing deposit accounts or investments in money markets as our Board deems fit and in the best interest of our Company.

No proceeds will be raised from the conversion of RCULS into new SSB Shares as the conversion will not require any cash payment by the RCULS Holders and will be wholly satisfied through the surrender of RCULS with an aggregate nominal value equivalent to the Conversion Price for cancellation by our Company.

4. INDUSTRY OVERVIEW AND PROSPECTS OF OUR GROUP

4.1 Overview and outlook of the Malaysian economy

Growth of the Malaysian economy accelerated to 6.4% in the second quarter of 2014 from 6.2% in the first quarter of 2014, marking the strongest growth since the fourth quarter of 2010, and bringing the growth for the first half of 2014 to 6.3%. Growth was supported by resilient domestic demand and reinforced by higher exports. The faster pace of recovery, particularly in the United States of America, the United Kingdom and selected euro area economies as well as moderate growth in the emerging economies provided strong support to the Malaysian export-oriented industries and trade-related services.

On the demand side, growth will be underpinned by resilient consumer spending, strong private investment activity and improving global demand. Consumer spending is envisaged to be sustained, albeit at a moderate pace, supported by favourable labour market conditions, continued wage growth and firm export earnings. Private investment is expected to sustain its strong growth momentum supported by the ongoing projects under the Economic Transformation Programme and investment in the regional economic growth corridors. Meanwhile, public expenditure is envisaged to expand at a slower pace in line with the government's commitment to fiscal consolidation. Public consumption is expected to moderate due to lower growth on emoluments, while public investment will continue to expand supported by higher capital spending of non-financial public enterprises.

On the supply side, all sectors are expected to record positive growth in 2014, with the services and manufacturing sectors spearheading growth. During the first half of 2014, the services sector increased further by 6.3% (January to June 2013: 5.5%) supported by strong domestic consumption and investment activities. In 2014, the services sector is expected to record 5.9% growth, accounting for 55.3% of gross domestic product (2013: 5.9%; 55.2%).

Value-added of the manufacturing sector expanded 7.1% during the first half of 2014 (January to June 2013: 2.1%). Production of the sector rose 6.6% (January to July 2013: 3.5%) supported by resilient domestic demand and recovery in the external sector during the first seven months of the year. Subsequently, the sales value of manufactured products rebounded by 7.7% to RM379.5 billion (January to July 2013: -2.3%; RM352.4 billion). The strong performance of the sector was on account of higher output at 9.4% (January to July 2013: 5.9%) from the domestic-oriented industries, particularly transport equipment, food and beverage.

The economic growth momentum in 2014 is expected to continue in 2015 driven by improving external demand and resilient domestic economic activity. Growth will be private-led in line with the government's efforts to strengthen the private sector's role in the economy. On the supply side, all economic sectors are expected to record positive growth in 2015, with the services and manufacturing sectors remaining the major contributors to growth. Sustained growth in domestic demand, albeit at a moderate pace, is expected to contribute to the expansion in domestic-related activities.

Meanwhile, the export-oriented industries, particularly the electronics and electrical subsector will benefit from the improvement in external conditions in line with improving global growth. The agriculture sector is expected to expand on account of higher output of palm oil while the construction sector is expected to record higher growth driven by robust activity in the civil engineering and residential subsectors. Hence, the economy is projected to grow between 5% and 6% in 2015.

(Source: Economic Report 2014/2015, Ministry of Finance, Malaysia)

4.2 Overview and outlook of the steel industry

Due to the increasing surplus capacity in China, Chinese steel mills have reportedly reduced prices domestically as well as for the international markets. As a result, many Chinese and other steel mills around the world, including steel-producing companies in Malaysia, have reported losses in the last two (2) years. The dumping of cheap steel has triggered trade actions in several Association of Southeast Asian Nations (ASEAN) countries as well as countries around the world. The Chinese Central Government also recognised the need to address the surplus capacity and related environmental issues, and has started to introduce measures such as tightening credit as well as imposing stricter environmental control. The government of Hebei, a province in China, has also planned to introduce higher water and electricity tariffs for less efficient steel plants. Nonetheless, our management expects that the full impact of this attempted restructuring will only bear fruit in the medium term.

(Source: Our management)

4.3 Prospects of our Group

In the opinion of our management, steel demand in Malaysia is forecasted to increase in line with the continued roll-out of infrastructure projects in the near term. Once trade remedies (such as the anti-dumping duties imposed on pre-stressed concrete ("PC") strands imported from several producers in China) that have been approved by the Malaysian Government take hold, the imports of long steel products (including but not limited to steel bars, wire rods, PC strands, pipes and other wire products) should be reduced and domestic prices could potentially rise to a more reasonable level. In particular, the containment of wire rods, PC strands and pipe imports is expected to benefit our Group.

During the current fiscal year, our Group's new HRC plant is expected to enter into commercial production. Our HRC plant is located on a 54.44-acre land in Prai, Penang and has a rated annual production capacity of 600,000 metric tonnes of HRC per annum.

Together with our existing factories, our new HRC plant should enable our Group to fully utilise our steelmaking capacity, capture some market share from our competitors and provide downstream customers in the market with an alternative domestic source of HRC supply. With full utilisation in our Group's steelmaking plants, the addition of a major third product (i.e. HRC in addition to our existing bar and wire rod steel products) and barring unforeseen circumstances, our Group's cost and profit structure is expected to improve, which should further enhance our Group's financial performance in the near future.

(Source: Our management)

5. RATIONALE FOR THE PROPOSALS

5.1 Rationale for the Proposed Rights Issue of RCULS

The Proposed Rights Issue of RCULS will enable our Company to raise funds for the repayment of bank borrowings and for general working capital purposes which are expected to contribute positively to the future performance of our Group.

After due consideration of the various funding options available to our Company, our Board is of the opinion that the Proposed Rights Issue of RCULS is the most appropriate avenue of fund raising for our Company after taking into consideration, amongst others, the following factors:

- (i) the Proposed Rights Issue of RCULS will enable our Group to secure funding at a reasonable fixed funding cost for a period of five (5) years thereby reducing our Group's exposure to interest rate fluctuations, which in turn will enable our Group to manage our cashflow more efficiently;
- (ii) the issuance of RCULS minimises the immediate dilution effect on the EPS of our Group, which would otherwise arise from a full equity issue, as the RCULS are expected to be converted over a period of time; and
- (iii) the Proposed Rights Issue of RCULS will provide the shareholders of our Company with an opportunity to further increase their equity participation in our Company by converting the RCULS at the Conversion Price.

5.2 Rationale for the Proposed Increase in Authorised Share Capital

The Proposed Increase in Authorised Share Capital is required to facilitate the issuance of new SSB Shares pursuant to the conversion of RCULS.

6. EFFECTS OF THE PROPOSALS

The Proposed Increase in Authorised Share Capital will not have any effect on the issued and paid-up share capital, NA and gearing, substantial shareholders' shareholdings and earnings and EPS of our Company.

The proforma effects of the Proposed Rights Issue of RCULS are illustrated in the following scenarios:

Minimum Scenario : Based on the assumption that:

- (i) no new SSB Shares are issued pursuant to the ESS prior to the Entitlement Date;
- (ii) the Proposed Rights Issue of RCULS will be implemented under the Minimum Subscription Level whereby only the Undertaking Shareholders will subscribe for the RCULS based on the their respective Entitlement Undertakings; and
- (iii) all RCULS are:
 - (a) fully redeemed upon maturity of the RCULS; or
 - (b) fully converted into new SSB Shares upon the maturity of the RCULS at the illustrative Conversion Price of RM1.30.

Maximum Scenario : Based on the assumption that:

- (i) no new SSB Shares are issued pursuant to the ESS prior to the Entitlement Date;
- (ii) the Proposed Rights Issue of RCULS will be implemented under Maximum Subscription Level, whereby the RCULS will be fully subscribed; and
- (iii) all RCULS are:
 - (a) fully redeemed upon maturity of the RCULS; or
 - (b) fully converted into new SSB Shares upon the maturity of the RCULS at the illustrative Conversion Price of RM1.30.

6.1 Issued and paid-up share capital

For illustration purposes, assuming full conversion of the RCULS into new SSB Shares under the respective scenarios below, the proforma effects of the Proposed Rights Issue of RCULS on the issued and paid-up share capital of our Company are shown below:

	Minimum Scenario		Maximum Scenario	
	No. of Shares ('000)	RM '000	No. of Shares ('000)	RM '000
Issued and paid-up share capital as at the LPD	419,417	419,417	419,417	419,417
Issuance of new SSB Shares pursuant to the conversion of RCULS ⁽¹⁾	113,139	113,139	161,314	161,314
Enlarged issued and paid-up share capital	532,556	532,556	580,731	580,731

Note:

- (1) No new SSB Shares will be issued in the event the RCULS are fully redeemed upon the maturity of the RCULS.

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6.2

NA and gearing

For illustration purposes, the proforma effects of the Proposed Rights Issue of RCULS on the NA and gearing ratio of our Group, based on our audited consolidated balance sheet as at 30 June 2014, are shown below:

Minimum Scenario

	Audited as at 30 June 2014 RM '000	Proforma I After the Proposed Rights Issue of RCULS RM '000	Proforma II (a) After Proforma I and assuming full redemption of the RCULS RM '000	Proforma II (b) After Proforma I and assuming full conversion of the RCULS RM '000
Share capital	419,417	419,417	419,417	532,556
Reserves				
Share premium	35,852	35,852	35,852	44,412
Merger reserve	30,000	30,000	30,000	30,000
Capital redemption reserve	50	50	50	50
Fair value reserve	399	399	399	399
Foreign currency translation reserve	3,446	3,446	3,446	3,446
RCULS – equity component	-	(1)121,698	-	-
Retained earnings	375,676	(2)375,477	338,006	363,387
NA attributable to owners of our Company	864,840	986,339	827,170	974,250
No. of SSB Shares in issue ('000)	419,417	419,417	419,417	532,556
NA per SSB Share (RM)	2.06	2.35	1.97	1.83
Total borrowings (RM '000)	1,015,709	(3)974,184	(4)1,088,789	(5)941,709
Gearing ratio (times)	1.17	0.99	1.32	0.97

Maximum Scenario

	Audited as at 30 June 2014 RM '000	Proforma I After the Proposed Rights Issue of RCULS RM '000	Proforma II (a) After Proforma I and assuming full redemption of the RCULS RM '000	Proforma II (b) After Proforma I and assuming full conversion of the RCULS RM '000
Share capital	419,417	419,417	419,417	580,731
Reserves				
Share premium	35,852	35,852	35,852	48,356
Merger reserve	30,000	30,000	30,000	30,000
Capital redemption reserve	50	50	50	50
Fair value reserve	399	399	399	399
Foreign currency translation reserve	3,446	3,446	3,446	3,446
RCULS – equity component	-	(1)173,818	-	-
Retained earnings	375,676	(2)375,477	322,349	358,240
NA attributable to owners of our Company	864,840	1,038,459	811,513	1,021,222
No. of SSB Shares in issue ('000)	419,417	419,417	419,417	580,731
NA per SSB Share (RM)	2.06	2.48	1.93	1.76
Total borrowings (RM '000)	1,015,709	(3)957,012	(4)1,120,418	(5)910,709
Gearing ratio (times)	1.17	0.92	1.38	0.89

Notes:

(1) The estimated equity component arising from the Proposed Rights Issue of RCULS is determined by deducting the fair value of the liability component of the RCULS and the estimated expenses attributable to the equity component of the RCULS from the gross proceeds raised through the Proposed Rights Issue of RCULS. The fair value of the liability component of the RCULS is arrived at by discounting the coupon payments over the tenure of 5 years at a discount rate of 5%, being the cost of debt of our Company. The resulting deferred tax asset arising on the initial recognition of the liability component of this RCULS is recognised based on the Malaysian statutory tax rate of 24%.

(2) Less the estimated expenses attributable to the liability component of the RCULS of approximately RM199,000.

- (3) *After deducting the repayment of floating-rate bank borrowings amounting to RM74.0 million and RM105.0 million under the Minimum Scenario and Maximum Scenario respectively and including the liability component of the RCULS amounting to RM32.5 million and RM46.3 million respectively.*
- (4) *Assuming the redemption of the RCULS is funded via additional non-current borrowings.*
- (5) *After deducting the liability component of the RCULS pursuant to the conversion of the RCULS.*

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6.3 Substantial shareholders' shareholdings

The Proposed Rights Issue of RCULS is not expected to have any immediate effect on the shareholdings of our Company's substantial shareholders until, such time the RCULS are converted into new SSB Shares, the potential effect of which is also dependent on the total issued and paid-up share capital of our Company at the relevant point in time.

As at 30 September 2014, the level of public shareholding spread of our Company was 19.55%, which was lower than the 20% level of public shareholding spread accepted by Bursa Securities as compliance with Paragraph 8.02(1) of the Listing Requirements via its letter dated 14 October 2010 ("**Approved Spread**"). Bursa Securities has granted an extension of time until 28 February 2015 for our Company to comply with the Approved Spread. The Proposed Rights Issue of RCULS is not expected to have any immediate effect on the public shareholding spread of our Company. In the event of any conversion of the RCULS into new SSB Shares by any RCULS Holder who is deemed to be non-public, our public shareholding spread will be reduced accordingly. Our Company shall continue to monitor our public shareholding spread and explore possible appropriate steps which can be taken to comply with the Approved Spread.

For illustration purposes, the proforma effects of the Proposed Rights Issue of RCULS on the shareholding structure of our Company's substantial shareholders as at the LPD (based on our Register of Substantial Shareholders) are as follows:

Minimum Scenario

	As at the LPD				Proforma I After the Proposed Rights Issue of RCULS				Proforma II (a) After Proforma I and assuming full redemption of the RCULS				Proforma II (b) After Proforma I and assuming full conversion of the RCULS					
	Direct No. of Shares ('000)	Indirect No. of Shares ('000)	%	Indirect No. of Shares ('000)	Direct No. of Shares ('000)	%	Indirect No. of Shares ('000)	%	Direct No. of Shares ('000)	Indirect No. of Shares ('000)	%	Direct No. of Shares ('000)	Indirect No. of Shares ('000)	%	Direct No. of Shares ('000)	Indirect No. of Shares ('000)	%	
HLMG	173,879	41,46	28.68 ⁽¹⁾	173,879	41,46	28.68 ⁽¹⁾	120,281	28.68 ⁽¹⁾	173,879	41,46	28.68 ⁽¹⁾	120,281	28.68 ⁽¹⁾	173,879	41,46	28.68 ⁽¹⁾	120,281	28.68 ⁽¹⁾
Signaland	120,281	28,68	-	120,281	28,68	-	-	-	120,281	28,68	-	-	-	120,281	28,68	-	-	-
HLCM	-	294,160	70.14 ⁽¹⁾	-	294,160	70.14 ⁽¹⁾	294,160	70.14 ⁽¹⁾	-	294,160	70.14 ⁽¹⁾	294,160	70.14 ⁽¹⁾	-	294,160	70.14 ⁽¹⁾	407,299	76.48 ⁽¹⁾
HL Holdings Sdn Bhd	-	294,160	70.14 ⁽²⁾	-	294,160	70.14 ⁽²⁾	294,160	70.14 ⁽²⁾	-	294,160	70.14 ⁽²⁾	294,160	70.14 ⁽²⁾	-	294,160	70.14 ⁽²⁾	407,299	76.48 ⁽²⁾
YBhg Tan Sri Quek Leng Chan	-	301,541	71.90 ⁽³⁾	-	301,541	71.90 ⁽³⁾	301,541	71.90 ⁽³⁾	-	301,541	71.90 ⁽³⁾	301,541	71.90 ⁽³⁾	-	301,541	71.90 ⁽³⁾	414,680	77.87 ⁽³⁾
Hong Leong Investment Holdings Pte. Ltd.	-	301,541	71.90 ⁽³⁾	-	301,541	71.90 ⁽³⁾	301,541	71.90 ⁽³⁾	-	301,541	71.90 ⁽³⁾	301,541	71.90 ⁽³⁾	-	301,541	71.90 ⁽³⁾	414,680	77.87 ⁽³⁾
Kwek Holdings Pte Ltd	-	301,541	71.90 ⁽³⁾	-	301,541	71.90 ⁽³⁾	301,541	71.90 ⁽³⁾	-	301,541	71.90 ⁽³⁾	301,541	71.90 ⁽³⁾	-	301,541	71.90 ⁽³⁾	414,680	77.87 ⁽³⁾
Kwek Leng Beng	-	301,541	71.90 ⁽³⁾	-	301,541	71.90 ⁽³⁾	301,541	71.90 ⁽³⁾	-	301,541	71.90 ⁽³⁾	301,541	71.90 ⁽³⁾	-	301,541	71.90 ⁽³⁾	414,680	77.87 ⁽³⁾
Davos Investment Holdings Private Limited	-	301,541	71.90 ⁽³⁾	-	301,541	71.90 ⁽³⁾	301,541	71.90 ⁽³⁾	-	301,541	71.90 ⁽³⁾	301,541	71.90 ⁽³⁾	-	301,541	71.90 ⁽³⁾	414,680	77.87 ⁽³⁾

	Proforma I						Proforma II (a)						Proforma II (b)					
	As at the LPD			After the Proposed Rights Issue of RCULS			After Proforma I and assuming full redemption of the RCULS			After Proforma I and assuming full conversion of the RCULS			After Proforma I and assuming full redemption of the RCULS			After Proforma I and assuming full conversion of the RCULS		
	Direct No. of Shares ('000)	%	Indirect No. of Shares ('000)	%	Direct No. of Shares ('000)	%	Indirect No. of Shares ('000)	%	Direct No. of Shares ('000)	%	Indirect No. of Shares ('000)	%	Direct No. of Shares ('000)	%	Indirect No. of Shares ('000)	%		
Kwek Leng Kee	-	-	301,541	71.90 ⁽³⁾	-	-	301,541	71.90 ⁽³⁾	-	-	301,541	71.90 ⁽³⁾	-	-	414,680	77.87 ⁽³⁾		
Quek Leng Chye	-	-	301,541	71.90 ⁽³⁾	-	-	301,541	71.90 ⁽³⁾	-	-	301,541	71.90 ⁽³⁾	-	-	414,680	77.87 ⁽³⁾		
Hong Realty (Private) Limited	-	-	301,532	71.89 ⁽³⁾	-	-	301,532	71.89 ⁽³⁾	-	-	301,532	71.89 ⁽³⁾	-	-	414,670	77.86 ⁽³⁾		
Southern Amalgamated Co Sdn Bhd	32,488	7.75	-	-	32,488	7.75	-	-	32,488	7.75	-	-	32,488	6.10	-	-		
Su Hock Company Sdn Bhd	973	0.23	32,488	7.75 ⁽⁴⁾	973	0.23	32,488	7.75 ⁽⁴⁾	973	0.23	32,488	7.75 ⁽⁴⁾	973	0.18	32,488	6.10 ⁽⁴⁾		
YBhg Dato' Dr Tan Tat Wai	15	*	34,742	8.28 ⁽⁵⁾	15	*	34,742	8.28 ⁽⁵⁾	15	*	34,742	8.28 ⁽⁵⁾	15	*	34,742	6.52 ⁽⁵⁾		

Notes:

* Negligible.

(1) Held through subsidiary(ies).

(2) Held through HLCM.

(3) Held through HLCM and company(ies) in which the substantial shareholder has interest.

(4) Held through a company in which the substantial shareholder has interest.

(5) Held through spouse and companies in which the substantial shareholder has interest.

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Maximum Scenario

Assuming all the Entitled Shareholders subscribe for their respective entitlements and full conversion of the RCULS into new SSB Shares, the Proposed Rights Issue of RCULS will not have any effect on the substantial shareholders' percentage of shareholdings in our Company as the RCULS shall be allotted on a pro-rated basis to all the Entitled Shareholders. Accordingly, the number of SSB Shares held by each shareholder will increase proportionately pursuant to the conversion of RCULS into new SSB Shares.

	Proforma I						Proforma II (a)						Proforma II (b)					
	As at the LPD			After the Proposed Rights Issue of RCULS			After Proforma I and assuming full redemption of the RCULS			After Proforma I and assuming full conversion of the RCULS			After Proforma I and assuming full redemption of the RCULS			After Proforma I and assuming full conversion of the RCULS		
	Direct No. of Shares ('000)	Indirect No. of Shares ('000)	%	Direct No. of Shares ('000)	Indirect No. of Shares ('000)	%	Direct No. of Shares ('000)	Indirect No. of Shares ('000)	%	Direct No. of Shares ('000)	Indirect No. of Shares ('000)	%	Direct No. of Shares ('000)	Indirect No. of Shares ('000)	%	Direct No. of Shares ('000)	Indirect No. of Shares ('000)	%
HLMG	173,879	120,281	41.46	173,879	120,281	28.68 ⁽¹⁾	173,879	41.46	120,281	28.68 ⁽¹⁾	240,756	41.46	166,543	28.68 ⁽¹⁾				
Signaland	120,281	28,668	28.68	120,281	-	-	120,281	28.68	-	-	166,543	28.68	-	-				
HLCM	-	294,160	70.14 ⁽¹⁾	-	294,160	70.14 ⁽¹⁾	-	294,160	70.14 ⁽¹⁾	-	407,299	70.14 ⁽¹⁾	-	407,299	70.14 ⁽¹⁾			
HL Holdings Sdn Bhd	-	294,160	70.14 ⁽²⁾	-	294,160	70.14 ⁽²⁾	-	294,160	70.14 ⁽²⁾	-	407,299	70.14 ⁽²⁾	-	407,299	70.14 ⁽²⁾			
YBhg Tan Sri Quek Leng Chan	-	301,541	71.90 ⁽³⁾	-	301,541	71.90 ⁽³⁾	-	301,541	71.90 ⁽³⁾	-	417,519	71.90 ⁽³⁾	-	417,519	71.90 ⁽³⁾			
Hong Leong Investment Holdings Pte. Ltd.	-	301,541	71.90 ⁽³⁾	-	301,541	71.90 ⁽³⁾	-	301,541	71.90 ⁽³⁾	-	417,519	71.90 ⁽³⁾	-	417,519	71.90 ⁽³⁾			
Kwek Holdings Pte Ltd	-	301,541	71.90 ⁽³⁾	-	301,541	71.90 ⁽³⁾	-	301,541	71.90 ⁽³⁾	-	417,519	71.90 ⁽³⁾	-	417,519	71.90 ⁽³⁾			
Kwek Leng Beng	-	301,541	71.90 ⁽³⁾	-	301,541	71.90 ⁽³⁾	-	301,541	71.90 ⁽³⁾	-	417,519	71.90 ⁽³⁾	-	417,519	71.90 ⁽³⁾			
Davos Investment Holdings Private Limited	-	301,541	71.90 ⁽³⁾	-	301,541	71.90 ⁽³⁾	-	301,541	71.90 ⁽³⁾	-	417,519	71.90 ⁽³⁾	-	417,519	71.90 ⁽³⁾			
Kwek Leng Kee	-	301,541	71.90 ⁽³⁾	-	301,541	71.90 ⁽³⁾	-	301,541	71.90 ⁽³⁾	-	417,519	71.90 ⁽³⁾	-	417,519	71.90 ⁽³⁾			
Quek Leng Chye	-	301,541	71.90 ⁽³⁾	-	301,541	71.90 ⁽³⁾	-	301,541	71.90 ⁽³⁾	-	417,519	71.90 ⁽³⁾	-	417,519	71.90 ⁽³⁾			
Hong Realty (Private) Limited	-	301,532	71.89 ⁽³⁾	-	301,532	71.89 ⁽³⁾	-	301,532	71.89 ⁽³⁾	-	417,506	71.89 ⁽³⁾	-	417,506	71.89 ⁽³⁾			
Southern Amalgamated Co Sdn Bhd	32,488	7,75	7.75	32,488	-	-	32,488	7.75	-	-	44,983	7.75	-	-				
Su Hock Company Sdn Bhd	973	0.23	0.23	973	32,488	7.75 ⁽⁴⁾	973	0.23	32,488	7.75 ⁽⁴⁾	1,347	0.23	44,983	7.75 ⁽⁴⁾				
YBhg Dato' Dr Tan Tat Wai	15	*	8.28 ⁽⁵⁾	15	34,742	8.28 ⁽⁵⁾	15	*	34,742	8.28 ⁽⁵⁾	21	*	48,105	8.28 ⁽⁵⁾				

Notes:

* Negligible.

(1) Held through subsidiary(ies).

- (2) Held through HLCM.
- (3) Held through HLCM and company(ies) in which the substantial shareholder has interest.
- (4) Held through a company in which the substantial shareholder has interest.
- (5) Held through spouse and companies in which the substantial shareholder has interest.

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6.4 Earnings and EPS

Part of the proceeds to be raised from the Proposed Rights Issue of RCULS will be utilised to repay our Group's floating-rate bank borrowings, which is expected to be repaid within three (3) months from the completion date of the Proposed Rights Issue of RCULS. This will enable our Group to secure funding at a reasonable fixed funding cost for a period of five (5) years thereby reducing our Group's exposure to interest rate fluctuations, which in turn will enable our Group to manage our cashflow more efficiently. Additionally, part of the proceeds from the Proposed Rights Issue of RCULS is intended to be utilised for working capital purposes which may contribute positively to the earnings of our Group for the FYE 30 June 2015 as well as the ensuing financial years.

The Proposed Rights Issue of RCULS may result in dilution of the EPS of our Group as a result of the increase in the number of SSB Shares in issue as and when the RCULS are converted into new SSB Shares. Nevertheless, the dilution impact on the EPS of our Group will also depend on the level of returns generated from the utilisation of proceeds.

6.5 Convertible securities

As at the LPD, our Company does not have any outstanding convertible securities.

7. CORPORATE EXERCISES ANNOUNCED BUT PENDING COMPLETION

Save for the Proposals as set out in this Circular, there are no other corporate proposals which have been announced by our Company but have yet to be completed as at the LPD.

8. HISTORICAL SHARE PRICES

The monthly highest and lowest market prices of SSB Shares traded on Bursa Securities for the past twelve (12) months from October 2013 to September 2014 are as follows:

	High RM	Low RM
2013		
October	1.68	1.58
November	1.70	1.59
December	1.60	1.38
2014		
January	1.50	1.34
February	1.50	1.31
March	1.57	1.46
April	1.62	1.50
May	1.60	1.42
June	1.50	1.40
July	1.48	1.41
August	1.74	1.44
September	1.55	1.41

The last transacted market price of SSB Shares immediately prior to the date of the announcement of the Proposals on 29 April 2014 RM1.60

The last transacted market price of SSB Shares as at the LPD RM1.40

(Source: Bloomberg)

9. APPROVALS REQUIRED

The Proposals are conditional upon approvals being obtained from the following:

- (i) the SC for the issuance of the RCULS, which was obtained via its letter dated 17 October 2014.

The approval of the SC is subject to the compliance with the standard conditions and continuing obligations as stipulated in the Guidelines on PDS. Prior to the issuance of the RCULS, HLIB is required to submit a checklist of compliance with the standard conditions and continuing obligations as stipulated in the Guidelines on PDS and any other condition imposed in any other letter issued in connection with the Proposed Rights Issue of RCULS.

- (ii) Bursa Securities for the following:
- (a) admission of up to RM209,708,604 nominal value of RCULS to the Official List of Bursa Securities; and
 - (b) listing of and quotation for up to RM209,708,604 nominal value of RCULS to be issued pursuant to the Proposed Rights Issue of RCULS and up to 209,708,604 new SSB Shares to be issued pursuant to conversion of the RCULS on the Main Market of Bursa Securities.

The approval of Bursa Securities, which was obtained via its letter dated 15 October 2014, is subject to the following conditions:

Conditions imposed	Status of compliance
(a) Our Company and HLIB must fully comply with the relevant provisions under the Listing Requirements pertaining to the implementation of the Proposed Rights Issue of RCULS;	Noted.
(b) Our Company and HLIB to inform Bursa Securities upon the completion of the Proposed Rights Issue of RCULS;	To be complied.
(c) Our Company to furnish Bursa Securities with a written confirmation of our compliance with the terms and conditions of Bursa Securities' approval once the Proposed Rights Issue of RCULS is completed;	To be complied.
(d) Our Company to furnish Bursa Securities with a certified true copy of the resolution passed by shareholders at extraordinary general meeting for the Proposed Rights Issue of RCULS;	To be complied.
(e) Payment of additional listing fees. In this respect, our Company is required to furnish Bursa Securities on a quarterly basis a summary of the total number of SSB Shares listed pursuant to the conversion of RCULS as at the end of each quarter together with a detailed computation of listing fees payable;	To be complied.

Conditions imposed (cont'd)		Status of compliance
(f)	Our Company to obtain the SC's approval for the issuance of the RCULS and to furnish Bursa Securities with a copy of the approval letter from the Private Debt Securities Department of the SC on the issuance of the RCULS; and	Complied.
(g)	Our Company to have measures to ensure that the non-compliance with public shareholding spread is not aggravated by its major shareholders.	Noted.

(iii) our shareholders at our EGM to be convened; and

(iv) other relevant authorities, if required.

The Proposed Rights Issue of RCULS is conditional upon the Proposed Increase in Authorised Share Capital. The Proposals are not conditional upon any other corporate exercise undertaken or to be undertaken by our Company.

For the avoidance of doubt, upon receipt of all relevant approvals, the Proposals will be implemented separately and are not meant to be completed simultaneously.

10. ESTIMATED TIME FRAME FOR COMPLETION

Barring any unforeseen circumstances and subject to all relevant approvals being obtained, the Proposed Rights Issue of RCULS is expected to be completed by the first quarter of 2015.

The indicative timing of events leading up to the completion of the Proposed Rights Issue of RCULS as set out below:

Indicative timing	Event
21 November 2014	EGM
December 2014	Announcement of Entitlement Date for the Proposed Rights Issue of RCULS
December 2014	Despatch of the abridged prospectus, notices of provisional allotment and rights subscription forms in relation to the Proposed Rights Issue of RCULS
January 2015	Last day for payment and acceptances of RCULS pursuant to the Proposed Rights Issue of RCULS
January 2015	Admission, listing of and quotation for the RCULS and completion of the Proposed Rights Issue of RCULS

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

None of the directors and/or major shareholders of our Company and/or persons connected with them, as defined in the Listing Requirements, have any interest, whether direct or indirect, in the Proposals save for their respective entitlements as shareholders of our Company under the Proposed Rights Issue of RCULS, for which all the existing shareholders of our Company are also entitled to.

12. BOARD'S RECOMMENDATION

Our Board, having considered all aspects of the Proposals (including but not limited to the rationale and the effects), is of the opinion that the Proposals are in the best interest of our Group. Accordingly, our Board recommends that you vote in favour of the proposed resolutions in relation to the Proposals to be tabled at our forthcoming EGM.

13. EGM

The proposed resolutions in respect of the Proposals will be tabled at our forthcoming EGM to be held at Training Room B, Level 1, Southern Steel Berhad, 2723 Lorong Perusahaan 12, Prai Industrial Estate, 13600 Prai, Penang on Friday, 21 November 2014 at 3.15 p.m. or if later, upon the conclusion of the forthcoming 52nd Annual General Meeting of our Company to be held at the same venue at 2.45 p.m. on the same day, or at any adjournment thereof.

The Notice of EGM together with the Form of Proxy are enclosed in this Circular.

If you are unable to attend our forthcoming EGM in person and wish to appoint other person(s) to be your proxy, please complete the Form of Proxy and forward it to the Registered Office of our Company at Level 9, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur, so as to arrive not less than forty-eight (48) hours before the time appointed for holding of our forthcoming EGM or at any adjournment thereof.

The completion and return of the Form of Proxy will not preclude you from attending and voting at our forthcoming EGM in person at the meeting should you wish to do so. The Form of Proxy should be completed strictly in accordance with the instructions contained therein.

14. FURTHER INFORMATION

You are requested to refer to the enclosed appendices of this Circular for further information.

Yours faithfully
For and on behalf of the Board

CHOW CHONG LONG
Group Managing Director

INDICATIVE SALIENT TERMS OF THE RCULS

Issuer	: SSB
Issue size/ Basis of allotment	: Up to RM209,708,604 in nominal value of RCULS on the basis of RM1.00 nominal value of RCULS for every two (2) existing SSB Shares held on Entitlement Date.
Issue price	: At 100% of the nominal value on the basis of RM1.00 nominal value of the RCULS.
Form and denomination	: The RCULS will be issued in registrable form and in denominations and multiples of RM1.00 each.
Issue Date	: The issue date for the RCULS shall be a business day and shall take place within the period commencing from the date of fulfilment of the conditions precedent for issuance of the RCULS and ending on a date falling one (1) year from the date of approval by the SC.
Tenure/Maturity Date	: Five (5) years from the Issue Date.
Interest/Coupon rate	: Fixed rate of 5% per annum calculated on the nominal value of the RCULS then outstanding.
Interest/coupon payment frequency	: The payment of the coupon shall be in arrears on a semi-annual basis commencing six (6) months from the Issue Date.
Conversion Rights	: The RCULS Holders shall have the right to convert all or any amount of the RCULS held by them into fully paid new SSB Shares at the Conversion Price at any time during the Conversion Period. Once delivered, the conversion notice shall be irrevocable. If any RCULS Holder exercises its right to convert all or any amount of the RCULS held by it into new SSB Shares, no coupon shall be payable on such RCULS as from the Issue Date or the coupon payment date immediately preceding the conversion date, whichever is the later. All the outstanding RCULS which have not been earlier converted or redeemed on the Maturity Date, shall be automatically converted into new SSB Shares at the Conversion Price on the Maturity Date (" Automatic Conversion "). In the event of an Automatic Conversion, the RCULS Holders shall be deemed to have submitted a valid conversion notice on the Maturity Date for the purpose of converting such outstanding RCULS into fully paid new SSB Shares. Any fractional new SSB Shares arising from the Automatic Conversion shall be disregarded and be dealt with by our Board as it may deem fit and expedient in the best interest of our Company.
Conversion Period	: Any time after the Issue Date of the RCULS and up to the Maturity Date of the RCULS.
Conversion Price	: The Conversion Price will be determined and announced later by our Board. The Conversion Price is subject to adjustments set out below.

INDICATIVE SALIENT TERMS OF THE RCULS (Cont'd)

- Conversion mode : The conversion of the RCULS will not require any cash payment by the RCULS Holders. The conversion shall be satisfied by surrendering the RCULS with an aggregate nominal value equivalent to the Conversion Price for cancellation by the Issuer. Any fraction of the new SSB Shares arising from the conversion of the RCULS shall be disregarded.
- Status and ranking : The RCULS constitute direct, unsubordinated and unsecured obligations of the Issuer ranking *pari passu* without discrimination, preference or priority amongst themselves and *pari passu* with all present and future unsecured obligations of the Issuer from time to time (subject to those preferred by law).
- Redemption at Maturity Date : Subject to our Company giving irrevocable notice to the RCULS Holders at least thirty (30) days prior to the Maturity Date, our Company shall have the option to redeem the outstanding RCULS (if not earlier converted) in cash at 100% of the nominal amount of the RCULS, in whole or in part (but always in the same proportion in relation to each RCULS Holder), on the Maturity Date.
- During such notice period but not later than the eighth (8th) trading day prior to the Maturity Date, the RCULS Holders shall be entitled to exercise their Conversion Rights.
- Upon the exercise by our Company of the option to redeem the RCULS on the Maturity Date, our Company shall pay the RCULS Holders (no later than the Maturity Date) all unpaid coupon accruing from the immediately preceding coupon payment date until but excluding the Maturity Date.
- For the avoidance of doubt, the RCULS Holders shall not have the right to require our Company to redeem the RCULS on the Maturity Date.
- The RCULS which have been redeemed will be cancelled and cannot be re-sold.
- Adjustment in the Conversion Price and/or nominal value of RCULS in the event of alteration to the issued and paid-up share capital : The Issuer shall make the necessary adjustments to the Conversion Price of the RCULS then outstanding and/or nominal value of RCULS in the event of any alteration in the issued and paid-up SSB Shares on or before the Maturity Date, whether by way of rights issue, capitalisation issue, consolidation of SSB Shares, subdivision of SSB Shares or reduction of capital howsoever being effected, in accordance with the provisions of the Trust Deed.
- RCULS Holders' rights to participate in any distribution and/or offer of further securities in the Issuer : The RCULS Holders are not entitled to participate in any distribution and/or offer of securities in the Issuer until and unless the RCULS have been validly converted into new SSB Shares, and such shares are allotted prior to the entitlement date of such distribution and/or offer of securities.
- Amendments to the RCULS Holders' rights : Save as otherwise provided in the Trust Deed, an extraordinary resolution of the RCULS Holders is required to sanction any modification, variation, abrogation or compromise of or arrangement in respect of the rights of the RCULS Holders against the Issuer.

INDICATIVE SALIENT TERMS OF THE RCULS (Cont'd)

Winding up/ liquidation	<p>: If a resolution is passed for a voluntary winding-up of the Issuer whilst any of the RCULS remain capable of being converted then:</p> <p>(i) if such winding-up is for the purpose of reconstruction or amalgamation pursuant to a scheme of arrangement to which the RCULS Holders or some person designated by them for such purpose, shall be a party, the terms of such scheme of arrangement if approved by an extraordinary resolution shall be binding on all the RCULS Holders; and</p> <p>(ii) in any other case every RCULS Holders shall be entitled to upon and subject to the Trust Deed at any time within six (6) weeks after the passing of such resolution for a members' voluntary winding-up of the Issuer deliver to the Issuer a duly completed conversion notice in relation to the RCULS to elect to be treated as if he had on the last day of the month immediately before the commencement of such winding-up, exercised the Conversion Rights to the extent specified in the conversion notice(s) and be entitled to receive out of the assets of the Issuer which will be available in liquidation if he had on such date been the holder of the new SSB Shares to which he would have become entitled pursuant to such exercise and the liquidator of the Issuer shall give effect to such election accordingly. Upon such election taking effect, all RCULS converted under such election shall cease to carry any coupon as from the last day of the month immediately preceding the month in which the RCULS are converted or deemed converted under this provision.</p> <p>All Conversion Rights which have not been exercised at the expiry date of the said period of six (6) weeks shall lapse and cease to be valid for any purpose.</p>
Listing status and types of listing, where applicable	<p>: Bursa Securities, via its letter dated 15 October 2014, had granted its approval for the admission of the RCULS to the Official List of Bursa Securities as well as the listing of and quotation for the RCULS and the new SSB Shares to be issued pursuant to the conversion of the RCULS on the Main Market of Bursa Securities.</p>
Selling restriction, including tradability (i.e. tradable or non-tradable)	<p>: The RCULS shall be tradable upon listing in board lots of 100 units of RCULS, or such other denomination as may be determined by Bursa Securities. No selling restriction is imposed on the RCULS.</p>
Trust Deed	<p>: The RCULS shall be constituted by a trust deed, which shall be administered by the trustee acting on behalf of the RCULS Holders. The trust deed shall be in compliance with the Trust Deeds Guidelines issued by the SC effective 12 August 2011, as amended from time to time.</p>
Rating	<p>: The RCULS are exempted from rating requirements pursuant to paragraph 4.11(c) of the Guidelines on PDS as this is an issuance of convertible loan stocks whereby:</p> <p>(i) the RCULS Holders are given the right to convert the RCULS into new SSB Shares at any time during the tenure of the RCULS; and</p> <p>(ii) the underlying SSB Shares will be listed on Bursa Securities.</p>

INDICATIVE SALIENT TERMS OF THE RCULS (Cont'd)

Governing law : The RCULS and the transaction documents (i.e. the Trust Deed in respect of the RCULS and such other legal documents and agreements (if any) necessary in relation thereto in form and substance acceptable to the Principal Adviser, the trustee and the Issuer) shall be governed by the laws of Malaysia and be subject to the non-exclusive jurisdiction of the courts of Malaysia.

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PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014 OF OUR GROUP TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON



KPMG (Firm No. AF 0758)
Chartered Accountants
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163E, Jalan Kelawei,
10250 Penang.

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Assurance report on the compilation of proforma consolidated statements of financial position included in the circular to shareholders

The Board of Directors
Southern Steel Berhad
2723, Lorong Perusahaan 12
Prai Industrial Estate
13600 Prai, Penang.

Southern Steel Berhad (“SSB” or “the Company”) Report on the Compilation of Proforma Consolidated Statements of Financial Position as at 30 June 2014

We have completed our assurance engagement to report on the compilation of Proforma Consolidated Statements of Financial Position of the Company and its subsidiaries (the “Group”) as at 30 June 2014. The Proforma Consolidated Statements of Financial Position as at 30 June 2014, and its related notes which are set out in Appendix I to this report have been compiled by the Board of Directors of the Company and stamped by us for identification purposes. The applicable criteria on the basis of which the Board of Directors of the Company has compiled the proforma consolidated statements of financial position are described in the Notes to the proforma consolidated statements of financial position.

The proforma consolidated statements of financial position has been compiled by the Board of Directors of the Company to illustrate the impact of the proposed renounceable rights issue of up to RM209,708,604 nominal value of 5-year 5.00% Redeemable Convertible Unsecured Loan Stock at 100% of its nominal value (“RCULS”) on the basis of RM1.00 nominal value of RCULS for every two (2) existing ordinary shares of RM1.00 each held in SSB (“SSB Share(s) or Share(s)”) on an entitlement date to be determined later (“Proposed Rights Issue of RCULS”), based on the Company’s statements of consolidated financial position as at 30 June 2014 as if the Proposed Rights Issue of RCULS was completed on that date.

As part of this process, information about the Company’s statements of consolidated financial position have been extracted by the Board of Directors from the Group’s financial statements for the year ended 30 June 2014, on which an audit report has been published.

The Board of Directors’ Responsibilities for the Proforma Consolidated Statements of Financial Position

The Board of Directors of the Company is responsible for the compilation of Proforma Consolidated Statements of Financial Position on the basis as set out in the Notes.

PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014 OF OUR GROUP TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)*Our Responsibilities*

Our responsibility is to express an opinion about whether the Proforma Consolidated Statements of Financial Position have been compiled, in all material respects, by the Board of Directors on the basis as set out in Note 1 of Appendix I.

We conducted our engagement in accordance with International Standard on Assurance Engagements (“ISAE”) 3420, *Assurance Engagements to Report on the Compilation of Proforma Financial Information Included in a Prospectus*, issued by the Malaysian Institute of Accountants (“MIA”). This standard requires that we comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Board of Directors of the Company has properly compiled, in all material respects, the Proforma Consolidated Statements of Financial Position on the basis as set out in Note 1 of Appendix I.

For the purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions made by us on any historical financial information used in compiling the Proforma Consolidated Statements of Financial Position, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Proforma Consolidated Statements of Financial Position.

The purpose of these Proforma Consolidated Statements of Financial Position is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transactions had been undertaken at an earlier date selected for the purposes of illustrations. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction would have been as presented.

A reasonable assurance engagement to report on whether the Proforma Consolidated Statements of Financial Position have been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Board of Directors of the Company in the compilation of the Proforma Consolidated Statements of Financial Position provide a reasonable basis for presenting the significant effects directly attributable to the events or transactions, and to obtain sufficient appropriate evidence about whether :

- The related proforma adjustments give appropriate effect to those criteria; and
- The Proforma Consolidated Statements of Financial Position reflect the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Group, the event or transaction in respect of which the Proforma Consolidated Statements of Financial Position have been compiled, and other relevant engagement circumstances.

PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014 OF OUR GROUP TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)



Our Responsibilities (continued)

The engagement also involves evaluating the overall presentation of the Proforma Consolidated Statements of Financial Position.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion,

- (a) the Proforma Consolidated Statements of Financial Position have been properly compiled, in all material respects, on the basis stated in the notes to the Proforma Consolidated Statements of Financial Position under Appendix I using the audited financial statements of the Group for the year ended 30 June 2014 prepared in accordance with the approved accounting standards as defined in the Financial Reporting Act 1997 and in a manner consistent with the format of the financial statements and the accounting policies adopted by the Group; and
- (b) each material adjustment made to the information used in the preparation of the Proforma Consolidated Statements of Financial Position is appropriate for the purpose of preparing the Proforma Consolidated Statements of Financial Position.

Other Matters

This letter is prepared at your request for the purpose of inclusion in the Circular to Shareholders in relation to the Proposed Rights Issue of RCULS. It is not intended to be used for any other purposes. We do not assume responsibility to any other person for the content of this report.

A handwritten signature in black ink that reads 'KPMG'.

KPMG
Firm No. AF 0758
Chartered Accountants
Penang

Date: 29 October 2014

PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014 OF OUR GROUP TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

Appendix I

Southern Steel Berhad (“SSB” or “the Company”)

Proforma Consolidated Statements of Financial Position as at 30 June 2014

The Proforma Consolidated Statements of Financial Position of the SSB Group, are provided for illustrative purposes, only to show the effects on the audited consolidated statements of financial position of SSB as at 30 June 2014 had the Proposed Rights Issue of RCULS as described in Note 1 been effected and completed on that date, and should be read in conjunction with the accompanying notes.

The proforma effects of the Proposed Rights Issue of RCULS are illustrated in the following scenarios:

1. Minimum scenario (proposed renounceable rights issue of RM147,080,154 nominal value of RCULS)

The Minimum scenario is based on the assumptions that :-

- (a) No new SSB Shares are issued pursuant to the executive share scheme of the Company (“ESS”) prior to the Entitlement Date;
- (b) The Proposed Rights Issue of RCULS will be implemented under the Minimum Subscription Level whereby only Hong Leong Manufacturing Group Sdn Bhd and Signaland Sdn Bhd (collectively, the “Undertaking Shareholders”) will subscribe and/or procure the subscription in full of their respective entitlements under the Proposed Rights Issue of RCULS based on their respective irrevocable undertakings; and
- (c) All RCULS are :-
 - (i) Fully redeemed upon maturity of the RCULS; or
 - (ii) Fully converted into new SSB Shares upon the maturity of the RCULS at the illustrative conversion price of RM1.30

2. Maximum scenario (proposed renounceable rights issue of RM209,708,604 nominal value of RCULS)

The Maximum scenario is based on the assumptions that :-

- (a) No new SSB Shares are issued pursuant to the ESS prior to the Entitlement Date;
- (b) The Proposed Rights Issue of RCULS will be implemented under the Maximum Subscription Level whereby the RCULS will be fully subscribed; and
- (c) All RCULS are :-
 - (i) Fully redeemed upon maturity of the RCULS; or
 - (ii) Fully converted into new SSB Shares upon the maturity of the RCULS at the illustrative conversion price of RM1.30



**PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014 OF
OUR GROUP TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**

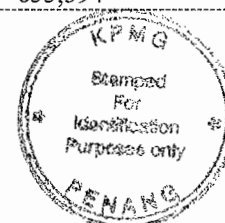
Appendix I

**SSB Group
Proforma Consolidated Statements of Financial Position
as at 30 June 2014**

Minimum Scenario

The Proforma Consolidated Statements of Financial Position of SSB Group at 30 June 2014 as set out below are provided for illustrative purposes only to show the effects had the Proposed Rights Issue of RCULS referred to in Note 1 of the Notes to Proforma Consolidated Statements of Financial Position been completed on 30 June 2014 and based on the assumptions that it entails the proposed renounceable rights issue of RM147,080,154 nominal value of RCULS.

	Note	Audited as at 30 June 2014 RM'000	Proforma I After the Proposed Rights Issue of RCULS RM'000	Proforma II (a) After Proforma I and full redemption of RCULS RM'000	Proforma II (b) After Proforma I and full conversion of RCULS RM'000
Assets					
Property, plant and equipment		1,309,298	1,309,298	1,309,298	1,309,298
Goodwill on consolidation		30,256	30,256	30,256	30,256
Investment in associated companies		65,545	65,545	65,545	65,545
Other investments		861	861	861	861
Deferred tax assets	2(a)	16,542	24,336	16,542	16,542
Tax credit receivable		16,637	16,637	16,637	16,637
Total non-current assets		1,439,139	1,446,933	1,439,139	1,439,139
Inventories		699,649	699,649	699,649	699,649
Trade and other receivables, including derivatives		202,877	202,877	202,877	202,877
Current tax assets		3,738	3,738	3,738	3,738
Cash and cash equivalents	2(b)	59,622	131,802	95,032	95,032
Total current assets		965,886	1,038,066	1,001,296	1,001,296
Total assets		2,405,025	2,484,999	2,440,435	2,440,435
Equity					
Share capital	2(c)	419,417	419,417	419,417	532,556
Share premium	2(d)	35,852	35,852	35,852	44,412
Merger reserve		30,000	30,000	30,000	30,000
Capital redemption reserve		50	50	50	50
Fair value reserve		399	399	399	399
Foreign currency translation reserve		3,446	3,446	3,446	3,446
RCULS – equity component	2(e)	-	121,698	-	-
Retained earnings	2(f)	375,676	375,477	338,006	363,387
Total equity attributable to owners of the Company		864,840	986,339	827,170	974,250
Non-controlling interests		6,424	6,424	6,424	6,424
Total equity		871,264	992,763	833,594	980,674



PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014 OF OUR GROUP TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

Appendix I

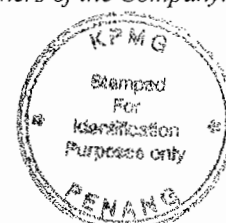
**SSB Group
Proforma Consolidated Statements of Financial Position
as at 30 June 2014**

Minimum Scenario (continued)

	Note	Audited as at 30 June 2014 RM'000	Proforma I After the Proposed Rights Issue of RCULS RM'000	Proforma II (a) After Proforma I and full redemption of RCULS RM'000	Proforma II (b) After Proforma I and full conversion of RCULS RM'000
Liabilities					
Deferred tax liabilities		29,086	29,086	29,086	29,086
Deferred income		16,295	16,295	16,295	16,295
Retirement benefits		25,692	25,692	25,692	25,692
Trade and other payables		105,919	105,919	105,919	105,919
Borrowings	2(g)	438,378	364,378	511,458	364,378
RCULS – liability component	2(h)	-	26,612	-	-
Total non-current liabilities		615,370	567,982	688,450	541,370
Retirement benefits		275	275	275	275
Trade and other payables, including derivatives		340,192	340,192	340,192	340,192
Borrowings		577,331	577,331	577,331	577,331
Current tax liabilities		593	593	593	593
RCULS – liability component	2(h)	-	5,863	-	-
Total current liabilities		918,391	924,254	918,391	918,391
Total liabilities		1,533,761	1,492,236	1,606,841	1,459,761
Total equity and liabilities		2,405,025	2,484,999	2,440,435	2,440,435
Number of SSB Shares in issue (‘000)		419,417	419,417	419,417	532,556
Total borrowings (RM'000)		1,015,709	974,184	1,088,789	941,709
Net assets per SSB share (RM)⁽ⁱ⁾		2.06	2.35	1.97	1.83
Gearing (times)		1.17	0.99	1.32	0.97

Note (i)

“Net assets” used in the above computations is defined as total equity attributable to owners of the Company.



PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014 OF OUR GROUP TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

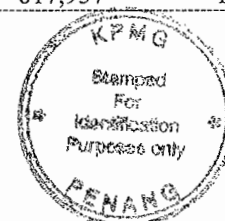
Appendix I

**SSB Group
Proforma Consolidated Statements of Financial Position
as at 30 June 2014**

Maximum Scenario

The Proforma Consolidated Statements of Financial Position of SSB Group at 30 June 2014 as set out below are provided for illustrative purposes only to show the effects had the Proposed Rights Issue of RCULS referred to in Note 1 of the Notes to Proforma Consolidated Statements of Financial Position been completed on 30 June 2014 and based on the assumption that it entails the proposed renounceable rights issue of RM209,708,604 nominal value of RCULS.

	Note	Audited as at 30 June 2014 RM'000	Proforma I After the Proposed Rights Issue of RCULS RM'000	Proforma II (a) After Proforma I and full redemption of RCULS RM'000	Proforma II (b) After Proforma I and full conversion of RCULS RM'000
Assets					
Property, plant and equipment		1,309,298	1,309,298	1,309,298	1,309,298
Goodwill on consolidation		30,256	30,256	30,256	30,256
Investment in associated companies		65,545	65,545	65,545	65,545
Other investments		861	861	861	861
Deferred tax assets	2(a)	16,542	27,655	16,542	16,542
Tax credit receivable		16,637	16,637	16,637	16,637
Total non-current assets		1,439,139	1,450,252	1,439,139	1,439,139
Inventories		699,649	699,649	699,649	699,649
Trade and other receivables, including derivatives		202,877	202,877	202,877	202,877
Current tax assets		3,738	3,738	3,738	3,738
Cash and cash equivalents	2(b)	59,622	163,431	111,004	111,004
Total current assets		965,886	1,069,695	1,017,268	1,017,268
Total assets		2,405,025	2,519,947	2,456,407	2,456,407
Equity					
Share capital	2(c)	419,417	419,417	419,417	580,731
Share premium	2(d)	35,852	35,852	35,852	48,356
Merger reserve		30,000	30,000	30,000	30,000
Capital redemption reserve		50	50	50	50
Fair value reserve		399	399	399	399
Foreign currency translation reserve		3,446	3,446	3,446	3,446
RCULS – equity component	2(e)	-	173,818	-	-
Retained earnings	2(f)	375,676	375,477	322,349	358,240
Total equity attributable to owners of the Company		864,840	1,038,459	811,513	1,021,222
Non-controlling interests		6,424	6,424	6,424	6,424
Total equity		871,264	1,044,883	817,937	1,027,646



PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014 OF OUR GROUP TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

Appendix I

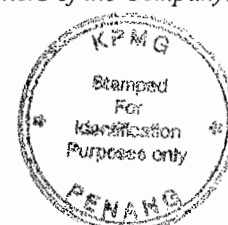
**SSB Group
Proforma Consolidated Statements of Financial Position
as at 30 June 2014**

Maximum Scenario (continued)

	Note	Audited as at 30 June 2014 RM'000	Proforma I After the Proposed Rights Issue of RCULS RM'000	Proforma II (a) After Proforma I and full redemption of RCULS RM'000	Proforma II (b) After Proforma I and full conversion of RCULS RM'000
Liabilities					
Deferred tax liabilities		29,086	29,086	29,086	29,086
Deferred income		16,295	16,295	16,295	16,295
Retirement benefits		25,692	25,692	25,692	25,692
Trade and other payables		105,919	105,919	105,919	105,919
Borrowings	2(g)	438,378	333,378	543,087	333,378
RCULS – liability component	2(h)	-	37,943	-	-
Total non-current liabilities		615,370	548,313	720,079	510,370
Retirement benefits		275	275	275	275
Trade and other payables, including derivatives		340,192	340,192	340,192	340,192
Borrowings		577,331	577,331	577,331	577,331
Current tax liabilities		593	593	593	593
RCULS – liability component	2(h)	-	8,360	-	-
Total current liabilities		918,391	926,751	918,391	918,391
Total liabilities		1,533,761	1,475,064	1,638,470	1,428,761
Total equity and liabilities		2,405,025	2,519,947	2,456,407	2,456,407
Number of SSB Shares in issue (‘000)		419,417	419,417	419,417	580,731
Total borrowings (RM'000)		1,015,709	957,012	1,120,418	910,709
Net assets per SSB share (RM)⁽ⁱ⁾		2.06	2.48	1.93	1.76
Gearing (times)		1.17	0.92	1.38	0.89

Note (i)

“Net assets” used in the above computations is defined as total equity attributable to owners of the Company.



PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014 OF OUR GROUP TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

Appendix I

**Southern Steel Berhad ("SSB")
and its subsidiaries ("SSB Group")
Proforma Consolidated Statements of Financial Position
as at 30 June 2014**

Notes to the Proforma Consolidated Statements of Financial Position

1. Basis of preparation

The Proforma Consolidated Statements of Financial Position have been properly compiled in accordance with the basis stated below using financial statements prepared in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards, and in a manner consistent with both the format of the financial statements and the accounting policies of the SSB Group as disclosed in its audited financial statements for the financial year ended 30 June 2014.

The Proforma Consolidated Statements of Financial Position do not include the effects of the adoption of Malaysian Financial Reporting Standards and International Financial Reporting Standards which are effective for annual periods beginning on or after 1 July 2014.

The Proforma Consolidated Statements of Financial Position have been prepared solely for illustrative purposes, to show the effects of the following:

Minimum Scenario - Issuance of RM147,080,154 nominal value of RCULS

Proforma I – After the Proposed Rights Issue of RCULS

The Proforma Consolidated Statements of Financial Position is stated after incorporating the effects of the following:

- Proposed renounceable rights issue of RM147,080,154 nominal value of 5-year 5% RCULS at 100% of its nominal value of RM1.00 each on the basis of RM1.00 nominal value of RCULS for every two (2) existing SSB Shares subscribed by the Undertaking Shareholders of SSB.
- The rights issue of RCULS is segregated into equity and liability components of RM114,605,649 and RM32,474,505 respectively. The fair value of the liability component of the Rights Issue of RCULS is arrived at by discounting the coupon payments over the tenure of 5 years at a discount rate of 5%, the average cost of debt of the Group. The deferred tax assets are computed based on the statutory tax rate of 24% on the initial recognition of liability component of the RCULS.
- The estimated expenses to be incurred for the Proposed Rights Issue of RCULS will be approximately RM900,000 and these expenses will be set off against the RCULS equity and retained earnings by RM701,000 and RM199,000 respectively.



PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014 OF OUR GROUP TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

Appendix I

**Southern Steel Berhad ("SSB")
and its subsidiaries ("SSB Group")
Proforma Consolidated Statements of Financial Position
as at 30 June 2014**

Notes to the Proforma Consolidated Statements of Financial Position (continued)

1. Basis of preparation (continued)

Minimum Scenario - Issuance of RM147,080,154 nominal value of RCULS (continued)

Proforma I – After the Proposed Rights Issue of RCULS (continued)

- The gross proceeds from the Rights Issue of RCULS are expected to be utilised in the following manner :

	RM'000
Repayment of bank borrowings	74,000
Working capital	72,180
Estimated expenses in relation to the Proposed Rights Issue of RCULS	900
	<u>147,080</u>

Proforma II (a) - After Proforma I and full redemption of RCULS

The Proforma Consolidated Statements of Financial Position are stated after Proforma I and incorporating the effects of the full redemption of RM147,080,154 nominal value of RCULS.

Upon the completion of full redemption of the RCULS, the non-current borrowings of SSB will be increased by RM147,080,000 to RM511,458,000 based on the assumption that additional borrowings will be obtained to redeem the RCULS, whilst the retained earnings will be reduced by RM37,471,000 to RM338,006,000. Correspondingly, the RCULS - liability component, RCULS - equity component and deferred tax assets arising from this issuance of RCULS will be reversed in full.

Proforma II (b) - After Proforma I and full conversion of RCULS

The Proforma Consolidated Statements of Financial Position are stated after Proforma I and incorporating the effects of the full conversion of RM147,080,154 nominal value of RCULS.

Upon the completion of full conversion of the RCULS, the issued and paid-up share capital of SSB will be increased by RM113,139,000 to RM532,556,000, the share premium will be increased by RM8,560,000 to RM44,412,000 whilst the retained earnings will be reduced by RM12,090,000 to RM363,387,000. Correspondingly, the RCULS - liability component, RCULS - equity component and deferred tax assets arising from this issuance of RCULS will be reversed in full.



PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014 OF OUR GROUP TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

Appendix I

**Southern Steel Berhad ("SSB")
and its subsidiaries ("SSB Group")
Proforma Consolidated Statements of Financial Position
as at 30 June 2014**

Notes to the Proforma Consolidated Statements of Financial Position (continued)

1. Basis of preparation (continued)

Maximum Scenario - Issuance of RM209,708,604 nominal value of RCULS

Proforma I – After the Proposed Rights Issue of RCULS

The Proforma Consolidated Statements of Financial Position are stated after incorporating the effects of the following:

- Proposed renounceable rights issue of RM209,708,604 nominal value of 5-year 5% RCULS at 100% of its nominal value of RM1.00 each on the basis of RM1.00 nominal value of RCULS for every two (2) existing SSB Shares fully subscribed by the entitled shareholders of SSB.
- The rights issue of RCULS is segregated into equity and liability components of RM163,406,075 and RM46,302,529 respectively. The fair value of the liability component of the Rights Issue of RCULS is arrived at by discounting the coupon payments over the tenure of 5 years at a discount rate of 5%, the average cost of debt of the Group. The deferred tax assets are computed based on the statutory tax rate of 24% on the initial recognition of liability component of the RCULS.
- The estimated expenses to be incurred for the Proposed Rights Issue of RCULS will be approximately RM900,000 and these expenses will be set off against the RCULS equity and retained earnings by RM701,000 and RM199,000 respectively.
- The gross proceeds from the Rights Issue of RCULS are expected to be utilised in the following manner :

	RM'000
Repayment of bank borrowings	105,000
Working capital	103,809
Estimated expenses in relation to the Proposed Rights Issue of RCULS	900
	209,709



**PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014 OF
OUR GROUP TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**

Appendix I

**Southern Steel Berhad ("SSB")
and its subsidiaries ("SSB Group")
Proforma Consolidated Statements of Financial Position
as at 30 June 2014**

Notes to the Proforma Consolidated Statements of Financial Position (continued)

1. Basis of preparation (continued)

**Maximum Scenario - Issuance of RM209,708,604 nominal value of RCULS
(continued)**

Proforma II (a) - After Proforma I and full redemption of RCULS

The Proforma Consolidated Statements of Financial Position are stated after Proforma I and incorporating the effects of the full redemption of RM209,708,604 nominal value of RCULS.

Upon the completion of full redemption of the RCULS, the non-current borrowings of SSB will be increased by RM209,709,000 to RM543,087,000 based on the assumption that additional borrowings will be obtained to redeem the RCULS, whilst the retained earnings will be reduced by RM53,128,000 to RM322,349,000. Correspondingly, the RCULS - liability component, RCULS - equity component and deferred tax assets arising from this issuance of RCULS will be reversed in full.

Proforma II (b) - After Proforma I and full conversion of RCULS

The Proforma Consolidated Statements of Financial Position are stated after Proforma I and incorporating the effects of the full conversion of RM209,708,604 nominal value of RCULS.

Upon the completion of full conversion of the RCULS, the issued and paid-up share capital of SSB will be increased by RM161,314,000 to RM580,731,000, the share premium will be increased by RM12,504,000 to RM48,356,000 whilst the retained earnings will be reduced by RM17,237,000 to RM358,240,000. Correspondingly, the RCULS - liability component, RCULS - equity component and deferred tax assets arising from this issuance of RCULS will be reversed in full.



PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014 OF OUR GROUP TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

Appendix I

**Southern Steel Berhad (“SSB”)
and its subsidiaries (“SSB Group”)
Proforma Consolidated Statements of Financial Position
as at 30 June 2014**

Notes to the Proforma Consolidated Statements of Financial Position (continued)

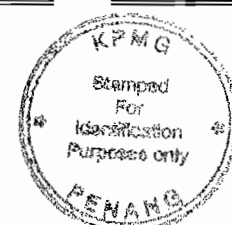
2. Effects on the Proforma Consolidated Statements of Financial Position

(a) Movements in deferred tax assets

	Minimum Scenario RM'000	Maximum Scenario RM'000
Balance as at 30 June 2014	16,542	16,542
Effect of Proforma I:- - Issuance of RCULS	7,794	11,113
<i>Proforma I</i>	<u>24,336</u>	<u>27,655</u>
Effect of Proforma II (a) and II (b):- - Realisation of deferred tax asset upon full redemption/conversion of RCULS	(7,794)	(11,113)
<i>Proforma II (a) and II (b)</i>	<u>16,542</u>	<u>16,542</u>

(b) Movements in cash and cash equivalents

	Minimum Scenario RM'000	Maximum Scenario RM'000
Balance as at 30 June 2014	59,622	59,622
Effects of Proforma I:- - Proceeds from issuance of RCULS	147,080	209,709
- Repayment of borrowings	(74,000)	(105,000)
- Payment of estimated expenses for corporate exercise	(900)	(900)
<i>Proforma I</i>	<u>131,802</u>	<u>163,431</u>
Effect of Proforma II (a) and II (b):- - RCULS coupon payment	(36,770)	(52,427)
<i>Proforma II (a) and II (b)</i>	<u>95,032</u>	<u>111,004</u>



PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014 OF OUR GROUP TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

Appendix I

**Southern Steel Berhad (“SSB”)
and its subsidiaries (“SSB Group”)
Proforma Consolidated Statements of Financial Position
as at 30 June 2014**

Notes to the Proforma Consolidated Statements of Financial Position (continued)

2. Effects on the Proforma Consolidated Statements of Financial Position (continued)

(c) Movements in share capital

	Minimum scenario			Maximum scenario		
	No of SSB Shares '000	Par value RM	Share capital RM'000	No of SSB Shares '000	Par value RM	Share capital RM'000
Balance as at 30 June 2014	419,417	1.00	419,417	419,417	1.00	419,417
Issuance of RCULS	-		-	-		-
<i>Proforma I</i>	<u>419,417</u>	<u>1.00</u>	<u>419,417</u>	<u>419,417</u>	<u>1.00</u>	<u>419,417</u>
Effect of Proforma II (a) - Full redemption of RCULS	-		-	-		-
<i>Proforma II (a)</i>	<u>419,417</u>	<u>1.00</u>	<u>419,417</u>	<u>419,417</u>	<u>1.00</u>	<u>419,417</u>
Effect of Proforma II (b) - Full conversion of RCULS	113,139	1.00	113,139	161,314	1.00	161,314
<i>Proforma II (b)</i>	<u>532,556</u>	<u>1.00</u>	<u>532,556</u>	<u>580,731</u>	<u>1.00</u>	<u>580,731</u>



PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014 OF OUR GROUP TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

Appendix I

**Southern Steel Berhad ("SSB")
and its subsidiaries ("SSB Group")
Proforma Consolidated Statements of Financial Position
as at 30 June 2014**

Notes to the Proforma Consolidated Statements of Financial Position (continued)

2. Effects on the Proforma Consolidated Statements of Financial Position (continued)

(d) Movements in share premium

	Minimum Scenario RM'000	Maximum Scenario RM'000
Balance as at 30 June 2014	35,852	35,852
Issuance of RCULS	-	-
<i>Proforma I</i>	35,852	35,852
Effect of Proforma II (a) :-		
- Full redemption of RCULS	-	-
<i>Proforma II (a)</i>	35,852	35,852
Effect of Proforma II (b) :-		
- Full conversion of RCULS	8,560	12,504
<i>Proforma II (b)</i>	44,412	48,356

(e) Movements in RCULS - equity component

	Minimum Scenario RM'000	Maximum Scenario RM'000
Balance as at 30 June 2014	-	-
Effects of Proforma I:-		
- Issuance of RCULS	114,605	163,406
- Deferred tax assets arising on the liability component	7,794	11,113
- Estimated expenses for corporate exercise	(701)	(701)
<i>Proforma I</i>	121,698	173,818
Effect of Proforma II (a) and II (b):-		
- Full redemption/conversion of RCULS	(121,698)	(173,818)
<i>Proforma II (a) and II (b)</i>	-	-



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PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014 OF OUR GROUP TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

Appendix I

**Southern Steel Berhad ("SSB")
and its subsidiaries ("SSB Group")
Proforma Consolidated Statements of Financial Position
as at 30 June 2014**

Notes to the Proforma Consolidated Statements of Financial Position (continued)

2. Effects on the Proforma Consolidated Statements of Financial Position (continued)

(f) Movements in retained earnings

	Minimum Scenario RM'000	Maximum Scenario RM'000
Balance as at 30 June 2014	375,676	375,676
Effect of Proforma I :-		
- Estimated expenses for corporate exercise	(199)	(199)
<i>Proforma I</i>	375,477	375,477
Effect of Proforma II (a) :-		
- Accretion of interest expense	(4,296)	(6,124)
- Realisation of deferred tax asset	(7,794)	(11,113)
- Excess of nominal value over carrying amount of RCULS charged to retained earnings upon redemption	(25,381)	(35,891)
Total effect on full redemption of RCULS	(37,471)	(53,128)
<i>Proforma II (a)</i>	338,006	322,349
Balance as at 30 June 2014	375,676	375,676
Effect of Proforma I :-		
- Estimated expenses for corporate exercise	(199)	(199)
<i>Proforma I</i>	375,477	375,477
Effect of Proforma II (b) :-		
- Accretion of interest expense	(4,296)	(6,124)
- Realisation of deferred tax asset	(7,794)	(11,113)
Total effect on full conversion of RCULS	(12,090)	(17,237)
<i>Proforma II (b)</i>	363,387	358,240



PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014 OF OUR GROUP TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

Appendix I

**Southern Steel Berhad (“SSB”)
and its subsidiaries (“SSB Group”)
Proforma Consolidated Statements of Financial Position
as at 30 June 2014**

Notes to the Proforma Consolidated Statements of Financial Position (continued)

2. Effects on the Proforma Consolidated Statements of Financial Position (continued)

(g) Movements in non-current borrowings

	Minimum Scenario RM'000	Maximum Scenario RM'000
Balance as at 30 June 2014	438,378	438,378
Effect of Proforma I:-		
- Repayment of non-current borrowings using proceeds raised through issuance of RCULS	(74,000)	(105,000)
<i>Proforma I</i>	364,378	333,378
Effect of Proforma II (a) :-		
- Full redemption of RCULS	147,080	209,709
<i>Proforma II (a)</i>	511,458	543,087
Balance as at 30 June 2014	438,378	438,378
Effect of Proforma I :-		
- Repayment of non-current borrowings using proceeds raised through issuance of RCULS	(74,000)	(105,000)
<i>Proforma I</i>	364,378	333,378
Effect of Proforma II (b):-		
- Full conversion of RCULS	-	-
<i>Proforma II (b)</i>	364,378	333,378



PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014 OF OUR GROUP TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

Appendix I

**Southern Steel Berhad (“SSB”)
and its subsidiaries (“SSB Group”)
Proforma Consolidated Statements of Financial Position
as at 30 June 2014**

Notes to the Proforma Consolidated Statements of Financial Position (continued)

2. Effects on the Proforma Consolidated Statements of Financial Position (continued)

(h) Movements in RCULS - liability component

	Minimum Scenario RM'000	Maximum Scenario RM'000
Balance as at 30 June 2014	-	-
Effect of Proforma I:-		
- Issuance of RCULS		
- Current liability	5,863	8,360
- Non-current liability	26,612	37,943
<i>Proforma I</i>	32,475	46,303
Effect of Proforma II (a) and II (b):-		
- Full redemption/conversion of RCULS	(32,475)	(46,303)
<i>Proforma II (a) and II (b)</i>	-	-



FURTHER INFORMATION

1. RESPONSIBILITY STATEMENT

This Circular has been seen and approved by our Board and they collectively and individually accept full responsibility for the accuracy of the information given and confirm that, having made all reasonable enquiries and to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement in this Circular misleading.

2. ADVISERS**2.1 Consents**

HLIB, being the Principal Adviser for the Proposals, has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name and all references thereto in the form and context in which they so appear in this Circular.

Messrs KPMG, being the Reporting Accountants for the Proposed Rights Issue of RCULS, has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name, the proforma consolidated statement of financial position as at 30 June 2014 of our Group together with the notes and Reporting Accountants' letter thereon and all references thereto in the form and context in which they so appear in this Circular.

2.2 Conflict of interests

HLIB has confirmed that no conflict of interest exists or is likely to exist in relation to the Proposals arising from its appointment as the Principal Adviser for the Proposals, apart from it being related to our Company by virtue of the common ultimate holding company, HLCM. Notwithstanding the above, HLIB is a licensed investment bank and the appointment as the Principal Adviser to our Company for the Proposals is in its ordinary course of business. Furthermore, the conduct of HLIB is regulated strictly by the Financial Services Act 2013, the Capital Markets and Services Act 2007 and its internal control policies and procedures.

Messrs KPMG has confirmed that no conflict of interest exists or is likely to exist in relation to the Proposed Rights Issue of RCULS arising from its appointment as the Reporting Accountants for the Proposed Rights Issue of RCULS.

3. MATERIAL LITIGATION, MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES**3.1 Material litigation**

As at the LPD, our Group is not engaged in any material litigation, claims or arbitration, either as plaintiff or defendant, and our Board has no knowledge of any proceeding pending or threatened against our Group or of any facts likely to give rise to any proceeding which may materially affect the financial position or business of our Group.

FURTHER INFORMATION (Cont'd)**3.2 Material commitments**

Save as disclosed below, as at the LPD, our Company does not have any material commitments contracted or known to be contracted by our Group which, upon becoming enforceable, may have a material impact on the profits or NA of our Group:

	Amount (RM '000)
Property, plant and equipment:	
• Approved and contracted for	10,843
• Approved but not contracted for	20,263
	31,106

3.3 Contingent liability

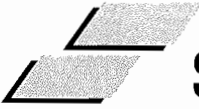
As at the LPD, our Board is not aware of any material contingent liabilities incurred or known to be incurred which, upon becoming enforceable, may have a material impact on the profits or NA of our Group.

4. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at our registered office at Level 9, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur during normal business hours from Mondays to Fridays (except public holidays) from the date of this Circular up to and including the date of our EGM:

- (i) the M&A of our Company;
- (ii) the audited consolidated financial statements of our Company for the past two (2) FYEs 30 June 2013 and 30 June 2014;
- (iii) the letters of consent referred to in Section 2.1 of this Appendix;
- (iv) the proforma consolidated statement of financial position as at 30 June 2014 of our Group together with the Reporting Accountants' letter thereon as referred to in Appendix II of this Circular; and
- (v) the draft Trust Deed constituting the RCULS.

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**NOTICE OF EXTRAORDINARY GENERAL MEETING**

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of Southern Steel Berhad ("**Company**") will be held at Training Room B, Level 1, Southern Steel Berhad, 2723 Lorong Perusahaan 12, Prai Industrial Estate, 13600 Prai, Penang, on Friday, 21 November 2014 at 3.15 p.m. or if later, upon the conclusion of the forthcoming 52nd Annual General Meeting of the Company to be held at the same venue at 2.45 p.m. on the same day, or at any adjournment thereof, for the purpose of considering and, if thought fit, passing with or without modifications, the following motions:

ORDINARY RESOLUTION 1

PROPOSED INCREASE IN THE AUTHORISED SHARE CAPITAL OF SOUTHERN STEEL BERHAD ("SSB") FROM RM502,000,000 DIVIDED INTO 500,000,000 ORDINARY SHARES OF RM1.00 EACH IN SSB ("SSB SHARES") AND 2,000,000 PREFERENCE SHARES OF RM1.00 EACH IN SSB ("PREFERENCE SHARES") TO RM802,000,000 DIVIDED INTO 800,000,000 SSB SHARES AND 2,000,000 PREFERENCE SHARES ("PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL")

"**THAT**, subject to the passing of the Special Resolution below and all relevant approvals being obtained from the relevant regulatory authorities, approval be and is hereby given for the Company to increase its authorised share capital from RM502,000,000 divided into 500,000,000 SSB Shares and 2,000,000 Preference Shares to RM802,000,000 divided into 800,000,000 SSB Shares and 2,000,000 Preference Shares by the creation of an additional 300,000,000 new SSB Shares and that the Memorandum of Association of the Company be altered accordingly."

ORDINARY RESOLUTION 2

PROPOSED RENOUNCEABLE RIGHTS ISSUE OF UP TO RM209,708,604 NOMINAL VALUE OF FIVE (5)-YEAR 5% REDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS AT 100% OF ITS NOMINAL VALUE ("RCULS") ON THE BASIS OF RM1.00 NOMINAL VALUE OF RCULS FOR EVERY TWO (2) EXISTING ORDINARY SHARES OF RM1.00 EACH HELD IN SOUTHERN STEEL BERHAD ("SSB") ("SSB SHARES") ON AN ENTITLEMENT DATE TO BE DETERMINED LATER

"**THAT**, subject to the passing of Ordinary Resolution 1, the Special Resolution below and all relevant approvals being obtained from the relevant regulatory authorities, including the approval of Bursa Malaysia Securities Berhad ("**Bursa Securities**") for the admission of the RCULS to the Official List of Bursa Securities and the listing of and quotation for the RCULS and the new SSB Shares to be issued pursuant to conversion of the RCULS, the Board of Directors of the Company ("**Board**") be and is hereby authorised to issue and allot:

- (i) by way of a renounceable rights issue of up to RM209,708,604 nominal value of RCULS at 100% of its nominal value to persons who are registered as shareholders of the Company whose names appear in the Record of Depositors of the Company at the close of business on a date to be determined by the Board, on the basis of RM1.00 nominal value of RCULS for every two (2) existing SSB Shares held and that RCULS not allotted or validly taken up for any reason whatsoever shall be dealt with by the Board in such manner as the Board shall in its absolute discretion deem fit or expedient and in the best interest of the Company;
- (ii) such number of new SSB Shares credited as fully paid-up in the Company pursuant to the conversion of the RCULS at a conversion price to be determined by the Board and that such new SSB Shares shall, upon allotment and issue, rank *pari passu* in all respects with the existing SSB Shares in issue, save and except that they will not be entitled to any dividends, rights, allotments and/or other distributions, in respect of which the entitlement date is prior to the relevant date of allotment of the said new SSB Shares to be issued pursuant to the conversion of the RCULS; and

- (iii) such further number of new SSB Shares as may be required or permitted to be issued and allotted as a consequence of the adjustments under the provisions of the trust deed constituting the RCULS ("**Trust Deed**")

(hereinafter referred to as the "**Proposed Rights Issue of RCULS**"), upon such terms and conditions including without limitation as to interest and maturity thereof as the Board may determine and provide in the Trust Deed or other documents constituting the Proposed Rights Issue of RCULS;

AND THAT the Board be and is hereby authorised to utilise the proceeds arising from the Proposed Rights Issue of RCULS for the purposes as set out in the circular to shareholders of the Company dated 30 October 2014;

AND THAT the Board be and is hereby authorised to enter into and execute all transaction documents or agreements in connection with the Proposed Rights Issue of RCULS, including but not limited to the Trust Deed, and to do all acts, deeds and things as the Board may deem fit or expedient in order to implement, finalise and give full effect to the aforesaid Trust Deed;

AND THAT fractional entitlements to the RCULS arising from the Proposed Rights Issue of RCULS, if any, will be disregarded and shall be dealt with in such manner as the Board shall in its absolute discretion deem fit or expedient and in the best interest of the Company;

AND THAT the Board be and is hereby further authorised to do all acts and things necessary to give full effect to the Proposed Right Issue of RCULS with full power to assent to any condition, modification, variation and/or amendment as the Board may deem fit or expedient and in the best interest of the Company and/or as may be imposed by the relevant governmental or regulatory authorities."

SPECIAL RESOLUTION

PROPOSED AMENDMENT TO THE SHARE CAPITAL CLAUSE IN THE ARTICLES OF ASSOCIATION OF THE COMPANY

"**THAT** subject to the passing of Ordinary Resolution 1, Article 3 of the Articles of Association of the Company be amended to read as 'The authorised capital of the Company is Ringgit Malaysia **Eight Hundred and Two Million (RM802,000,000.00)** divided into **Eight Hundred Million (800,000,000)** ordinary shares of Ringgit Malaysia One (RM1.00) each and Two Million (2,000,000) preference shares of Ringgit Malaysia One (RM1.00) each.' in substitution for the existing Article 3 of the Articles of Association of the Company."

By Order of the Board

JOANNE LEONG WEI YIN
LEE WUI KIEN
Company Secretaries

Kuala Lumpur
30 October 2014

Notes:

- (1) *For the purpose of determining members' eligibility to attend this meeting, only members whose names appear in the Record of Depositors as at 17 November 2014 shall be entitled to attend this meeting or appoint proxy(ies) to attend and vote on their behalf.*
- (2) *Save for a member who is an exempt authorised nominee, a member entitled to attend and vote at this meeting is entitled to appoint not more than two proxies to attend and vote in his stead. A proxy may but need not be a member of the Company and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company. A member who is an authorised nominee may appoint not more than two proxies in respect of each securities account it holds. A member who is an exempt authorised nominee for multiple beneficial owners in one securities account ("Omnibus Account") may appoint any number of proxies in respect of the Omnibus Account.*
- (3) *Where two (2) or more proxies are appointed, the proportions of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies, failing which the appointments shall be invalid.*
- (4) *The Form of Proxy must be deposited at the Registered Office of the Company at Level 9, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur not less than forty-eight (48) hours before the time appointed for holding of the meeting or adjourned meeting.*

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Southern Steel Berhad (5283-X)

A Member of the Hong Leong Group

FORM OF PROXY

I/We _____

NRIC / Passport / Company No. _____

of _____

being a member of **SOUTHERN STEEL BERHAD** (the "Company"), hereby appoint _____

NRIC / Passport No. _____

of _____

or failing him/her, _____

NRIC / Passport No. _____

of _____

or failing him/her, the Chairman of the meeting as my/our proxy/proxies to vote for me/us on my/our behalf at the Extraordinary General Meeting of the Company to be held at Training Room B, Level 1, Southern Steel Berhad, 2723 Lorong Perusahaan 12, Prai Industrial Estate, 13600 Prai, Penang on Friday, 21 November 2014 at 3.15 p.m. or if later, upon the conclusion of the forthcoming 52nd Annual General Meeting of the Company to be held at the same venue at 2.45 p.m. on the same day, or at any adjournment thereof.

My/Our proxy/proxies is/are to vote either on a show of hands or on a poll as indicated below with an "X":

		FOR	AGAINST
1.	ORDINARY RESOLUTION 1 • PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL		
2.	ORDINARY RESOLUTION 2 • PROPOSED RIGHTS ISSUE OF RCULS		
3.	SPECIAL RESOLUTION • PROPOSED AMENDMENT TO THE SHARE CAPITAL CLAUSE IN THE ARTICLES OF ASSOCIATION OF THE COMPANY		

Dated this _____ day of _____ 2014

Number of shares held _____

Signature(s) of Member _____

Notes:

- (1) For the purpose of determining members' eligibility to attend this meeting, only members whose names appear in the Record of Depositors as at 17 November 2014 shall be entitled to attend this meeting or appoint proxy(ies) to attend and vote on their behalf.
- (2) If you wish to appoint other person(s) to be your proxy, insert the name(s) and address(es) of the person(s) desired in the space so provided.
- (3) If there is no indication as to how you wish your vote(s) to be cast, the proxy will vote or abstain from voting at his/her discretion.
- (4) A proxy may but need not be a member of the Company and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
- (5) Save for a member who is an exempt authorised nominee, a member shall not be entitled to appoint more than two proxies to attend and vote at the same meeting. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, it may appoint not more than two (2) proxies in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account. A member who is an exempt authorised nominee for multiple beneficial owners in one securities account ("Omnibus Account") may appoint any number of proxies in respect of the Omnibus Account.
- (6) Where two (2) or more proxies are appointed, the proportions of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies, failing which the appointments shall be invalid (please see note 9 below).
- (7) In the case where a member is a corporation, this Form of Proxy must be executed under its Common Seal or under the hand of its Attorney.
- (8) All Forms of Proxy must be duly executed and deposited at the Registered Office of the Company at Level 9, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur not less than forty-eight (48) hours before the time appointed for holding of the meeting or adjourned meeting.
- (9) In the event two (2) or more proxies are appointed, please fill in the ensuing section:

Name of proxies	CDS account no.	% of shareholdings to be represented



Fold this flap for sealing

Then fold here

AFFIX
STAMP

The Company Secretaries
SOUTHERN STEEL BERHAD (5283-X)
Level 9, Wisma Hong Leong
18 Jalan Perak
50450 Kuala Lumpur
Malaysia

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