

SOUTHERN STEEL BERHAD (5283-X)

Key Pertinent Questions and Answers at the 56th Annual General Meeting of SOUTHERN STEEL BERHAD held at Training Room C, Level 1, Southern Steel Berhad, 2723 Lorong Perusahaan 12, Prai Industrial Estate, 13600 Prai, Penang on Thursday, 29 November 2018 at 2.00 p.m.

- 1. Referring to the Southern Steel Berhad (“SSB”) Group’s Hot Rolled Coil (“HRC”) business on page 15 of the Management Discussion and Analysis, please explain how superior is SSB Group’s HRC against Megasteel Sdn Bhd (“Megasteel”)’s in terms of cost and technology?**

SSB HRC project’s initial planned capacity was 600k Mt, and based on projection, the plant should be able to produce at a very high utilisation rate. However, as SSB Group is now in an arbitration dispute with the machine supplier, we could not disclose any further information.

- 2. Since it was projected that the HRC technology would incur lower cost, what was the projected margin for the product?**

In view of SHRC’s confidentiality obligation in the arbitration proceeding, we could not disclose any further information.

- 3. Since the change of government in Malaysia, there were a series of announcements on the cancellation or deferment of mega projects. How had this affect SSB Group’s profitability?**

Those announcements had impacted the whole market. Nevertheless, SSB Group’s plants are still running at full capacity.

- 4. On page 99, Note 9 to the financial statements, it was noted that there was a huge unrecognised deferred tax assets of RM908 million. Arising from the recent announcement of the 2019 Budget, any carry forward of unutilised tax allowances will be restricted to 7 years. How will this affect SSB Group?**

The announced 2019 Budget did not state clearly when and how the restriction will apply, and as such, further clarification by the Government is required.

- 5. Referring the “Operating Segments” appearing on page 122, Note 30 to the financial statements, suggest disclosing the segmental information as upstream and downstream business for a more meaningful analysis.**

The current disclosure is made in compliance with the accounting standards requirements. The segmental information as disclosed is similar to those made by our competitors, which reflect “Steel” as one segment without any further breakdown. Nevertheless, your suggestion will be duly considered by the Board, taking into account the balance between transparency and confidentiality of business information.

- 6. On page 100, Note 11 to the financial statements, it was noted that there was an increase in the “inventories recognised as cost of sales”. Which product was the increase related to?**

The raw material prices had increased whilst our production volume remained the same. As such, cost increased accordingly. However, our stock level and turnover days were kept at the same level of around 90 days.

- 7. How will the entry of new players like Eastern Steel Sdn Bhd and Alliance Steel (M) Sdn Bhd affect SSB Group?**

Selling prices are likely to be affected in view of the excess capacity in the market.

- 8. On page 146, Note 35 to the financial statements, it was noted that SSB Group had been sued for EUR35 million by Danieli. Had this amount been provided for in the financial statements? Was this the outstanding amount under the contract or how much had SSB paid under this contract?**

Please refer to Note 20.1 on page 110 of the Financial Statement for the amount provided for.

- 9. If the arbitration is settled, will SSB Group restart its HRC business?**

No decision has been taken until after the final arbitration results are announced.

- 10. On page 91, Note 4 to the financial statements, it was noted that there was still capital work-in-progress. Had it been depreciated? If it relates to the HRC project, and if SSB Group loses the case, will there be further impairment?**

The capital work-in-progress was in relation to the plant & equipment of the HRC projects. SSB Group had made an impairment of RM141 million in the last financial year, which was related to the losses and interest previously capitalised. The building under the project was depreciated but the plant was not. There would be further impairment if SSB Group loses the case.