

THIS SUPPLEMENTAL CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

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 adviser immediately.

The Singapore Exchange Securities Trading Limited ("SGX-ST") assumes no responsibility for the correctness of any of the statements made, reports contained or opinions expressed in this Supplemental Circular.

If you have sold all your issued ordinary shares of S\$0.50 (the "Shares") in the capital of NatSteel Ltd (the "Company"), you should immediately forward this Supplemental Circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for onward transmission to the purchaser or transferee.



NATSTEEL LTD

(Incorporated in the Republic of Singapore)

SECOND SUPPLEMENTAL CIRCULAR TO SHAREHOLDERS

in relation to the

REVISED VOLUNTARY CONDITIONAL CASH OFFER

by

STANDARD CHARTERED BANK

(incorporated in England)

for and on behalf of

98 HOLDINGS PTE. LTD.

(incorporated in the Republic of Singapore)

to acquire all the Shares (the "Revised 98 Holdings Offer")

**Financial Adviser
to NatSteel Ltd**

SALOMON SMITH BARNEY

A member of citigroup

**Independent Financial Adviser
to the Independent Directors of NatSteel Ltd**

ANZ Investment Bank

SHAREHOLDERS SHOULD NOTE THAT THE CLOSING DATE OF THE REVISED 98 HOLDINGS OFFER IS 3:30 P.M. ON 23 DECEMBER 2002. THE REVISED 98 HOLDINGS OFFER CANNOT BE KEPT OPEN BEYOND 3:30 P.M. ON 23 DECEMBER 2002:

- (1) UNLESS THE REVISED 98 HOLDINGS OFFER BECOMES OR IS DECLARED UNCONDITIONAL AS TO ACCEPTANCES AT OR BEFORE 3:30 P.M. ON 23 DECEMBER 2002, IN WHICH CASE THE CLOSING DATE OF THE REVISED 98 HOLDINGS OFFER WILL BE EXTENDED TO 3:30 P.M. ON 6 JANUARY 2003; OR**
- (2) UNLESS 98 HOLDINGS PTE. LTD. SEEKS AND OBTAINS PERMISSION FROM THE SECURITIES INDUSTRY COUNCIL OF SINGAPORE FOR AN EXTENSION OF THE OFFER PERIOD, SUCH AS UNDER RULE 22.8 OF THE SINGAPORE CODE ON TAKE-OVERS AND MERGERS**

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DEFINITIONS

For the purpose of this Supplemental Circular, the following definitions apply throughout, unless the context otherwise requires:

- “98 Holdings” or the “Offeror” : 98 Holdings Pte. Ltd.
- “98 Holdings FAA” : The Form of Acceptance and Authorisation accompanying the 98 Holdings Offer Document
- “98 Holdings FAT” : The Form of Acceptance and Transfer accompanying the 98 Holdings Offer Document
- “98 Holdings Letter” : The letter to Shareholders issued for and on behalf of 98 Holdings on 9 December 2002 in relation to the revision by 98 Holdings of the 98 Holdings Offer (details of which are set out in Section 2 of this Supplemental Circular)
- “98 Holdings Offer” : The voluntary conditional cash offer by SCB, for and on behalf of 98 Holdings, to acquire the Offer Shares on the terms and conditions set out in the 98 Holdings Offer Document, the 98 Holdings FAA and the 98 Holdings FAT
- “98 Holdings Offer Document” : The offer document dated 21 October 2002 and despatched by SCB, for and on behalf of 98 Holdings, on 24 October 2002 in respect of the 98 Holdings Offer
- “98 Holdings Revised Offer Announcement” : The announcement made for and on behalf of 98 Holdings on 9 December 2002 in relation to the revision by 98 Holdings of the 98 Holdings Offer (details of which are set out in Section 2 of this Supplemental Circular)
- “Act” : The Companies Act, Chapter 50 of Singapore
- “ANZ” : ANZ Singapore Limited
- “ANZ Letter” : The letter dated 14 December 2002 and issued by ANZ in relation to its advice and recommendation to the Independent Directors on the Revised 98 Holdings Offer (as set out in Appendix I of this Supplemental Circular)
- “Board” : The board of directors of the Company
- “Circular” : The offeree board circular dated 6 November 2002 and issued by NatSteel to Shareholders in connection with the 98 Holdings Offer
- “Code” : The Singapore Code on Take-overs and Mergers
- “Directors” : The directors of the Company as at the date hereof
- “EGM Circular” : The circular dated 6 November 2002 and issued by the Company to Shareholders in relation to, *inter alia*, the proposed sale by the Company of certain of its assets, businesses and undertakings
- “Extended Closing Date” : 3:30 p.m. on 23 December 2002, being the last day for the lodgement of acceptances for the Revised 98 Holdings Offer
- “G.K. Goh” : G.K. Goh Stockbrokers Pte Ltd

“Independent Directors”	: The independent directors of the Company as at the date of this Supplemental Circular, being Dr Cham Tao Soon, Mr Eric Ang Teik Lim, Mr Lim Chee Onn, Mr Tan I Tong, Mr Oliver Tan Kok Kheng, Dr Tan Tat Wai and Mr Thai Chee Ken
“NatSteel”, “NSL” or the “Company”	: NatSteel Ltd
“NTA”	: Net tangible assets
“Offer Price”	: The offer price of S\$2.03 per Share under the 98 Holdings Offer
“Optionholders”	: Holders of Options
“Options”	: Options granted by the Company under the NatSteel Ltd Executives’ Share Option Scheme 1988 and the NatSteel Ltd Share Option Scheme 1998 to subscribe for new Shares
“Revised 98 Holdings Offer Price”	: The revised offer price of S\$2.05 per Share under the Revised 98 Holdings Offer
“Revised Latest Practicable Date”	: 9 December 2002
“Sanion”	: Sanion Enterprises Limited
“SCB”	: Standard Chartered Bank
“SGX-ST” or “Singapore Exchange”	: Singapore Exchange Securities Trading Limited
“Shareholders”	: Persons who are for the time being registered as holders of the Shares in the Register of Members maintained by the Company, except that where the registered holder is CDP, the term “Shareholders” shall, where the context admits, mean the Depositors whose Securities Accounts are credited with Shares
“Shares”	: Ordinary shares of par value S\$0.50 each in the capital of the Company
“SIC”	: The Securities Industry Council of Singapore
“SSB”	: Salomon Smith Barney Singapore Pte Ltd
“S\$” or “\$”	: The lawful currency for the time being of the Republic of Singapore

The terms “Depositors”, “Depository Agent” and “Depository Register” shall have the meanings ascribed to them respectively in Section 130A of the Act.

For the purpose of this Supplemental Circular, words importing the singular shall, where applicable, include the plural and *vice versa* and words importing the masculine gender shall, where applicable, include the feminine and neuter genders and *vice versa*. References to persons shall, where applicable, include corporations.

Any reference in this Supplemental Circular to any statute or enactment is a reference to the statute or enactment as for the time being amended or re-enacted. Any word defined under the Act or any statutory modification thereof and used in this Supplemental Circular shall, where applicable, have the meaning assigned to it under the Act or such statutory modification, as the case may be.

Any reference to a time of day and dates in this Supplemental Circular shall be a reference to Singapore time and dates respectively, unless otherwise stated.

NATSTEEL LTD

(Incorporated in the Republic of Singapore)

LETTER TO SHAREHOLDERS

14 DECEMBER 2002

Directors:

Dr Cham Tao Soon (Chairman)
Mr Ang Kong Hua (President)
Mr Eric Ang Teik Lim
Mr Lim Chee Onn
Mr Tan I Tong
Mr Oliver Tan Kok Kheng
Dr Tan Tat Wai
Mr Thai Chee Ken

Registered Office:

22 Tanjong Kling Road,
Singapore 628048

To: The Shareholders of the Company

REVISED VOLUNTARY CONDITIONAL CASH OFFER BY STANDARD CHARTERED BANK, FOR AND ON BEHALF OF 98 HOLDINGS PTE. LTD., TO ACQUIRE ALL THE ISSUED ORDINARY SHARES OF S\$0.50 EACH IN THE CAPITAL OF NATSTEEL LTD

Dear Sir/Madam,

1. INTRODUCTION

On 9 December 2002, 98 Holdings issued the 98 Holdings Revised Offer Announcement and despatched the 98 Holdings Letter to Shareholders pursuant to which 98 Holdings proposed to revise the 98 Holdings Offer (the "**Revised 98 Holdings Offer**") by, *inter alia*, increasing the Offer Price from S\$2.03 per Share to the Revised 98 Holdings Offer Price of S\$2.05 per Share.

2. THE REVISED 98 HOLDINGS OFFER

2.1 The Revised 98 Holdings Offer

2.1.1 Revised 98 Holdings Offer Price

As stated in the 98 Holdings Revised Offer Announcement and the 98 Holdings Letter, the Offeror is revising the terms of the 98 Holdings Offer as follows:

For each Offer Share: S\$2.05 in cash

As stated in the 98 Holdings Revised Offer Announcement and the 98 Holdings Letter:

- (a) Shareholders who have earlier accepted the 98 Holdings Offer are entitled to receive the Revised 98 Holdings Offer Price; and
- (b) Optionholders who have earlier accepted the Options Proposal (as defined in the 98 Holdings Offer Document) are entitled to receive the Revised Option Price (as defined in the 98 Holdings Revised Offer Announcement) for each Relevant Option (as defined in the letter dated 21 October 2002 and issued for and on behalf of 98 Holdings to Optionholders).

2.1.2 Extension of the Closing Date

Shareholders should note that the 98 Holdings Letter states that, *inter alia*, the closing date of the Revised 98 Holdings Offer and the revised Options Proposal has been extended to **3:30 p.m. on 23 December 2002**.

The Revised 98 Holdings Offer cannot be kept open beyond 3:30 p.m. on 23 December 2002:

- (a) unless the Revised 98 Holdings Offer becomes or is declared unconditional as to acceptances at or before 3:30 p.m. on 23 December 2002, in which case the closing date of the Revised 98 Holdings Offer will be extended to 3:30 p.m. on 6 January 2003; or
- (b) unless 98 Holdings seeks and obtains permission from the SIC for an extension of the offer period, such as under Rule 22.8 of the Code¹.

The 98 Holdings Letter also states that save as disclosed in the Revised Offer Announcement, all the other terms and conditions of the 98 Holdings Offer as set out in the 98 Holdings Offer Document remain unchanged. Accordingly, if the Revised 98 Holdings Offer becomes or is declared unconditional in all respects, in order to give Shareholders who have not accepted the Revised 98 Holdings Offer the opportunity to do so, the Revised 98 Holdings Offer will remain open for acceptances for a period of not less than 14 days after the date on which it would otherwise have closed.

3. RECOMMENDATION OF THE INDEPENDENT DIRECTORS OF THE COMPANY

- 3.1 In arriving at their recommendation, the Independent Directors have carefully considered the advice and recommendation given by ANZ (as set out in the ANZ Letter). Furthermore, as advised by ANZ, the Independent Directors recommend that Shareholders read pages 47 to 48 of the Circular and pages 49 to 50 of the EGM Circular in their entirety. Shareholders are advised to read and consider the advice and recommendation set out in the ANZ Letter carefully.

In arriving at their conclusion and recommendation in respect of the Revised 98 Holdings Offer, ANZ has taken into consideration, *inter alia*, the following:

- (a) the Revised 98 Holdings Offer Price represents a premium of approximately 1.0 per cent. over the Offer Price;
- (b) the Shares had traded through the SGX-ST at and above the Revised 98 Holdings Offer Price on the Revised Latest Practicable Date;
- (c) each of the considerations set out on pages 47 and 48 in ANZ's letter dated 6 November 2002 contained in the Circular with respect to the 98 Holdings Offer continue to hold true as of the Revised Latest Practicable Date;
- (d) as at the Revised Latest Practicable Date there is only one offer available to Shareholders as represented by the Revised 98 Holdings Offer;
- (e) the qualitative factors highlighted in paragraphs 3 (i) to (vi) of the ANZ Letter may create additional business risks for NatSteel and impact future share price performance following a cash distribution of \$1.55 per Share;

¹ 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 39th day following the posting of the initial offer document. Where the announcement of trading results and dividends would normally take place after the 39th 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 39th day, the Council will normally be prepared to grant an extension of the period of 60 days referred to in Rule 22.9." (The 39th day following the posting of the initial offer document, in this case, is 2 December 2002).

- (f) the following statements by the Company in its announcement dated 13 December 2002 (the “**13 December 2002 NatSteel Announcement**”): “The Board intends therefore to first recommend a distribution² of \$0.70 per Share³ to be paid as soon as reasonably practicable in early 2003⁴.

As and when:

- (i) the current uncertainty on the ownership situation of the Group is resolved⁵; and
- (ii) banking relationships re-stabilise in the months ahead⁶,

the Board intends to recommend a further distribution⁷ thereafter of \$0.27 per Share⁸. Therefore ultimately, the Board hopes to be able to recommend distributions⁹ to Shareholders amounting to, in aggregate, \$0.97 per Share¹⁰.” The 13 December 2002 NatSteel Announcement also states that “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”; and

- (g) alternative proposals made including the Sanion Proposals (as defined in the ANZ Letter on page 9 of this Circular) are uncertain as to quantum and timing of distributions to Shareholders.

Accordingly, in view of the above, ANZ is of the opinion that the Revised 98 Holdings Offer represents an immediately realisable and certain proposition to all Shareholders whereas the Sanion Proposals do not offer a competing bid to all Shareholders and any cash distributions to Shareholders in connection therewith are predicated on (i) uncertain cash distributions from (aa) the Second EGM (as defined in the ANZ Letter on page 9 of this Circular) and (bb) future sales of non-core assets and (ii) the ability of the new controlling board to extract value and enable further cash distributions to Shareholders (which are uncertain as to quantum and timing).

ANZ has also considered whether or not Shareholders should retain their Shares, thereby rejecting the Revised 98 Holdings Offer, in view of the fact that as at the Revised Latest Practicable Date, the closing Share price of S\$2.05 was equivalent to the Revised 98 Holdings Offer Price and on the Revised Latest Practicable Date, the Share price had, on low trading volumes, traded above the Revised 98 Holdings Offer Price. However, ANZ has advised the Independent Directors to point out to Shareholders that the Share price appears to be supported by the following:

- (a) the Revised 98 Holdings Offer;
- (b) the announcement dated 4 December 2002 by G.K. Goh for and on behalf of Sanion that, *inter alia*, Sanion was continuing to review its position in relation to NatSteel and was “still in negotiations with financiers to arrange possible financing”; and
- (c) a further announcement dated 5 December 2002 by G.K. Goh for and on behalf of Sanion that, *inter alia*, Sanion had bought Shares in the market on 5 December 2002 and that its total shareholding in NatSteel represents approximately 29.79% of NatSteel's total issued share capital.

² Subject to the requisite Shareholder approval.

³ Based on the number of shares in issue on 9 December 2002 of 370,643,237.

⁴ Subject to prevailing business conditions, the assumptions set out in the 13 December 2002 NatSteel Announcement remaining valid and barring unforeseen circumstances.

⁵ Including without limitation, uncertainties resulting from or arising in connection with the outcome of the Revised 98 Holdings Offer and/or the future or resultant shareholding structure of the Company.

⁶ Please refer to the 13 December 2002 NatSteel Announcement for further information.

⁷ See note 2 above.

⁸ See note 4 above.

⁹ See note 2 above.

¹⁰ See note 4 above.

However, there is no certainty that the Share price will remain at current levels should the Revised 98 Holdings Offer fail or a higher competing bid fail to materialise. In light of the aforesaid, ANZ believes that for Shareholders who are not able to realise their Shares in the market at a higher value than the Revised 98 Holdings Offer Price, the Revised 98 Holdings Offer provides an attractive exit route to such Shareholders.

ANZ has also noted that the Shares had traded through the SGX-ST at and above the Revised 98 Holdings Offer Price on the Revised Latest Practicable Date. However, trading above the Revised 98 Holdings Offer Price has been on low volumes.

Accordingly, Shareholders are reminded that as an alternative to accepting the Revised 98 Holdings Offer and in the absence of a competing offer, they may wish to consider, if there is an opportunity to do so, realising their Shares at a higher value than the Revised 98 Holdings Offer Price (whether by way of selling in the market or otherwise). In addition, Shareholders who are not prepared to accept the uncertainty relating to the Revised 98 Holdings Offer can consider selling their Shares in the market.

However, ANZ recognises that liquidity constraints in the stock market could theoretically prevent Shareholders intending to liquidate their shareholdings of NatSteel from doing so simultaneously. ANZ notes that on the Revised Latest Practicable Date only 61,000 Shares have been traded above the Revised 98 Holdings Offer Price. Furthermore, the average daily turnover of the free float of Shares was less than 1.0 per cent. in the 12 months preceding the Revised Latest Practicable Date. Accordingly, there is no assurance that the Share price will remain at its current trading levels should a significant proportion of the free float attempt to liquidate their holdings in Shares over a short period of time.

Shareholders as another alternative, may in view of the Sanion Proposals consider retaining their Shares. **However, Shareholders should take note of the qualitative factors described on page 10 below in relation to the Sanion Proposals which, when compared to the Revised 98 Holdings Offer, on balance create greater risks and uncertainties for Shareholders in terms of:**

- (a) quantum and timing of any return arising from the Second EGM;
- (b) additional business risks for NatSteel and impact on future share price performance following a cash distribution of \$1.55 per Share; and
- (c) quantum and timing of additional distributions to Shareholders arising from future sales of non-core assets. The Company has advised us that certain of the non-core Target Asset businesses have been considered for sale for over twelve months.

Accordingly, ANZ is of the opinion that the Independent Directors should recommend Shareholders to, in the absence of any other competing offer, accept the Revised 98 Holdings Offer.

- 3.2 In view of the above, the Independent Directors, relying on the advice and recommendation of ANZ provided in the ANZ Letter and having carefully considered the terms of the Revised 98 Holdings Offer, recommend that **in the absence of any other competing offer, Shareholders should accept the Revised 98 Holdings Offer.**

In this respect, the Independent Directors wish to highlight that based on ANZ's advice as set out in the ANZ Letter, Shareholders should be reminded that as alternatives to accepting the Revised 98 Holdings Offer and in the absence of a competing offer, they may wish to consider as one of two alternatives, if there is an opportunity to do so, realising their Shares at a higher value than the Revised 98 Holdings Offer Price (whether by way of selling in the market or otherwise). In addition, Shareholders who are not prepared to accept the uncertainty relating to the Revised 98 Holdings Offer can consider selling their Shares in the market. The other alternative is to retain their Shares and await the outcome of developments in the Company in the light of the Sanion Proposals. However, the Independent Directors note that this alternative poses greater risks and uncertainties for Shareholders.

- 3.3 In giving their advice and recommendation, ANZ and the Independent Directors have not had regard to the specific investment objectives, financial situation, risk profiles, tax position or particular needs and constraints of any Shareholder. As different Shareholders would have different investment profiles and objectives, ANZ and the Independent Directors advise that any Shareholder who may require specific advice in relation to his investment portfolio should consult his stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser.
- 3.4 Shareholders should note that pursuant to Rule 29 of the Code, if they have tendered their acceptances of the 98 Holdings Offer, they are entitled to withdraw their acceptances.

4. ACTION TO BE TAKEN BY SHAREHOLDERS

4.1 Acceptance of the Revised 98 Holdings Offer

- 4.1.1 Shareholders who wish to accept the Revised 98 Holdings Offer should tender their acceptances of the Revised 98 Holdings Offer in accordance with the procedures set out in the 98 Holdings Offer Document.
- 4.1.2 To accept the Revised 98 Holdings Offer, Shareholders must do so not later than 3:30 p.m. on the Extended Closing Date in accordance with the procedures for acceptance set out in the 98 Holdings Offer Document. Pursuant to the Revised 98 Holdings Offer Announcement:
- (a) Shareholders who wish to accept the Revised 98 Holdings Offer but have not done so should complete, sign and forward the 98 Holdings FAT or as the case may be, the 98 Holdings FAA and all other relevant documents so as to reach 98 Holdings not later than 3:30 p.m. on the Extended Closing Date (or such later date(s) as may be announced from time to time by or on behalf of 98 Holdings in the event that the Revised 98 Holdings Offer becomes or is declared unconditional as to acceptances at or prior to 3:30 p.m. on the Extended Closing Date or the permission of the SIC is obtained); and
 - (b) all 98 Holdings FATs, 98 Holdings FAAs and other relevant documents received after 3:30 p.m. on such date will not be accepted and will be returned by post to the relevant Shareholders at their own risk, in accordance with the terms of the Revised 98 Holdings Offer.
- 4.1.3 Shareholders who wish to accept the Revised 98 Holdings Offer and have tendered their acceptances of the 98 Holdings Offer in accordance with the 98 Holdings Offer Document will be entitled to the Revised 98 Holdings Offer Price and do not need to re-tender their acceptances of the 98 Holdings Offer.
- 4.1.4 Shareholders should also note that the closing date of the Revised 98 Holdings Offer is 3:30 p.m. on 23 December 2002. The Revised 98 Holdings Offer cannot be kept open beyond 3:30 p.m. on 23 December 2002:
- (a) unless the Revised 98 Holdings Offer becomes or is declared unconditional as to acceptances at or before 3:30 p.m. on 23 December 2002, in which case the closing date of the Revised 98 Holdings Offer will be extended to 3:30 p.m. on 6 January 2003; or
 - (b) unless 98 Holdings seeks and obtains permission from the SIC for an extension of the offer period, such as under Rule 22.8 of the Code⁶.

4.2 Rejection of the Revised 98 Holdings Offer

Shareholders who wish to reject the Revised 98 Holdings Offer should not tender their acceptances of the Revised 98 Holdings Offer.

⁶ See note 1 on page 2 above.

5. SANION ENTERPRISES LIMITED

On 9 December 2002, a press release was made by G.K. Goh for and on behalf of Sanion that, *inter alia*, Sanion does not currently intend to make a general offer for the Company. A copy of the abovementioned press release for and on behalf of Sanion may be found on the website of the SGX-ST at: www.sgx.com.

Accordingly, Shareholders are reminded that there is currently no other competing offer for Shareholders to accept.

6. CONSENTS

ANZ has given and has not withdrawn its written consent to the issue of this Supplemental Circular with the inclusion of and references to its name and its letter dated 14 December 2002 in the form and context in which they appear in this Supplemental Circular.

SSB has given and has not withdrawn its written consent to the issue of this Supplemental Circular with the inclusion herein of and references to its name in the form and context in which they appear in this Supplemental Circular.

7. DIRECTORS' RESPONSIBILITY STATEMENT

This Supplemental Circular has been seen and approved by the Directors (including those who have delegated detailed supervision of this Supplemental Circular) who collectively and individually accept responsibility for the accuracy of the information given in this Supplemental Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the facts stated and opinions expressed in this letter are fair and accurate and that there are no material facts the omission of which would make any statement in this Supplemental Circular misleading in any material aspect.

Where information has been extracted from published or otherwise publicly available sources or is otherwise provided to the Company, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from these sources or as the case may be, accurately reflected or reproduced in this Supplemental Circular.

8. FINANCIAL ADVISER'S RESPONSIBILITY STATEMENT

SSB, as financial adviser to the Company, acknowledges, having made all reasonable enquiries, that to the best of its knowledge and belief, based on information provided by or on behalf of the Company, the facts stated and opinions expressed in this Supplemental Circular are fair and accurate and that there are no material facts the omission of which would make any statement in this Supplemental Circular misleading in any material aspect.

Where information has been extracted from published or otherwise publicly available sources, the sole responsibility of SSB has been to ensure that such information has been accurately and correctly extracted from these sources.

Yours faithfully,
for and on behalf of
the Board of Directors of
NatSteel Ltd

Dr Cham Tao Soon
Chairman

14 December 2002

To: The Independent Directors of
NatSteel Ltd
 22 Tanjong Kling Road
 Singapore 628048

Dear Sirs

REVISED VOLUNTARY CONDITIONAL CASH OFFER BY STANDARD CHARTERED BANK, FOR AND ON BEHALF OF 98 HOLDINGS PTE. LTD., TO ACQUIRE ALL THE ISSUED ORDINARY SHARES OF S\$0.50 EACH IN THE CAPITAL OF NATSTEEL LTD

1. On 9 December 2002, 98 Holdings issued the 98 Holdings Revised Offer Announcement and despatched the 98 Holdings Letter to Shareholders pursuant to which 98 Holdings proposed to revise the 98 Holdings Offer by, *inter alia*, increasing the Offer Price from S\$2.03 per Share to S\$2.05 per Share.
2. In arriving at our conclusion and recommendation in respect of the Revised 98 Holdings Offer, we have taken into consideration, *inter alia*, the following:
 - (a) the Revised 98 Holdings Offer Price represents a premium of approximately 1.0 per cent. over the Offer Price;
 - (b) the Shares had traded through the SGX-ST at and above the Revised 98 Holdings Offer Price on the Revised Latest Practicable Date; and
 - (c) each of the considerations set out on pages 47 and 48 in ANZ's letter dated 6 November 2002 contained in the Circular continue to hold true as of the Revised Latest Practicable Date. **In this regard, we would strongly recommend that the Independent Directors advise Shareholders to read pages 47 to 48 of the letter from ANZ contained in the Circular in their entirety.** Furthermore, in relation to the discount to the proforma net tangible assets per Share as at 31 December 2001 after the disposal of NatSteel Broadway Ltd and NatSteel Brasil Ltda as implied by the Revised 98 Holdings Offer, we note that the Revised 98 Holdings Offer Price represents a discount of 32.2 per cent. to the adjusted unaudited consolidated NTA of approximately \$1,168.22 million as at 30 June 2002 disclosed on page 37 of the Circular. **In this respect, we reiterate the following qualitative points as highlighted on pages 38 and 39 of the Circular with respect to the discount to NTA which have been summarised below and edited to account for the failure of the resolutions in relation to the sale of the Target Assets (as defined in the Circular) to Crown Central Assets Limited as tabled at the extraordinary general meeting of the Company on 4 December 2002.**

Although it would appear that the Revised 98 Holdings Offer represents a significant discount to Adjusted NTA (as defined in the Circular) of the Group (as defined in the Circular) as of 30 June 2002, in reality, the relative significance and relevance of such values in determining the fairness of the Revised 98 Holdings Offer would ultimately depend on the likelihood of the NTA being realised. Further, there may also be certain costs incurred in realising the NTA value which have not been accounted for including selling commissions (for plant and equipment these can range from five to ten per cent of sale proceeds), taxes, discount for asset quality uncertainty, employee redundancy payments, unforeseen sale costs, liquidator's fees, legal fees and other professional fees and the time it would take to liquidate the assets and distribute funds to shareholders. **These related costs, if incurred and taken into account in the calculation of NTA and Adjusted NTA, would lower significantly the actual realisation proceeds when and if this took place thus reducing the discounts to NTA and Adjusted NTA for the Group in relation to the Revised 98 Holdings Offer.**

We would also draw to your attention the following additional points in relation to the discount to NTA implied by the Revised 98 Holdings Offer each of which continue to hold true:

- (i) in undertaking the valuation of the steel division, the valuer did not undertake a valuation of land, buildings and leasehold improvements. As at 31 December 2001, the net book value of these assets was approximately \$65.4 million. **The valuer believes these assets to have zero value as they were of the view that under an orderly sale of a steel facility site, cleanup including the removal of foundations, other concrete, surface debris and general leveling of the surface, can be a considerable expense.** They added that this would be greatly complicated by any environmental cleanup that may be required. This could include such things as possible removal of soil or dealing with water table contamination. Under certain circumstances this can be considerably greater than the valuation. The Adjusted NTA analysis contained in the Circular includes the land, buildings and leasehold improvements at their net book values and furthermore does not take into account the various costs of site clearance as discussed which the valuer advised can be considerable;
- (ii) the valuer of the steel division also considered the valuations of various undertakings within the division on a business valuation basis by applying median cashflow and sales revenue multiples. On this basis the potential valuation deficit for the steel division ranged from approximately \$151.9 million to \$233.2 million. **This deficit has not been taken into account for the purposes of the Adjusted NTA analysis discussed above;**
- (iii) various valuations have been received for Raffles Marina Ltd which range from \$30 million on the basis of term membership sales to \$80 million on an 'as is where is' basis taking into consideration the existing operation and potential of 2,200 membership sales arising from a marketing drive which is not expected to take place until early next year. **The Adjusted NTA analysis above has taken into account the valuation for \$80 million not the valuation of \$30 million based on existing membership;** and
- (iv) given the substantial number of private companies that comprise the Group and the diversity of businesses and shareholding structures (many of which represent minority shareholdings in companies in which NatSteel has little influence over management and certain of which are loss making) in relation to many of the companies within each division, **the timing and ultimate proceeds that might be realised is uncertain. Many of these sales would not realise their recorded NTA value;**

We are therefore of the view that it may be inappropriate in this instance to use NTA or Adjusted NTA as a benchmark for evaluation of the fairness of the Revised 98 Holdings Offer. In our view the timing of realisation would be very uncertain and the actual realisation proceeds would likely be significantly less than the Adjusted NTA. These qualitative factors continue to hold true as of the Revised Latest Practicable Date.

3. We have also considered whether or not Shareholders should retain their Shares, thereby rejecting the Revised 98 Holdings Offer, in view of the fact that on 9 December 2002, G.K. Goh announced for and on behalf of Sanion that **"Sanion does not currently intend to make a general offer for NatSteel Limited"**¹ and "intends to pursue the cash distribution issue with NatSteel with the overriding objective of maximising its investment in the company"¹ and "In pursuit of this objective, it intends:
 - (a) to exercise shareholder rights pursuant to Section 177 of the Act to call for an EGM (the **"First EGM"**) to vote on **the appointment of nine additional directors to the board;** and

¹ This is based on the press release dated 9 December 2002 issued by G.K. Goh for and on behalf of Sanion.

- (b) to propose that the newly-constituted board (if appointed) considers the making of a **cash distribution of \$1.55 per share or such other amount as may be recommended by the board** and, if so recommended, to call for a second EGM (the "**Second EGM**") to obtain shareholders' approval for the same."¹,

collectively, the "**Sanion Proposals**".

We note with respect to (b) above that the inference to a distribution of \$1.55 per Share is drawn from ANZ's letter as set out on pages 49 and 50 of the EGM Circular. **In this regard, we would strongly recommend that the Independent Directors advise Shareholders to read these pages in their entirety. For the sake of clarity we have further elaborated on each of the qualitative factors highlighted in the abovementioned pages as follows:**

- (i) "NatSteel's leverage would increase and it is uncertain whether banks would continue to provide existing facilities to NatSteel on the same terms and conditions given the post cash distribution balance sheet of NatSteel might be perceived to present greater risk to lenders"². We note that as stated in the 13 December 2002 NatSteel Announcement, some banks have begun to freeze, reduce, cancel or request for the transfer of certain banking facilities from them to the group. The 13 December 2002 NatSteel Announcement also stated that, *inter alia*, a substantial amount of the group's banking facilities have been so affected, mostly during the past week;
- (ii) "any investing and capital expenditure cashflows after 30 June 2002 would need to be met with operating cashflows or from new financing which is uncertain. NatSteel has announced that projected capital expenditure and investments required in FY2002 will total \$90 million in relation to the Target Assets"². Investing and capital expenditure requirements in 2003 and beyond were not considered in the EGM Circular. However, we note that given the capital intensive nature of the steel sector capital, expenditures can be significant. Furthermore, we note that as stated in the 13 December 2002 NatSteel Announcement, the estimated maintenance capital expenditure for 2003 is expected to be \$30 million;
- (iii) "this alternative assumes that existing management remains with NatSteel which may be uncertain"²;
- (iv) "the market capitalisation of NatSteel may diminish significantly after the cash distribution. NatSteel would be unlikely to continue to attract institutional investors or research coverage which will have a detrimental impact on the liquidity of the Shares"². We note that on 11 October 2002, Merrill Lynch announced that, *inter alia*, it was removing NatSteel from its list of stocks covered by its research analysts in Asia. We further note that the number of research analyst reports issued in relation to the Company have diminished significantly with only 3 reports issued in the last 3 months;
- (v) as stated in the rationale for the proposed sale in section 3.4 of the EGM Circular "Since the divestment of the electronics businesses via the sale of the Company's interests in NatSteel Electronics Ltd in 2000 and NatSteel Broadway in July 2002, the Group has significantly diminished in size and has become more focused on the steel and industrial sectors. Both sectors are capital intensive, cyclical in nature and are experiencing capacity gluts and uncertain medium-term prospects given the current economic outlook."² Following a cash distribution of this quantum, NatSteel's businesses would essentially comprise a long products steel and building products businesses with a smaller property and investments division and residual electronics business. The steel and building products businesses are heavily dependant on the construction markets where they operate and in many of Asia's markets the outlook for the construction sector remains weak; and

² Refer to page 50 of the EGM Circular.

- (vi) “a substantial number of private companies comprise NatSteel and the diversity of businesses and shareholding structures (certain of which are loss making and many represent minority shareholdings in companies in which NatSteel has little influence over management) will make future asset sales uncertain as to quantum and timing”³. The Company has advised us that certain of the non-core Target Asset businesses have been considered for sale for over twelve months.

Accordingly, the above factors may create additional business risks for NatSteel and impact future share price performance following a cash distribution of \$1.55 per Share. These qualitative factors continue to hold true as of the Revised Latest Practicable Date.

4. We also note the following qualitative factors in relation to the Sanion Proposals:
- (a) Sanion would control the Board with an interest of 29.79 per cent. of the total issued share capital of NatSteel;
 - (b) G.K. Goh, for and on behalf of Sanion, announced on 9 December 2002 that “Sanion does not currently intend to make a general offer for NatSteel Limited”; and
 - (c) any future cash distributions following any cash distribution proposed at the Second EGM are dependant on the sale of non-core businesses. As noted in the EGM Circular, the Company has been endeavoring to dispose of non-core businesses for sometime. The Company has advised us that certain of the non-core Target Asset businesses have been considered for sale for over twelve months.

Accordingly, the quantum and timing of any potential distributions in connection with the Sanion Proposals is uncertain, which presents greater risks to Shareholders. We also refer the Independent Directors to the paragraph below in relation to the quantum of any distribution arising from the Second EGM.

5. As announced by the Company on 9 December 2002, now that a determination on the proposed offer by Crown Central Assets Limited to acquire certain assets, business and undertakings of NatSteel has been made and the proceeds on the divestments of NatSteel Broadway Ltd and NatSteel Brasil Ltda have been received, the Board will, *inter alia*, reconsider the possibility, and where appropriate, the quantum and timing, of a distribution to Shareholders. The Board also informed Shareholders that it has been examining and that it shall continue to examine this carefully and shall announce to Shareholders the conclusion of its due consideration on this matter as soon as reasonably practicable.

Accordingly, on balance when taken together with the following:

- (a) the Revised 98 Holdings Offer Price represents a premium of approximately 1.0 per cent. over the Offer Price;
- (b) each of the considerations set out on pages 47 and 48 in ANZ’s letter dated 6 November 2002 contained in the Circular with respect to the 98 Holdings Offer continue to hold true as of the Revised Latest Practicable Date;
- (c) as at the Revised Latest Practicable Date there is only one offer available to Shareholders as represented by the Revised 98 Holdings Offer;
- (d) the qualitative factors highlighted in paragraphs 3 (i) to (vi) above may create additional business risks for NatSteel and impact future share price performance following a cash distribution of \$1.55 per Share;

³ Refer to page 50 of the EGM Circular.

(e) as stated by the Company in the 13 December 2002 NatSteel Announcement, "The Board intends therefore to first recommend a distribution⁴ of \$0.70 per Share⁵ to be paid as soon as reasonably practicable in early 2003⁶. As and when:

- (i) the current uncertainty on the ownership situation of the Group is resolved⁷; and
- (ii) banking relationships re-stabilise in the months ahead⁸

the Board intends to recommend a further distribution⁹ thereafter of \$0.27 per Share¹⁰. Therefore ultimately, the Board hopes to be able to recommend distributions¹¹ to Shareholders amounting to, in aggregate, \$0.97 per Share¹²". The 13 December 2002 Announcement also states that "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."; and

(f) alternative proposals made including the Sanion Proposals are uncertain as to quantum and timing of distributions to Shareholders,

the Revised 98 Holdings Offer represents an immediately realisable and certain proposition to all Shareholders whereas the Sanion Proposals do not offer a competing bid to all Shareholders and any cash distributions to Shareholders in connection therewith are predicated on (i) uncertain cash distributions from (aa) the Second EGM and (bb) future sales of non-core assets and (ii) the ability of the new controlling board to extract value and enable further cash distributions to Shareholders (which are uncertain as to quantum and timing).

6. We have also considered whether or not Shareholders should retain their Shares, thereby rejecting the Revised 98 Holdings Offer, in view of the fact that as at the Revised Latest Practicable Date, the closing Share price of S\$2.05 was equivalent to the Revised 98 Holdings Offer Price and on the Revised Latest Practicable Date, the Share price had, on low trading volumes, traded above the Revised 98 Holdings Offer Price. However, we would advise the Independent Directors to point out to Shareholders that the Share price appears to be supported by the following:

- (a) the Revised 98 Holdings Offer;
- (b) the announcement dated 4 December 2002 by G.K. Goh for and on behalf of Sanion that, *inter alia*, Sanion was continuing to review its position in relation to NatSteel and was "still in negotiations with financiers to arrange possible financing"; and
- (c) a further announcement dated 5 December 2002 by G.K. Goh for and on behalf of Sanion that, *inter alia*, Sanion had bought Shares in the market on 5 December 2002 and its total shareholding in NatSteel represents approximately 29.79% of NatSteel's total issued share capital.

However, there is no certainty that the Share price will remain at current levels should the Revised 98 Holdings Offer fail or a higher competing bid fails to materialise. In light of the aforesaid, we believe that for Shareholders who are not able to realise their Shares in the market at a higher value than the Revised 98 Holdings Offer Price, the Revised 98 Holdings Offer provides an attractive exit route to such Shareholders.

4 Subject to the requisite Shareholder approval.

5 Based on the number of shares in issue on 9 December 2002 of 370,643,237.

6 Subject to prevailing business conditions, the assumptions set out in the 13 December 2002 NatSteel Announcement remaining valid and barring unforeseen circumstances.

7 Including without limitation, uncertainties resulting from or arising in connection with the outcome of the Revised 98 Holdings Offer and/or the future or resultant shareholding structure of the Company.

8 Please refer to the 13 December 2002 NatSteel Announcement for further information.

9 See note 4 above.

10 See note 6 above.

11 See note 4 above.

12 See note 6 above.

We have also noted that the Shares had traded through the SGX-ST at and above the Revised 98 Holdings Offer Price on the Revised Latest Practicable Date. However, trading above the Revised 98 Holdings Offer Price has been on low volumes.

Accordingly, Shareholders are reminded that as an alternative to accepting the Revised 98 Holdings Offer and in the absence of a competing offer, they may wish to consider, if there is an opportunity to do so, realising their Shares at a higher value than the Revised 98 Holdings Offer Price (whether by way of selling in the market or otherwise). In addition, Shareholders who are not prepared to accept the uncertainty relating to the Revised 98 Holdings Offer can consider selling their Shares in the market.

However, we recognise that liquidity constraints in the stock market could theoretically prevent Shareholders intending to liquidate their shareholdings of NatSteel from doing so simultaneously. We note that on the Revised Latest Practicable Date only 61,000 Shares have been traded above the Revised 98 Holdings Offer Price. Furthermore, the average daily turnover of the free float of Shares was less than 1.0 per cent. in the 12 months preceding the Revised Latest Practicable Date. Accordingly, there is no assurance that the Share price will remain at its current trading levels should a significant proportion of the free float attempt to liquidate their holdings in Shares over a short period of time.

7. Shareholders as another alternative, may in view of the Sanion Proposals, consider retaining their Shares. **However, Shareholders should take note of the qualitative factors described in page 10 above in relation to the Sanion Proposals which, when compared to the Revised 98 Holdings Offer, on balance creates greater risks and uncertainties for Shareholders in terms of:**
 - (a) quantum and timing of any return arising from the Second EGM;
 - (b) additional business risks for NatSteel and impact on future share price performance following a cash distribution of \$1.55 per Share; and
 - (c) quantum and timing of additional distributions to Shareholders arising from future sales of non-core assets. The Company has advised us that certain of the non-core Target Asset businesses have been considered for sale for over twelve months.
8. **Accordingly, we are of the opinion that the Independent Directors should recommend Shareholders to, in the absence of any other competing offer, accept the Revised 98 Holdings Offer.** In this respect, the Independent Directors should remind Shareholders that as alternatives to accepting the Revised 98 Holdings Offer and in the absence of a competing offer, they may wish to consider as one of two alternatives, if there is an opportunity to do so, realising their Shares at a higher value than the Revised 98 Holdings Offer Price (whether by way of selling in the market or otherwise). In addition, Shareholders who are not prepared to accept the uncertainty relating to the Revised 98 Holdings Offer can consider selling their Shares in the market. The other alternative is to retain their Shares and await the outcome of developments in the Company in the light of the Sanion Proposals. However, we note this alternative poses greater risks and uncertainties for Shareholders.
9. In giving our advice and recommendation, ANZ has not had regard to the specific investment objectives, financial situation, risk profiles, tax position or particular needs and constraints of any Shareholder. As different Shareholders would have different investment profiles and objectives, ANZ advises that any Shareholder who may require specific advice in relation to his investment portfolio should consult his stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser.
10. The observations set forth are based solely on publicly available information as at the Revised Latest Practicable Date and information provided to us by the Company and therefore does not reflect any projections or the future financial performance of the Company.

11. This letter is addressed to the Independent Directors for their benefit in connection with and for the purposes of their consideration of the Revised 98 Holdings Offer and the recommendations made by them shall remain their responsibility.

Yours faithfully
For and on behalf of
ANZ Singapore Limited

Bill Foo
Managing Director

Glenn Porritt
Director

GENERAL AND STATUTORY INFORMATION

1. SHARE CAPITAL

As at the Revised Latest Practicable Date, the Company had an authorised share capital of S\$500,000,000 comprising 1,000,000,000 Shares. The issued and paid-up share capital of S\$185,321,618.50, comprises 370,643,237 Shares. As at the Revised Latest Practicable Date, the Company has an aggregate of 15,665,000 options granted to the directors and employees (including one executive director) of the Company to subscribe for new Shares at exercise prices ranging from S\$0.61 to S\$1.55 for each new Share.

All Options are expected to vest on the date which the Revised 98 Holdings Offer turns unconditional in all respects.

2. SHARE PRICES

The following table sets out the highest, lowest and last traded Share prices and trading volume of the Shares on the SGX-ST Mainboard on a daily basis from 21 November 2002 to the Revised Latest Practicable Date, as reported on Bloomberg.

Month	Date	Price per Share			Volume ('000 shares)
		High (S\$)	Low (S\$)	Last Price (S\$)	
November					
	21	2.06	2.05	2.05	694
	22	2.06	2.05	2.05	2,909
	23	Saturday			
	24	Sunday			
	25	2.06	2.05	2.05	11,646
	26	2.06	2.05	2.05	3,068
	27	2.05	2.05	2.05	1,875
	28	2.06	2.05	2.05	2,057
	29	2.06	2.05	2.05	1,182
	30	Saturday			
December					
	1	Sunday			
	2	2.06	2.03	2.05	17,097
	3	2.05	2.03	2.04	553
	4	2.04	2.01	2.03	6,315
	5	2.05	2.03	2.03	2,620
	6	Public Holiday			
	7	Saturday			
	8	Sunday			
	9	2.06	2.04	2.05	1,137

