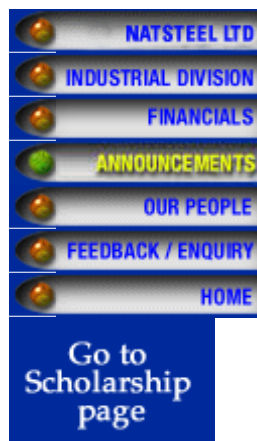




ANNOUNCEMENTS

03 November 2003

DISCLOSURE AND CORPORATE GOVERNANCE



DISCLOSURE AND CORPORATE GOVERNANCE

Introduction

NatSteel Ltd (“**NatSteel**”) refers to recent press articles on its disclosure and corporate governance policy. Those press articles arose out of issues raised by the Securities Investors Association (Singapore) (“**SIAS**”) in its letter dated 23 September 2003 to the Singapore Exchange Securities Trading Limited (“**SGX-ST**”), which SIAS released to the press on 8 October 2003.

SIAS had in the letter directed questions to NatSteel and subsequently urged the NatSteel Board to address those issues – notwithstanding that it chose not to write to NatSteel directly or extend a copy of its letter to NatSteel. SGX-ST and the Securities Industry Council (the “**SIC**”) had on 16 October 2003 and 23 October 2003 respectively responded to the SIAS letter.

The NatSteel Board has deliberated on the issues and wishes to make the following overall comments on the SIAS letter:

- the issues raised in the letter have already been the subject of earlier disclosures;
- there are statements in the letter which contain factual inaccuracies or omissions; and
- aspects of the letter demonstrate a lack of appreciation of the corporate regulatory framework in Singapore.

Many of the issues raised relate to the unsuccessful management buyout for NatSteel (the “**MBO**”) and the subsequent takeover offer (the “**Takeover Offer**”) by 98 Holdings Pte Ltd (“**98 Holdings**”). As both of those exercises commenced more than 12 months ago, it should be highlighted at the outset that a special committee of the Board was established on 3 June 2002 to evaluate the MBO and any other offers which may be received by NatSteel as well as to review and consider alternative strategic options for NatSteel. This was to ensure that there would be no conflict of interests in coming to a decision.

To assist and advise the special committee in carrying out its duties, several professional advisers had been appointed – namely, Salomon Smith Barney Singapore Pte Ltd as financial adviser, ANZ Singapore Limited as independent financial adviser, Stamford Law Corporation as legal adviser and PricewaterhouseCoopers as reporting accountant. Where required, rulings were also obtained from the relevant authorities.

Issues

In the interest of setting the record straight, the NatSteel Board has

addressed below each issue raised in the SIAS letter.

Part I – NatSteel Financial Results

(a) Cash available for distribution

The SIAS letter refers to (i) NatSteel's circular of 6 November 2002, in which it was stated that the "cash available for distribution" per share was S\$1.55 and (ii) NatSteel's announcement of 13 December 2002, in which the NatSteel Board stated that it was prepared to recommend a dividend of S\$0.70 per share and a further dividend of S\$0.27 per share. SIAS raises the question "Why was it not disclosed in the 6 November Circular that the \$1.55 amount was, in reality, an illusory figure?".

The S\$1.55 figure was never endorsed nor recommended by the Board. SGX-ST stated in its letter to SIAS that "NatSteel did not make this disclosure – it came from the IFA who indicated the total available for distribution on a per share basis".

Furthermore, it was the IFA's view that a S\$1.55 distribution may create additional business risks for NatSteel and impact future share price performance. The Board's position at that time was stated in its announcements of 13 and 22 December 2002 – it did not believe that it was commercially viable for NatSteel to distribute S\$1.55 per share then and still function as a properly capitalised group.

The Board has every intention of continuing its stated practice of distributing surplus cash prudently at the appropriate time. This intention was reiterated in its announcement of 16 March 2003 – it stated that it will continue to strike an appropriate balance between cash distribution to shareholders and funding business operations and investments requirements, and intends to consider further distributions as and when cash generated from the group's businesses or from disposals, are in the Board's opinion, available.

(b) Linking of special dividend to a future scrip dividend scheme

The SIAS letter questions the conditions imposed on the payment of the special dividend of \$0.55 per share, "in particular, linking it to a future scrip dividend scheme, not relevant to the special dividend".

This issue has already been addressed in detail in NatSteel's announcement of 19 May 2003. It is also worth noting that the NatSteel Board had in the past recommended that cash distributions be linked to certain conditions – including amendments to the Articles of Association which the Board believed to be in the interests of NatSteel. The cash distribution of S\$0.87 per share in 2001 by NatSteel was conditional upon certain amendments to its Articles of Association as well as the redemption of its redeemable convertible cumulative preference shares.

(c) Disclosure issues arising from NatSteel's published financial results

The SIAS letter states that "As noted in Annexure 1 [to the SIAS letter], there are disclosure issues arising from the published financial results of NatSteel after the takeover, as compared with its public statements

on its performance and prospects during the takeover.". Annexure 1 refers to the announcements by NatSteel of its results for full year 2002 ("FY2002"), first quarter 2003 ("1Q 2003") and first half 2003 ("1H 2003").

NatSteel did not make public statements on its performance and prospects for 2003 during the Takeover Offer. There was no requirement to do so nor would it have been prudent to do so given the lack of earnings visibility inherent in the nature of NatSteel's businesses. NatSteel fails to understand how SIAS could have compared NatSteel's published results for 1Q 2003 and 1H 2003 with "its public statements on its performance and prospects during the takeover", given that no such statements were made.

(d) Disclosure of third quarter 2002 results

SIAS questions why NatSteel did not disclose its results for third quarter 2002 ("3Q 2002"). The reasons for this have already been explained to SIAS in NatSteel's letter of 8 January 2003, which replied to Mr David Gerald's letter of 7 January 2003. It is surprising that the SIAS letter made no mention of this correspondence. The reasons as explained to SIAS are as follows:

- first, the statement of prospects for second half 2002 ("2H 2002") had already been disclosed in NatSteel's circular of 6 November 2002;
- secondly, quarterly results are affected by seasonal and industry specific factors; and
- thirdly, under the Singapore Code on Take-overs and Mergers the 3Q 2002 results would need to be reported on by an auditor and a financial adviser prior to release, and Natsteel would need to seek the SIC's consent to do so after 29 November 2002 (being 39 days after the posting of the offer document on 21 October 2002).

The prospects statement had fully taken into account 3Q 2002 results as well as the fourth quarter 2002 ("4Q 2002") forecast. The table below shows the actual results for 2H 2002, 3Q 2002 and 4Q 2002 as well as the 2H 2002 forecast.

Continuing Businesses Operating Profit before Tax (S\$m)	Actual 3Q 2002	Actual 4Q 2002	Actual 2H 2002	Forecast 2H 2002
Steel	12.9	0.4	13.3	13.5
Industrial*	0.9	7.5	8.4	(0.8)
Electronics	2.7	5.8	8.5	7.3
Properties & Investments	(0.6)	(3.7)	(4.3)	(2.5)
Total	15.9	10.0	25.9	17.5

* Includes contribution from Thai petrochemical associate	-	8.3	8.3	2.0
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The variance from the prospects statement was due to better than expected 4Q 2002 performance from the Industrial Division and the Electronics Division. This was disclosed in the FY2002 results announcement of 16 March 2003 in which it was stated that “this increase was due to significantly stronger fourth quarter performance of the Group’s 22.37% Thai petrochemical associate in the Industrial Division which benefited from higher product prices arising mainly from crude oil price increases. The Electronics Division also enjoyed stronger than expected fourth quarter demand from a subsidiary engaged in supplying components to the disk drive industry. Otherwise, the actual announced results are in line with the Revised Statements of Prospects”. The Thai petrochemical associate alone accounted for a S\$6.3 million swing in the Industrial Division’s profit.

Following the release of the FY2002 results, SGX-ST had queried NatSteel on the variance. NatSteel had provided the relevant information to SGX-ST in response to the query and, as stated in SGX-ST’s letter to SIAS, they “were satisfied with the response”.

(e) Role and conduct of short sellers, scrip lenders and broking houses

The SIC has in its reply to SIAS already addressed the issue of short sellers, scrip lenders and Kim Eng Ong Asia’s view that the price of NatSteel shares may fall if the Takeover Offer failed. The Board has also observed that Mr David Gerald appears to have shared Kim Eng Ong Asia’s view, according to a quote attributed to him in an article appearing in the 15 November 2002 edition of The Straits Times. An extract of that article is set out below:

*“Securities Investors Association of Singapore chief executive David Gerald said that he sought clarification from a senior DBS official yesterday. From the NatSteel shareholders’ point of view, he said: ‘Since Mr Oei did not make it a general offer, the 98 Holdings offer is a better deal **because the market may fall and those who want to sell later may not be able to get the same price.**” (emphasis added)*

(f) Recommendation on Takeover Offer and request for a further extension of closing date

The SIAS letter asks “how it is possible for the IFA and the independent Board of NatSteel to recommend in favour of six different offer prices under the MBO and the takeover: namely, \$1.90 per share for the MBO and \$1.93 to \$2.06 per share for the takeover”.

The grounds for the recommendations of the IFA and the independent directors of NatSteel have already been set out in detail in circulars issued by NatSteel on 6 November 2002, 27 November 2002, 14 December 2002 and 26 December 2002. Notwithstanding those detailed grounds, perhaps SIAS’ question is best replied by borrowing a statement from SGX-ST – “Presumably, however, if \$1.90 is fair then so would higher prices.”.

The SIAS letter then takes issue with NatSteel for requesting the SIC for an extension of the closing date of the Takeover Offer and asks “We feel it is incumbent of the Board to explain to the minority shareholders how an extension of what was already a prolonged offer in the interests of minority shareholders? [sic]”.

The answer to SIAS’ question can be found in NatSteel’s announcement of 31 December 2002. NatSteel had sought, and obtained, the SIC’s approval for the extension. The SIC in its reply to SIAS had also pointed out that its reasons for allowing the extension were already given in its response to the Straits Times on 6 January 2003.

To elaborate, Shareholder reaction to the Takeover Offer at the time the extension was requested may be broadly categorised into three groups:

- (i) those who had decided to accept the Takeover Offer;
- (ii) those who had decided to reject the Takeover Offer; and
- (iii) those who were still undecided whether to accept or reject the Takeover Offer.

The extension was clearly not detrimental nor prejudicial to Shareholders falling within groups (i) and (ii) as they had already taken a decision on the takeover. For Shareholders falling within group (iii), the extension would just as clearly have been in their interests as it provided them with more time to evaluate and consider the deluge of information released in the preceding weeks. In its objection to the extension, SIAS appears to have disregarded the interests of Shareholders falling within group (iii) – who should have been of no less importance than other Shareholders.

Part II – Other Issues Arising from Takeover

In this Part, the SIAS letter raises the issue of the termination of the anti-dumping duties by the Ministry of Trade and Industry (“**MTI**”). This issue (again not a new one) was already addressed in detail in NatSteel’s announcements of 23 December 2002 and 26 December 2002. NatSteel had also addressed the issue in its letter of 8 January 2003 to SIAS, in reply to Mr David Gerald’s letter of 7 January 2003. Again, no mention of this correspondence was made in the SIAS letter.

NatSteel became aware of the proposed termination of the anti-dumping orders by MTI on or around 29 October 2002, following enquiries made with the relevant trade authority. It had not been aware that notice of the termination had been published in the Government Gazette on 19 July 2002. NatSteel regrets this oversight which was largely the result of over-reliance on past conduct and practice in its dealings with the relevant trade authority. It promptly took steps to address the matter and submitted representations to MTI on 1 November 2002. After all avenues of appeal were exhausted on 20 December 2002, NatSteel issued an announcement on 23 December 2002 that the anti-dumping orders would be lifted on 21 January 2003 and that it was not able at that time to quantify the impact of the non-extension of anti-dumping duties on its steel business. NatSteel further clarified and explained the effect of the expiry of the anti-dumping duties on its steel business in its announcement of 26 December 2002 and also clarified the reason for the delay in its letter to Mr David Gerald of 8 January 2003.

Part III – The MBO and Related Party Issues

(a)(i) Grant of employee share options

The SIAS letter queried the offer of 7,510,000 employee share options on 28 March 2002, “not long before the MBO was announced in early June 2003”. The SIAS letter also noted that in 2001, NatSteel had granted 4,980,000 employee share options.

The number of employee share options granted in 2002 was well within the mandate approved by Shareholders. In any given year, the number of options granted is not fixed but may vary from year to year. In 2000, 12,422,500 options were granted, compared with 4,980,000 options in 2001 and 7,510,000 options in 2002.

As SGX-ST had pointed out in its letter to SIAS, the SGX-ST Listing Manual requires NatSteel’s share option scheme to be administered by a committee of directors and prohibits a participating committee member from deliberations in respect of the grant of options to himself. The committee at the relevant time comprised four non-executive directors, three of whom were independent directors, and Mr Ang Kong Hua was not a member of the committee.

The SIAS letter next asks – “It has not been disclosed whether both the Broadway and Brasil deals known to the Board at the time the 2002 options were to be granted? [sic]”. SGX-ST has pointed out that the listing rules do not prohibit the granting of options ahead of the announcement of price sensitive information. Notwithstanding that there is no requirement (nor any prevailing practice among Singapore listed companies) to disclose what information NatSteel is in possession of when it grants employee share options, the Board will address SIAS’ question to set the record straight.

As pointed out in the SIAS letter, the 2002 options were granted on 28 March 2002. The Board confirms that it was aware of the sale of NatSteel Brasil at that date – it had issued a circular providing information on the sale on 1 March 2002 and Shareholders had voted to approve the sale on 18 March 2002. Given the amount of information that had been disclosed prior to 28 March 2002, the following question is inevitable – what prompted SIAS to have even thought of asking whether the sale of NatSteel Brasil was known to the Board at the time the 2002 options were granted?

On NatSteel Broadway, the Board was not aware of any specific interest expressed by any third parties or possible transaction involving the sale of NatSteel Broadway as at 28 March 2002.

(a)(ii) Vesting of employee share options

The SIAS letter raises the issue of the vesting of the employee share options upon the liquidation of NatSteel or the Takeover Offer becoming unconditional.

The vesting of the employee share options in the event of a liquidation or an unconditional takeover offer is provided for under the rules of NatSteel’s share option scheme. Those same rules had been approved by Shareholders at an extraordinary general meeting and are common for Singapore listed companies. To date, SIAS does not seem to have

raised this issue with the numerous other Singapore listed companies with similar provisions in their share option schemes – does it intend to take issue with all other listed companies with similar provisions in their share option schemes?

(a)(iii) Details of Mr Ang Kong Hua's employee share options

The SIAS letter questions the disclosure of the employee share options granted to Mr Ang Kong Hua and the exercise prices of those options.

Details of Mr. Ang's employee share options had already been disclosed in NatSteel's 2001 Annual Report and NatSteel's announcement of 5 April 2002.

A comment had also been made in the SIAS letter on the "low" exercise price of Mr Ang's options, in particular, "the lowest price being S\$0.96 per NatSteel share". SIAS had failed to mention that the original exercise price of those share options was in fact S\$2.39 and this price was adjusted following the special dividend and the capital distribution of S\$1.58 per share in total paid to Shareholders in 2001. Those adjustments were made in accordance with the rules of the share option scheme and certified by the auditors of NatSteel. Details of those adjustments were also disclosed in NatSteel's 2001 Annual Report.

(b) Process adopted by the Board in accepting the MBO

In the competitive sale process undertaken to solicit competing offers to the MBO, the SIAS letter highlights that "the duration of due diligence that potential bidders was permitted was only 3 days". SIAS goes on to ask "We request an explanation from NatSteel as to why it was in its interest to impose a timeframe that may possibly have hindered serious bidders in their evaluation of the company?".

It is incorrect that potential bidders were only permitted three days for due diligence. As pointed out in the SIAS letter, the competitive sale process is set out in detail in Appendix III of NatSteel's circular of 6 November 2002. That process was implemented by NatSteel on the advice of its professional advisers. It would have been apparent from reading Appendix III that the three days highlighted by SIAS was only the period for access to the data room.

As SIAS should be aware, one part of a due diligence process involves giving bidders access to relevant data in a designated room – the "data room access" part of the due diligence process had a three day limit. Additional days were provided for the other part of the due diligence process, such as meetings with management, inspection of facilities and follow-up questions. All in, the entire due diligence period afforded to each potential bidder was adequate and in line with market practice as advised by NatSteel's professional advisers.

(c) Termination fee of S\$10.5 million

The SIAS letter questions the agreement of the Board to pay a termination fee of S\$10.5 million in connection with the MBO.

The Board wishes to highlight that the termination fee was negotiated by the special committee which comprised solely independent directors

of the Board. The special committee had agreed to the termination fee as it was a condition to an increase of S\$56 million in the price offered for the MBO. However, the special committee required the termination fee to have been applied towards specific purposes.

Under the terms of the agreement for the MBO, the MBO team gave an undertaking that there would be no retrenchment of employees for a period of 12 months. That undertaking may not have been assumed by other offerors, in which case retrenchment would have been a real risk. The termination fee was therefore to have been applied towards providing retrenchment benefits to affected employees (other than the persons involved in the MBO, namely Messrs Ang Kong Hua, Gan Kim Yong and Lim Say Yan) in the event of a successful competing offer. Part of the termination fee was also to have been used for reimbursing expenses incurred in the MBO. The termination fee was subsequently re-negotiated downwards by 98 Holdings in consideration of it assuming the non-retrenchment obligation.

Messrs Ang Kong Hua, Gan Kim Yong and Lim Say Yan ultimately declined the equity participation offered by 98 Holdings. They do not therefore have any interest in 98 Holdings. They had also waived all their rights to the termination fee when 98 Holdings assumed the non-retrenchment obligation.

Errors in Annexure 1 of the SIAS Letter

6 November 2002

The SIAS letter had reproduced the following statement from NatSteel's circular of 6 November 2002:

*"The Group's continuing businesses registered a pre-tax profit of S\$16.1 million for the six months ending 30 June 2002, before exceptional items. Barring unforeseen circumstances, **the Directors expect that this performance can be maintained for the second half of this year. However, profit after tax but before exceptional items for continuing businesses is expected to be significantly lower in the second half year than the S\$18.5 million in the first half year...."***

The figure of S\$18.5 million above is inaccurate – NatSteel had in its announcement of 12 November 2002 already clarified that the figure should be S\$21.6 million.

16 March 2003

The SIAS letter states that "In fact, if what appears to be a provision of **\$12.4 million for "Expenses relating to the General Offer and Management Buyout"** is taken into account, the actual pre-tax profit would have been S\$38.3 million. This would be \$22.2 million or **138% more** than the first half figure."

SIAS' interpretation is incorrect. The pre-tax profit of S\$25.9 million **excludes** exceptional items of continuing businesses – in other words, the provision of S\$12.4 million for "Expenses relating to the General Offer and Management Buyout" had **not** been accounted for in the S\$25.9 million figure. The "add back" of the S\$12.4 million as suggested

by SIAS would have resulted in double counting – it follows that the supposed increase of \$22.2 million or 138% is fictional.

30 May 2003

SIAS had asked the question “whether the performance [in 1Q 2003] would have been even better if not for the "Payment of expenses relating to the general offer and management buy-out" of S\$7.2 million as reflected in the cash flow statement.”.

The answer is “no”. As stated in Note 7 on page 53 of the 2002 Annual Report, those expenses had already been fully accounted for in the FY2002 results as an exceptional item. The S\$7.2 million referred to above was merely a cash flow item – which is why it was “reflected in the cash flow statement”.

18 August 2003

SIAS had asked a similar question “whether the performance would have been even better if not for the "Payment of expenses relating to the general offer and management buy-out" of S\$8.1 million as reflected in the cash flow statement.”.

As explained above, SIAS appears to be again confused between (i) items which have been charged out or accounted for in profit and loss statements and (ii) cash flow items.

Conclusion

NatSteel has always adhered to high standards of disclosure and corporate governance. It is therefore disappointed that SIAS had chosen to raise issues which have been previously addressed in detail – and it had done so without thorough consideration and accurate understanding of all relevant information already disclosed.

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NatSteel Ltd

3 November 2003

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