



**NATSTEEL LTD**  
(Incorporated in the Republic of Singapore)

**ANNOUNCEMENT**

**RESPONSE TO SANION ENTERPRISES LIMITED (“SANION”)’S INTENTION TO PURSUE:**

- **THE APPOINTMENT OF 9 CANDIDATES (THE “SANION NOMINEES”) TO THE BOARD OF DIRECTORS (THE “BOARD”) OF NATSTEEL LTD (“NATSTEEL” OR THE “COMPANY”); AND**
- **A CASH DISTRIBUTION**

**SANION’S INTENTION TO PURSUE THE APPOINTMENT OF 9 SANION NOMINEES TO THE BOARD**

On 9 December 2002, G.K.Goh Stockbrokers Pte Ltd (“GK Goh”) for and on behalf of Sanion issued a press release (the “Sanion 9 December Press Release”) which states, amongst other things, that Sanion intends to pursue the appointment of nine Sanion Nominees to the Board of NatSteel.

The Board wishes Shareholders to note that Sanion, with less than 30% of the Company’s total number of Shares, intends the nine Sanion Nominees to constitute an absolute majority of the Board.

The Board shall comment further on this proposed action of Sanion in due course, as it deems appropriate.

**CASH DISTRIBUTION**

**Sanion’s representations on a distribution of S\$1.55 per share**

On 8 December 2002, the Board explained in its announcement (the “NatSteel 8 December Announcement”) that it was examining the matter of a distribution to Shareholders and would announce its conclusion as soon as practicable. The Board’s preliminary analysis then was that any distribution to Shareholders may be considerably less than \$1.55 per Share.

However, before the Board had the opportunity to announce its conclusion, Sanion released an announcement on 9 December 2002 which referred to S\$1.55 per Share<sup>1</sup> as being the “cash available for distribution stated in NatSteel’s circular dated 6 November 2002 relating to the CCL Offer<sup>2</sup>”. This may have given an impression that the NatSteel 6 November EGM Circular stated that the cash that should be distributed to Shareholders was \$1.55 per Share. This was not the case. On the contrary, the conclusion outlined in that circular was that a distribution of \$1.55 per Share would likely **create additional business risks for NatSteel and impact its future share price performance**.

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<sup>1</sup> As defined in the NatSteel 8 December Announcement.

<sup>2</sup> As defined in NatSteel’s EGM circular to Shareholders dated 6 November 2002 (“NatSteel 6 November EGM Circular”)

## **The Board's intention on a distribution to Shareholders**

The Board has previously recommended and the Company has previously made distributions to Shareholders, upon the completion of any major divestment, but only after having taken into consideration the funding needs of the group. In a similar manner, following the completion of the sale of NatSteel Broadway Ltd (in July 2002) and NatSteel Brasil Ltda (in October 2002), and the lapsing of the CCL Offer on 4 December 2002, the Board has also considered the matter of a distribution to Shareholders and is now ready to announce its intention to Shareholders.

The Board wishes Shareholders to know that, as it has done in previous distributions, the Board intends to maximise the amount of any distribution to Shareholders on this occasion too. In determining the amount to be distributed, the Board has to address the realities and limitations that currently exist. Amongst other factors, the current uncertainties on the ownership situation of the Company and on the stability of the management team have resulted in:

- some banks freezing, reducing, cancelling or requesting for the transfer of, certain banking facilities to the group; and
- some banks reviewing their banking facilities to the group.

To date, a substantial amount of the group's banking facilities have been so affected, mostly during the past week.

Given this background, the Board wishes to be prudent in recommending any distribution to Shareholders, so as not to adversely impair the businesses and prospects of the group.

**The Board intends therefore to first recommend a distribution<sup>3</sup> of \$0.70 per Share<sup>4</sup> to be paid as soon as reasonably practicable in early 2003<sup>5</sup>.**

As and when:

- the current uncertainty on the ownership situation of the Group is resolved; and
  - banking relationships re-stabilise in the months ahead
- the Board intends to recommend a further distribution<sup>3</sup> thereafter of \$0.27 per Share<sup>5</sup>.

Therefore ultimately, the Board hopes to be able to recommend distributions<sup>3</sup> to Shareholders amounting to, in aggregate, \$0.97 per Share<sup>5</sup>.

It is the intention of the current Board to propose the above distributions to Shareholders only after the conclusion of the Revised 98 Holdings Offer, but irrespective of the outcome of the Revised 98 Holdings Offer.

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<sup>3</sup> Subject to the requisite Shareholder approval

<sup>4</sup> Based on the number of Shares in issue on 9 December 2002 of 370,643,237

<sup>5</sup> Subject to prevailing business conditions, the assumptions set out in this announcement remaining valid and barring unforeseen circumstances

## Basis of the Board's analysis

The basis of the Board's analysis on the amount to be distributed to Shareholders is set out below:

<b>As at 30 September 2002</b>	<b>In \$ m</b>	<b>Per Share \$<sup>4</sup></b>
Proceeds from sale of NatSteel Broadway and NatSteel Brasil	587	
Net cash at parent company level	17	
Less: Investment capital expenditure ("capex") over 2003 and 2004 <sup>6</sup>	(156)	
Less: Maintenance capex for 2003 <sup>7</sup>	(30)	
Less: Capital injection into certain subsidiaries <sup>8</sup>	(35)*	
Less: Expected increase in working capital requirement in 4 <sup>th</sup> quarter 2002	(25)	
Possible total amount for distribution	<u>358</u>	<u>0.97</u>
Less: Temporary reserve for repayments to banks	(100)*	(0.27)
Possible amount for initial distribution	<u>258</u>	<u>0.70</u>

\*As at 30 September 2002, net bank debt at the group's subsidiaries, in aggregate, was S\$131 million

This analysis has been prepared based on the primary assumptions that:

- existing banking facilities remain in place at all group subsidiaries;
- the existing businesses of NatSteel continue to operate as going concerns;
- there is sufficient cash retained in the group to fund foreseeable maintenance capex and investment capex to enable (business conditions permitting) the businesses of the group to grow, consistent with the expectations of shareholders of a public listed company; and
- certain businesses are retained and nurtured to extract better value from such businesses over the medium and long term via a carefully managed sale or otherwise,

and on the basis that the operational and investment needs of the businesses should be prudently provided for, given the current economic conditions and the volatility of the businesses of the group.

The volatility of the group's businesses is clearly illustrated by the following development: The Singapore government announced on 19 July 2002 that anti-dumping duties, which were imposed since 1995 on steel bar imports from certain steel mills in Turkey and Malaysia, would be lifted after 21 January 2003. While the Company has submitted its appeal for an extension of these duties, the outcome is uncertain. If such duties are lifted, this may affect the prospects of the group's steel business in Singapore.

<sup>6</sup> See Appendix I for further details. These are specific initiatives intended to maintain the profitability and growth of the group's businesses, some of which are in the course of being implemented.

<sup>7</sup> This is capex needed to maintain performance and competitiveness of the existing businesses. The estimate of \$30m is based on capex in 2001 and 2002

<sup>8</sup> Banking facilities requirement

There is a need for an appropriate balance between cash distribution to Shareholders and funding business operation and investment requirements. It is this balance that the Board has endeavored to apply, in setting out its analysis to support the proposed distributions above.

### **Comment on Sanion's proposed distribution of possibly \$1.55 per Share**

It is not clear from the various announcements issued by Sanion, what specific amount Sanion proposes should be distributed to Shareholders but Sanion has referred to \$1.55 per Share on several occasions. The Board wishes Shareholders to note the following consequences if \$1.55 per Share were to be distributed to Shareholders.

Upon such a distribution of \$1.55 per Share, banks are likely to withdraw their banking facilities (including loans) from the group. If all these facilities are withdrawn:

- the group will suffer immediate operational difficulties;
- the group will have insufficient funds to repay all outstanding bank loans;
- some customers may withhold contracts, some suppliers may withdraw credit and competitors may take advantage of the group's operational difficulties; and
- the group may lose out on investment opportunities.

In many of the group's businesses, continuous capex and investment are required to maintain productivity and respond to commercial threats or opportunities. Without the support of banks, and without an appropriate reserve of cash, such responses will not be possible.

The key managers of the businesses may leave as a result of such uncertainties facing the businesses.

The Board wishes Shareholders to note that in light of the factors above, it is unclear how a distribution of \$1.55 per Share will impact the future Share price of NatSteel.

**In summary, the Board does not believe that it is commercially viable for the Company to distribute \$1.55 per Share and still function as a properly capitalised group capable of maintaining its performance and growth prospects.**

### **Sanion's proposed business plan on divestment**

Sanion had proposed in its Sanion 9 December press release that NatSteel should focus on the core steel business and dispose of its non-core businesses with a view to supporting additional cash distributions to Shareholders.

Under a scenario where \$1.55 per Share is distributed to Shareholders, the group may have insufficient funds to support its businesses (as explained above). Therefore, the group may have no choice but to complete any disposal that it undertakes, hastily. Such hasty disposals are likely to adversely affect value because:

- the group shall be in a weak negotiating position;
- the uncertainty on ownership could weaken the operation and competitiveness of these businesses;
- customers may withhold contracts and the businesses may be at risk of not securing future contracts; and
- if not carefully managed, the management and the employees of these businesses may lose focus and motivation during such sale.

It is therefore unlikely that such divestments will result in any substantial distribution to Shareholders in the near term. Some of the non-core businesses are at a stage where they may generate more value to Shareholders on a better timed sale after further nurturing or support, as opposed to a hasty sale in the near term.

In summary therefore, in conjunction with a distribution of \$1.55 per Share, Sanion's proposal to sell non-core businesses may adversely affect value for Shareholders.

### **Sanion's proposed business plan on China**

Sanion had, in its 9 December press release proposed that NatSteel should focus on the Chinese market.

This is already a strategy that NatSteel has been pursuing for many years. The group has several steel mills in China and is planning to invest more. It is the Company's practice to identify strategic partners and expansion opportunities continuously.

One such recent discussion involves a major Chinese steel group on the possibility of jointly establishing a blast furnace mill. This would resolve certain raw material and operational constraints of the group's existing plants in China and position them for further initiatives. However, any such investment may require substantial equity capital, even after assuming significant loan financing.

### **GENERAL OFFER AVAILABLE TO SHAREHOLDERS**

The Board wishes to remind Shareholders that, at the time of this announcement, the Revised 98 Holdings Offer is the only general offer available to Shareholders and is still open for acceptances.

The closing date of the Revised 98 Holdings Offer is 3.30pm on 23 December 2002. The Revised 98 Holdings Offer cannot be kept open beyond 3:30pm on 23 December 2002:

- unless the Revised 98 Holdings Offer becomes or is declared unconditional as to acceptances at or before 3:30pm on 23 December 2002, in which case the closing date of the Revised 98 Holdings Offer will be extended to 3:30pm on 6 January 2003; or
- unless 98 Holdings Pte. Ltd. seeks and obtains permission from the Securities Industry Council for an extension of the offer period, such as under Rule 22.8 of the Singapore Code on Take-overs and Mergers (the "Code")<sup>9</sup>.

The Board notes that Sanion has decided not to make a general offer for NatSteel, at this time.

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<sup>9</sup> Rule 22.8 of the Code states that "Except with the Council's consent, the board of the offeree company should not announce trading results, profit or dividend forecasts, asset valuations or major transactions after the 39<sup>th</sup> day following the posting of the initial offer document. Where the announcement of trading results and dividends would normally take place after the 39<sup>th</sup> day, every effort should be made to bring forward the date of the announcement, but where this is not practicable, the Council will normally give its consent to a later announcement. If an announcement of the kind referred to in this paragraph is made after the 39<sup>th</sup> day, the Council will normally be prepared to grant an extension of the period of 60 days referred to in Rule 22.9." (The 39<sup>th</sup> day following the posting of the initial offer document, in this case, is 2 December 2002)

## **REMINDER**

The Board will continue to keep Shareholders informed as developments warrant. In the meantime, Shareholders are advised to refrain from taking any action in relation to their shares in Natsteel which may be prejudicial to their interests.

## **DIRECTORS' RESPONSIBILITY**

The Directors of the Company (including those who have delegated detailed supervision of this announcement) have taken all reasonable care to ensure that the facts stated in this announcement are fair and accurate, and that no material facts have been omitted and they jointly and severally accept responsibility accordingly.

Where any information has been extracted from published or otherwise publicly available sources or is otherwise provided by or on behalf of other parties, the sole responsibility of the Directors of the Company has been to ensure that such information has been accurately and correctly extracted from such sources or as the case may be, accurately reflected or reproduced in this announcement.

BY ORDER OF THE BOARD

LIM SU-LING  
COMPANY SECRETARY  
13 DECEMBER 2002

### Attachments:

Sanion 9 December Press Release

- End -

For further information, please contact:

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## Appendix I – Investment Capex

<b>Committed</b>	<b>In S\$ m</b>
Southern Steel ICULS	18
Regional Wire and Mesh project	8
Siam Industrial Wire - Deferred payment and acquisition of minority stake	22
NatSteel Chemicals Malaysia - acquisition of remaining minority stake	2
Others	7
	<hr/> <b>57</b> <hr/>
<b>Under consideration</b>	
Proposed purchase of minority stakes (under discussion) in certain subsidiaries in China and Singapore	13
Wujin meltshop / rolling mill	61
Southern NatSteel Xiamen	25
	<hr/> <b>99</b> <hr/>
<b>Total investment capex</b>	<hr/> <b>156</b> <hr/>