

MALAYSIA STEEL WORKS (KL) BHD (“MASTEEL” OR THE “COMPANY”)

PROPOSED BONUS ISSUE OF UP TO 106,810,281 NEW ORDINARY SHARES IN MASTEEL (“MASTEEL SHARE(S)” OR “SHARE(S)”) (“BONUS SHARE(S)”) ON THE BASIS OF 1 BONUS SHARE FOR EVERY 3 EXISTING MASTEEL SHARES HELD ON AN ENTITLEMENT DATE TO BE DETERMINED LATER (“PROPOSED BONUS ISSUE”)

1. INTRODUCTION

On behalf of the Board of Directors of Masteel (“**Board**”), UOB Kay Hian Securities (M) Sdn Bhd (“**UOBKH**”) wishes to announce that the Company proposes to undertake a proposed bonus issue of up to 106,810,281 Bonus Shares on the basis of 1 Bonus Share for every 3 existing Masteel Shares held on an entitlement date to be determined and announced later (“**Entitlement Date**”).

Further details on the Proposed Bonus Issue are set out in the ensuing sections.

2. DETAILS OF THE PROPOSED BONUS ISSUE

2.1 Basis and number of Bonus Shares to be issued

The Proposed Bonus Issue will entail an issuance of up to 106,810,281 Bonus Shares, to be credited as fully paid-up, on the basis of 1 Bonus Share for every 3 existing Masteel Shares held by the shareholders of Masteel whose names appear in the Record of Depositors of Masteel as at the close of business on the Entitlement Date.

The actual number of Bonus Shares to be issued will be based on the then number of issued Masteel Shares, depending on the following:-

- i. the Company’s total number of issued shares of 315,630,843 as at 17 November 2017, being the latest practicable date prior to this announcement (“**LPD**”) (including 423,800 Masteel Shares held as treasury shares);
- ii. the treatment of the 423,800 treasury shares held by Masteel as at the LPD prior to the Entitlement Date i.e. whether the treasury shares will be cancelled, distributed as share dividends, re-sold on the market of Bursa Malaysia Securities Berhad (“**Bursa Securities**”) or continue to be retained as treasury shares; and
- iii. the issuance of the remaining 4,800,000 Masteel Shares (“**Placement Shares**”) pursuant to subscription agreement entered into between the Company and Macquarie Bank Limited (the “**Investor**”) in relation to the private placement of up to 24,300,000 new Masteel Shares to the Investor (“**Private Placement**”) which was announced on 17 July 2017. As at the LPD, the Private Placement is yet to be completed.

Based on the Company’s total number of issued shares of 315,630,843 as at the LPD (including 423,800 Masteel Shares held as treasury shares) and assuming all treasury shares are resold and the remaining 4,800,000 Placement Shares are issued prior to the implementation of the Proposed Bonus Issue, a maximum of 106,810,281 Bonus Shares may be issued pursuant to the Proposed Bonus Issue.

The Proposed Bonus Issue will not be implemented in stages.

Fractional entitlements arising from the Proposed Bonus Issue, if any, shall be dealt with in such manner as the Board shall in their absolute discretion deem fit and expedient in the best interest of the Company.

2.2 Capitalisation of reserves

The Proposed Bonus Issue shall be wholly capitalised from the share premium and retained earnings account of Masteel at RM0.50 per Bonus Share, being the reference to the par value of Masteel Shares immediately before the effective date of the Companies Act, 2016 (“Act”), pursuant to Section 618(7) of the Act.

Based on the Company's latest audited financial statement for the financial year ended (“FYE”) 31 December 2016 and the latest unaudited financial statement for the 9-month financial period ended (“FPE”) 30 September 2017, the pro forma effect of the Proposed Bonus Issue on the share premium and retained earnings account of Masteel is illustrated below based on the following scenarios:-

Minimum Scenario : Assuming all the existing 423,800 treasury shares are retained in the Company and no Placement Shares are issued prior to the Entitlement Date

Maximum Scenario : Assuming all the existing 423,800 treasury shares are resold to the market and all 4,800,000 Placement Shares are issued prior to the Entitlement Date

Audited as at 31 December 2016

Company level	Minimum Scenario		Maximum Scenario	
	Share premium	Retained earnings	Share premium	Retained earnings
	RM'000	RM'000	RM'000	RM'000
Audited as at 31 December 2016	78,204	351,406	78,204	351,406
<i>Less:-</i>				
- Amount capitalised for the previous bonus issue which was completed on 29 September 2017	(25,811)	-	(25,811)	-
- Estimated expenses deducted for the previous bonus issue and Private Placements	-	(180)	-	(180)
	52,393	351,226	52,393	351,226
<i>Less:-</i>				
- Amount to be capitalised for the Proposed Bonus Issue	(52,393)	(142)	(52,393)	(1,013)
- Estimated expenses for the Proposed Bonus Issue	-	(100)	-	(100)
Balance after the Proposed Bonus Issue	-	350,984	-	350,113

Note:-

* Under the no par value regime of the Act which came into effect on 31 January 2017, the concept of share premium will no longer be applicable and any amount standing to the credit of the Company's share premium account shall be consolidated as part of its share capital. However, Section 618(4) of the Act provides that the Company may use its share premium account to fully pay up the Bonus Shares within a 24 months period from 31 January 2017.

Unaudited as at 30 September 2017

Company level	Minimum Scenario		Maximum Scenario	
	Share premium	Retained earnings	Share premium	Retained earnings
	RM'000	RM'000	RM'000	RM'000
Unaudited as at 30 September 2017	52,393	414,748	52,393	414,748
Less:-				
- Amount to be capitalised for the Proposed Bonus Issue	(52,393)	(142)	(52,393)	(1,013)
- Estimated expenses for the Proposed Bonus Issue	-	(100)	-	(100)
Balance after the Proposed Bonus Issue	-	414,506	-	413,635

Note:-

* Under the no par value regime of the Act which came into effect on 31 January 2017, the concept of share premium will no longer be applicable and any amount standing to the credit of the Company's share premium account shall be consolidated as part of its share capital. However, Section 618(4) of the Act provides that the Company may use its share premium account to fully pay up the Bonus Shares within a 24 months period from 31 January 2017.

The Board confirms that the Proposed Bonus Issue and the implementation of the Proposed Bonus Issue is and will be in full compliance with the Act and Practice Note 1/2017 issued by the Companies Commission of Malaysia on 8 February 2017 for the purposes of subsections 618 (3) and (4) of the Act. The Board also confirms that the Company has adequate reserves available for the capitalisation of the Bonus Shares and such reserves are unimpaired by losses on a consolidated basis, based on the latest audited consolidated financial statements of the Company for the FYE 31 December 2016 and the 9-month FPE 30 September 2017.

2.3 Ranking of the Bonus Shares

The Bonus Shares will, upon allotment and issuance, rank *pari passu* in all respects with the existing Masteel Shares, except that the Bonus Shares will not be entitled to any dividends, rights, allotments and/or other distributions that may be declared, made or paid where the entitlement date precedes the date of allotment and issuance of the Bonus Shares.

2.4 Listing of and quotation for the Bonus Shares

An application will be made for the listing of and quotation for the Bonus Shares on the Main Market of Bursa Securities.

3. RATIONALE AND JUSTIFICATION FOR THE PROPOSED BONUS ISSUE

Having announced and recently completing a bonus issue exercise this year and in view of the improving share price and financial performance of the Group over the past 6 months, the Board has, after due consideration, resolved to propose a second bonus issue exercise to continue rewarding the existing shareholders of the Company for their loyalty and continuing support. The Proposed Bonus Issue will enable the shareholders of the Company to have a greater participation in the equity of the Company in terms of number of shares held whilst maintaining their percentage equity interest. In addition, the Proposed Bonus Issue will enable the Company to fully utilise its remaining reserves held under the Company's share premium account whilst potentially improving the liquidity and marketability of Masteel Shares.

4. EFFECTS OF THE PROPOSED BONUS ISSUE

4.1 Share capital

For illustration, the pro forma effects of the Proposed Bonus Issue on the share capital of Masteel are as follows:-

	Par value / issue price (RM)	Minimum Scenario		Maximum Scenario	
		No. of Shares (‘000)	(RM’000)	No. of Shares (‘000)	(RM’000)
Share capital as at the LPD		315,631	168,483	315,631	168,483
Less: Treasury shares	0.50	(424)	(212)	-	-
Placement Shares to be issued	1.39	315,207 (1) -	168,271 (1) -	315,631 4,800	168,483 (2) 6,672
Bonus Shares to be issued	0.50	315,207 105,069	168,271 52,535	320,431 106,810	175,155 53,405
Enlarged share capital		420,276	220,806	427,241	228,560

Notes:-

- (1) Assuming none of the 4,800,000 Placement Shares are issued prior to the Entitlement Date.
- (2) Assuming the remaining 4,800,000 Placement Shares are issued at an illustrative indicative issue price of RM1.39 per Placement Share (being the 5-day VWAP of Masteel Shares up to the LPD) and the amount is fully credited to the share capital account in accordance with the Act.

4.2 Net assets (“NA”) per Share and gearing

Based on the audited consolidated financial statements of Masteel as at 31 December 2016, the pro forma effects of the Proposed Bonus Issue on the NA per Share and gearing of Masteel Group are as follows:-

Minimum Scenario

	Audited as at 31 December 2016 (RM'000)	⁽²⁾ After adjustment for subsequent events (RM'000)	Pro forma I ⁽³⁾ After the Proposed Bonus Issue (RM'000)
Share capital	122,254	168,483	221,018
Share premium	78,204	52,393	⁽⁴⁾ -
Capital reserves account	-	597	597
Treasury shares	(897)	(313)	(313)
Retained earnings	351,406	351,226	⁽⁴⁾ ⁽⁵⁾ 350,984
Total equity / NA	550,967	572,386	572,286
No. of Shares issued (excluding treasury shares)	⁽¹⁾ 243,294	⁽²⁾ 315,207	⁽³⁾ 420,276
NA per Share (RM)	2.26	1.82	1.36
Total borrowings	361,138	340,900	340,900
Gearing (times)	0.66	0.60	0.60

Notes:-

- (1) Excluding 1,213,800 treasury shares as at 31 December 2016.
- (2) After adjusting for the following events subsequent to the FYE 31 December 2016 up to the LPD:-
- Allotment of 19,500,000 Placements Shares;
 - Allotment of 51,622,840 bonus shares for the previous bonus issue which was completed 29 September 2017;
 - Expenses of RM180,000 incurred for the Private Placement and previous bonus issue;
 - Net gain of approximately RM0.59 million from resale of a total of 790,000 treasury shares by the Company for a period from 1 January 2017 up to the LPD;
- | | |
|--|-----------------|
| | (RM'000) |
| Proceeds from resale of treasury shares | 1,181 |
| Less: acquisition costs of treasury shares | (584) |
| Net gain from resale of treasury shares | 597 |
- Repayment of bank facilities of approximately RM20.24 million and
 - Excluding 423,800 treasury shares as at the LPD.
- (3) Assuming all 423,800 treasury shares are retained by the Company and no Placement Shares are issued.
- (4) After deducting the amount to be capitalized from share premium and retained earnings account for the Proposed Bonus Issue.
- (5) After adjusting for the estimated expenses of RM100,000 for the Proposed Bonus Issue.

Maximum Scenario

	Audited as at 31 December 2016 (RM'000)	⁽²⁾ After adjustment for subsequent events (RM'000)	Pro forma I Assuming the resale of treasury shares issuance of Placement Shares (RM'000)	Pro forma II After the Proposed Bonus Issue (RM'000)
Share capital	122,254	168,483	⁽³⁾ 175,155	228,560
Share premium	78,204	52,393	52,393	⁽⁵⁾ -
Capital reserves account	-	597	⁽⁴⁾ 873	873
Treasury shares	(897)	(313)	-	-
Retained profits	351,406	351,226	351,226	⁽⁵⁾ ⁽⁶⁾ 350,113
Total equity / NA	550,967	572,386	579,647	579,546
No. of Shares issued	⁽¹⁾ 243,294	⁽²⁾ 315,207	⁽³⁾ 320,431	427,241
NA per Share (RM)	2.26	1.82	1.81	1.36
Total borrowings	361,138	340,900	340,900	340,900
Gearing (times)	0.66	0.60	0.59	0.59

Notes:

- (1) Excluding 1,213,800 treasury shares as at 31 December 2016.
- (2) After adjusting for the following events subsequent to the FYE 31 December 2016 up to the LPD:-
- Allotment of 19,500,000 Placement Shares;
 - Allotment of 51,622,840 bonus shares for the previous bonus issue which was completed 29 September 2017;
 - Expenses of RM180,000 incurred for the Private Placement and previous bonus issue;
 - Net gain of approximately RM0.59 from resale of a total of 790,000 treasury shares by the Company for a period from 1 January 2017 up to the LPD;
- | | (RM'000) |
|--|------------|
| Proceeds from resale of treasury shares | 1,181 |
| Less: acquisition costs of treasury shares | (584) |
| Net gain from resale of treasury shares | 597 |
- Repayment of bank facilities of RM20.24 million; and
 - Excluding 423,800 treasury shares as at the LPD.
- (3) Assuming remaining 4,800,000 Placement Shares are placed out at an indicative issue price of RM1.39 per Placement Share, being the 5-day VWAP of Masteel Shares up to the LPD.
- (4) Assuming gain of approximately RM0.28 million, assuming the 423,800 treasury shares which were purchased at a cost of approximately RM0.31 million are resold at RM1.39 per Share, being the 5-day VWAP of Masteel Shares up to the LPD.
- (5) After deducting the amount to be capitalized from the share premium and retained earnings account for the Proposed Bonus Issue.
- (6) After adjusting for the estimated expenses of RM100,000 for the Proposed Bonus Issue.

4.3 Earnings and earnings per share ("EPS")

The Proposed Bonus Issue is not expected to have any material effect on the earnings of Masteel Group for the FYE 31 December 2017. However, there will be a corresponding dilution in the EPS of Masteel Group as a result of the increase in the number of shares issued under the Proposed Bonus Issue.

4.4 Substantial shareholders' shareholdings

The effects of the Proposed Bonus Issue on the shareholdings of the substantial shareholders of Masteel as at the LPD are as follows:-

Minimum Scenario

Substantial shareholders	Shareholdings as at the LPD				Pro forma I ⁽⁴⁾ After the Proposed Bonus Issue			
	Direct		Indirect		Direct		Indirect	
	No. of Shares	⁽¹⁾ %	No. of Shares	⁽¹⁾ %	No. of Shares	%	No. of Shares	%
TTY Resources Sdn Bhd	96,169,462	30.51	-	-	128,225,949	30.51	-	-
Dato' Sri Tai Hean Leng @ Tek Hean Leng	-	-	⁽²⁾ 96,169,462	30.51	-	-	⁽²⁾ 128,225,949	30.51
Datin Ng Pik Lian	-	-	⁽³⁾ 104,041,061	33.01	-	-	⁽³⁾ 138,721,414	33.01
Estate of Tai Chet Siang, deceased	-	-	⁽²⁾ 96,169,462	30.51	-	-	⁽²⁾ 128,225,949	30.51

Notes:-

- (1) Excluding a total of 423,800 Masteel Shares bought-back by the Company and retained as treasury shares as at the LPD.
- (2) Deemed interested pursuant to Section 8 of the Act, by virtue of his interests in TYY Resources Sdn Bhd.
- (3) Deemed interested pursuant to Section 8 of the Act, by virtue of her interests in TYY Resources Sdn Bhd and Kemajuan Rekacekap Sdn Bhd.
- (4) Assuming all the existing 423,800 treasury shares are retained in the Company and no Placement Shares are issued.

Maximum Scenario

Substantial shareholders	Shareholdings as at the LPD				Pro forma I Assuming the resale of treasury shares and after the Proposed Private Placement ⁽⁴⁾				Pro forma II After the Proposed Bonus Issue			
	Direct		Indirect		Direct		Indirect		Direct		Indirect	
	No. of Shares	⁽¹⁾ %	No. of Shares	⁽¹⁾ %	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
TTY Resources Sdn Bhd	96,169,462	30.51	-	-	96,169,462	30.01	-	-	128,225,949	30.01	-	-
Dato' Sri Tai Hean Leng @ Tek Hean Leng	-	-	⁽²⁾ 96,169,462	30.51	-	-	⁽²⁾ 96,169,462	30.01	-	-	⁽²⁾ 128,225,949	30.01
Datin Ng Pik Lian	-	-	⁽³⁾ 104,041,061	33.01	-	-	⁽³⁾ 104,041,061	32.47	-	-	⁽³⁾ 138,721,414	32.47
Estate of Tai Chet Siang, deceased	-	-	⁽²⁾ 96,169,462	30.51	-	-	⁽²⁾ 96,169,462	30.01	-	-	⁽²⁾ 128,225,949	30.01

Notes:-

- (1) Excluding a total of 423,800 Masteel Shares bought-back by the Company and retained as treasury shares as at the LPD.
- (2) Deemed interested pursuant to Section 8 of the Act, by virtue of his interests in TYY Resources Sdn Bhd.
- (3) Deemed interested pursuant to Section 8 of the Act, by virtue of her interests in TYY Resources Sdn Bhd and Kemajuan Rekacekap Sdn Bhd.
- (4) Assuming all 423,800 treasury shares are resold to the market and all 4,800,000 Placement Shares are issued.

4.5 Convertible securities

As at the LPD, there are no options, warrants or convertible securities issued by the Company.

5. APPROVALS REQUIRED

The Proposed Bonus Issue is subject to the following approvals being obtained:-

- (i) Bursa Securities, for the listing of and quotation for the Bonus Shares on the Main Market of Bursa Securities;
- (ii) the shareholders of Masteel for the Proposed Bonus Issue at an extraordinary general meeting to be convened; and
- (iii) any other relevant authorities and/or parties, if required.

The Proposed Bonus Issue is not conditional upon any other corporate exercise undertaken or to be undertaken by the Company.

6. INTEREST OF DIRECTORS AND MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED TO THEM

None of the directors, major shareholders of Masteel and/or persons connected to them have any interest, whether direct or indirect, in the Proposed Bonus Issue, save for their respective entitlements as shareholders of the Company under the Proposed Bonus Issue, which are also available to all other shareholders of the Company.

7. DIRECTORS' STATEMENT

After considering all aspects of the Proposed Bonus Issue, the Board is of the opinion that the Proposed Bonus Issue is in the best interest of the Company.

8. ADVISER

UOBKH has been appointed by the Company to act as the Adviser for the Proposed Bonus Issue.

9. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances, the Board expects the Proposed Bonus Issue to be completed by the first quarter of 2018.

10. APPLICATION TO RELEVANT AUTHORITIES

Barring any unforeseen circumstances, the application to the relevant authorities for the Proposed Bonus Issue is expected to be submitted within 1 month from the date of this announcement.

This announcement is dated 23 November 2017.