

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

Shareholders of Malaysia Steel Works (KL) Bhd (“**Masteel**” or the “**Company**”) should rely on their own evaluation to assess the merits and risks of the Proposed Warrants Issue (as defined herein). 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.

Bursa Malaysia Securities Berhad takes no responsibility for the contents of this Circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Circular.



MALAYSIA STEEL WORKS (KL) BHD

www.masteel.com.my

(Company No. 7878-V)

(Incorporated in Malaysia under the Companies Act, 1965)

CIRCULAR TO SHAREHOLDERS IN RELATION TO THE

PROPOSED RENOUNCEABLE RIGHTS ISSUE OF UP TO 107,066,666 FIVE (5)-YEAR WARRANTS ON THE BASIS OF ONE (1) WARRANT FOR EVERY TWO (2) EXISTING ORDINARY SHARES OF RM0.50 EACH IN MALAYSIA STEEL WORKS (KL) BHD HELD ON AN ENTITLEMENT DATE TO BE DETERMINED LATER AT AN INDICATIVE ISSUE PRICE OF RM0.20 PER WARRANT

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

Adviser



MIMB INVESTMENT BANK BERHAD (10209-W)

A Participating Organisation of Bursa Malaysia Securities Berhad

The Notice of the Extraordinary General Meeting of Masteel (“**EGM**”) to be held at Rebana 2 & 3, Level 1, Convention Centre, Grand BlueWave Hotel Shah Alam, Persiaran Perbandaran, Seksyen 14, 40000 Shah Alam, Selangor Darul Ehsan on Thursday, 24 June 2010 at 3.45 p.m., or immediately after the conclusion of the Company’s Thirty-Eighth (38th) Annual General Meeting (which will be held at the same venue on the same day at 3.00 p.m.), whichever is earlier or at any adjournment thereof is set out in this Circular. Shareholders are advised to refer to the Notice of EGM and the Proxy Form enclosed herein. The Proxy Form should be lodged at the Registered Office of the Company at Unit B-05-3A, 5th Floor, Block B (West Wing), PJ8 Office Suite, No. 23, Jalan Barat, Seksyen 8, 46050 Petaling Jaya, Selangor Darul Ehsan, no later than forty-eight (48) hours before the time appointed for holding the meeting. The lodgement of the Proxy Form will not preclude you from attending and voting in person at the meeting should you subsequently wish to do so.

Last date and time for lodging the Proxy Form : Tuesday, 22 June 2010, at 3.45 p.m.

Date and time for the EGM : Thursday, 24 June 2010, at 3.45 p.m.

This Circular is dated 9 June 2010

DEFINITIONS

In this Circular, unless otherwise indicated, the following words and abbreviations shall have the following meanings:

“Act”	: Companies Act, 1965
“AGM”	: Annual general meeting
“Announcement”	: The Company’s announcement dated 18 May 2010 in relation to the Proposed Warrants Issue
“BNM”	: Bank Negara Malaysia
“Board”	: Board of Directors of Masteel
“Bursa Depository”	: Bursa Malaysia Depository Sdn Bhd
“Bursa Securities”	: Bursa Malaysia Securities Berhad
“EBB”	: EON Bank Berhad
“EGM”	: Extraordinary general meeting
“Entitled Shareholders”	: Shareholders of Masteel whose names appear in the Company’s Record of Depositors on the Entitlement Date
“Entitlement Date”	: The date (to be determined and announced later by the Board) on which shareholders must be registered in the Company’s Record of Depositors in order to be entitled to the Proposed Warrants Issue
“FYE”	: Financial year ending/ended, as the case may be
“Listing Requirements”	: The prevailing Main Market Listing Requirements of Bursa Securities
“LPD”	: 3 June 2010, being the latest practicable date prior to the printing of this Circular
“Masteel” or the “Company”	: Malaysia Steel Works (KL) Bhd
“Masteel Group” or “Group”	: Masteel and its subsidiary companies
“Masteel Share(s)” or “Share(s)”	Ordinary shares of RM0.50 each in Masteel
“Maximum Scenario”	: A scenario which assumes that on or prior to the Entitlement Date: <ul style="list-style-type: none">• 30,000 Masteel Shares currently held as treasury shares will be resold in the open market;• full placement of the Placement Shares will take place pursuant to the Private Placement; and• the Company will not exercise its share buy-back authority
“MIMB”	: MIMB Investment Bank Berhad

DEFINITIONS (*Cont'd*)

“Minimum Scenario”	: A scenario which assumes that on or prior to the Entitlement Date: <ul style="list-style-type: none">• 30,000 Masteel Shares currently held as treasury shares will not be resold in the open market;• none of the Placement Shares will be placed out by the Company; and• the Company will not exercise its share buy-back authority
“MITI”	: Ministry of International Trade and Industry
“NA”	: Net assets
“PAT”	: Profit after tax
“Placement Shares”	: The remaining 3,346,666 new Masteel Shares that have yet to be issued to investors pursuant to the Private Placement as at the LPD
“Private Placement”	: The Company’s existing on-going private placement exercise of up to 19,466,666 new Masteel Shares as announced on 28 January 2010, of which 16,120,000 Shares have been placed out as at the LPD
“Proposed Warrants Issue”	: Proposed renounceable rights issue of up to 107,066,666 Warrants on the basis of one (1) Warrant for every two (2) existing Masteel Shares held on the Entitlement Date at an indicative issue price of RM0.20 per Warrant
“Record of Depositors”	: A record of depositors established by Bursa Depository under the rules of Bursa Depository, as amended from time to time
“RM” and “sen”	: Ringgit Malaysia and sen, respectively
“SC”	: Securities Commission
“VWAP”	: Volume weighted average market price
“Warrant(s)”	: Up to 107,066,666 five (5)-year new warrants to be issued by Masteel under the Proposed Warrants Issue

Words denoting the singular number only shall include the plural and also vice versa and words denoting the masculine gender only shall include the feminine gender and vice versa. Reference to persons shall include corporations. Any reference in this Circular to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any reference to a time of day in this Circular shall be a reference to Malaysian time, unless otherwise stated.

CONTENTS	PAGE
LETTER TO THE SHAREHOLDERS OF MASTEEL CONTAINING:	
1.0 INTRODUCTION.....	1
2.0 DETAILS OF THE PROPOSED WARRANTS ISSUE.....	2
3.0 RATIONALE FOR THE PROPOSED WARRANTS ISSUE.....	8
4.0 INDUSTRY OVERVIEW AND FUTURE PROSPECTS.....	9
5.0 EFFECTS OF THE PROPOSED WARRANTS ISSUE	10
6.0 APPROVALS REQUIRED.....	15
7.0 HISTORICAL MARKET PRICES OF MASTEEL SHARES.....	15
8.0 PROPOSALS ANNOUNCED BUT PENDING IMPLEMENTATION	16
9.0 ESTIMATED TIME FRAME FOR COMPLETION AND TENTATIVE TIMETABLE FOR THE PROPOSED WARRANTS ISSUE.....	16
10.0 INTERESTS OF DIRECTORS AND MAJOR SHAREHOLDERS, AND/OR PERSONS CONNECTED TO THEM	16
11.0 DIRECTORS' RECOMMENDATION	16
12.0 EGM.....	17
13.0 FURTHER INFORMATION	17
APPENDIX	
I ADDITIONAL INFORMATION	18
NOTICE OF EGM	Enclosed
PROXY FORM	Enclosed



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Registered Office:

Unit B-05-3A
5th Floor, Block B (West Wing)
PJ8 Office Suite
No. 23, Jalan Barat
Seksyen 8
46050 Petaling Jaya
Selangor Darul Ehsan
Malaysia

9 June 2010

Board of Directors

Dato' Ikhwan Salim bin Dato' Haji Sujak (*Chairman, Non-Independent Non-Executive Director*)

Dato' Sri Tai Hean Leng @ Tek Hean Leng (*Managing Director/ Chief Executive Officer*)

Lee Kean Binh (*Executive Director*)

Lau Yoke Leong (*Executive Director*)

Lim Hoo Teck (*Independent Non-Executive Director*)

Ng Wah Lok (*Independent Non-Executive Director*)

Muhammad Hanizam bin Hj. Borhan (*Independent Non-Executive Director*)

To: The Shareholders of Malaysia Steel Works (KL) Bhd

Dear Sirs/Madam,

PROPOSED WARRANTS ISSUE

1.0 INTRODUCTION

On 18 May 2010, MIMB, on behalf of the Board, announced that the Company is proposing to undertake a renounceable rights issue of up to 107,066,666 Warrants on the basis of one (1) Warrant for every two (2) existing Masteel Shares held on the Entitlement Date at an indicative issue price of RM0.20 per Warrant.

MIMB has on 21 May 2010 announced, on behalf of the Board, that an application has been submitted to Bursa Securities to seek its approvals for the admission of the Warrants to the Official List of Bursa Securities, and the listing of and quotation for the Warrants and the new Masteel Shares to be issued upon exercise of the Warrants on the Main Market of Bursa Securities.

On 1 June 2010, MIMB announced, on behalf of the Board, that Bursa Securities had vide its letter dated 31 May 2010 approved the following:-

- (i) Admission to the Official List of Bursa Securities and the listing of and quotation for up to 107,066,666 Warrants to be issued pursuant to the Proposed Warrants Issue; and
- (ii) Listing of up to 107,066,666 new ordinary shares of RM0.50 each in Masteel to be issued pursuant to the exercise of Warrants.

The approval is subject to, amongst others, the following conditions:

Conditions	Status of compliance
Masteel and MIMB must fully comply with the relevant provisions under the Main Market Listing Requirements pertaining to the implementation of the Proposed Warrants Issue;	To be complied
Masteel and MIMB are to inform Bursa Securities upon the completion of the Proposed Warrants Issue;	To be complied
Masteel is to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities' approval once the Proposed Warrants Issue is completed; and	To be complied
Payment of additional listing fees to Bursa Securities pertaining to the listing of new Masteel Shares issued pursuant to the exercise of Warrants. In this respect, Masteel is required to furnish Bursa Securities, on a quarterly basis, with a summary of the total number of Masteel Shares listed pursuant to the exercise of Warrants as at the end of each quarter with a detailed computation of listing fees payable.	To be complied

THE PURPOSE OF THIS CIRCULAR IS TO PROVIDE SHAREHOLDERS OF MASTEEL WITH THE DETAILS OF THE PROPOSED WARRANTS ISSUE AND TO SEEK THEIR APPROVAL FOR THE RELEVANT RESOLUTION TO BE TABLED AT THE FORTHCOMING EGM. THE NOTICE OF EGM TOGETHER WITH THE PROXY FORM ARE ENCLOSED HEREWITH IN THIS CIRCULAR.

SHAREHOLDERS OF MASTEEL ARE ADVISED TO READ AND CAREFULLY CONSIDER THE CONTENTS OF THIS CIRCULAR BEFORE VOTING ON THE RESOLUTION PERTAINING TO THE PROPOSED WARRANTS ISSUE AT THE FORTHCOMING EGM.

2.0 DETAILS OF THE PROPOSED WARRANTS ISSUE

2.1 Details of the Proposed Warrants Issue

The Proposed Warrants Issue involves the issuance of up to 107,066,666 Warrants on a renounceable basis of one (1) Warrant for every two (2) existing Masteel Shares held on the Entitlement Date at an indicative issue price of RM0.20 per Warrant. The Warrants will be issued in registered form and constituted by a deed poll to be executed by the Company.

The maximum number of 107,066,666 Warrants to be issued pursuant to the Proposed Warrants Issue under the Maximum Scenario was arrived at based on the following:

- (a) the issued and paid-up share capital of Masteel as at the LPD of RM105,393,333 comprising 210,786,666 Masteel Shares (of which 30,000 Masteel Shares are currently held as treasury shares and are assumed to be resold in the open market prior to or on the Entitlement Date); and
- (b) assuming that on or prior to the Entitlement Date:
 - (i) full placement of the Placement Shares will take place pursuant to the Private Placement; and
 - (ii) the Company will not exercise its share buy-back authority.

However, assuming that on or prior to the Entitlement Date, the 30,000 Masteel Shares currently held as treasury shares are not resold in the open market, none of the Placement Shares are placed out and the Company does not exercise its share buy-back authority, the Proposed Warrants Issue would entail the issuance of only 105,378,333 Warrants under the Minimum Scenario.

Each Warrant entitles its holder to subscribe for one (1) new Masteel Share. Accordingly, the maximum number of new Masteel Shares arising from the exercise of the Warrants is 107,066,666 Masteel Shares under the Maximum Scenario and 105,378,333 Masteel Shares under the Minimum Scenario. In any event, the actual number of Warrants to be issued will be determined based on the issued and paid-up ordinary share capital of the Company as at the Entitlement Date for the Proposed Warrants Issue. All the Warrants shall rank pari passu in all aspects with one another, and without discrimination or preference.

The Proposed Warrants Issue is renounceable in full or in part. Accordingly, the Entitled Shareholders for the Proposed Warrants Issue can subscribe for and/or renounce their entitlements to the Warrants in full or in part. The Warrants which are not taken up or not validly taken up shall be made available for excess applications by the Entitled Shareholders for the Proposed Warrants Issue and/or their renouncee(s). It is the intention of the Board to allocate the excess Warrants in a fair and equitable manner on a basis to be determined by the Board and announced later.

2.2 Basis of Arriving at the Issue Price

The Board has not yet determined the final issue price of the Warrants. The final issue price shall be determined by the Board after the Company has obtained its shareholders' approval for the Proposed Warrants Issue at the forthcoming EGM but in any case, before the Entitlement Date for the Proposed Warrants Issue.

The indicative issue price of RM0.20 per Warrant was arrived at as follows:

- (a) Based on an indicative exercise price of RM0.80 per Warrant, the theoretical fair value of the Warrants is approximately RM0.41 per Warrant as at 17 May 2010 (being the latest practicable date prior to the Announcement) computed using the Black-Scholes Option Pricing Model.
- (b) The Board had, before the Announcement, arrived at the indicative issue price of RM0.20 per Warrant based on a discount of approximately 51% from the aforesaid theoretical fair value of the Warrants, whilst seeking to ensure that targeted proceeds of approximately RM20.0 million would be raised from the Proposed Warrants Issue. Such discount is deemed appropriate by the Board after taking into consideration the historical volatility and share price movements of the underlying Masteel Shares, the prevailing general market sentiments as well as the Board's intention to provide an opportunity for the shareholders of Masteel to participate in an equity derivative (i.e. Warrants) of the Company at an attractive entry cost.

The final issue price of the Warrants would be determined by the Board on the above bases at a later date closer to the implementation of the Proposed Warrants Issue.

2.3 Basis of Arriving at the Exercise Price

The indicative exercise price of RM0.80 per Warrant was determined by the Board after taking into consideration the following factors:

- (i) the five (5)-day VWAP of Masteel Shares up to and including 17 May 2010 (being the latest practicable date prior to the Announcement) of RM1.0116 per Share; and
- (ii) the indicative issue price of the Warrants.

It is the intention of the Board that the final exercise price of the Warrants be fixed at a discount to the five (5)-day VWAP of Masteel Shares immediately prior to the price fixing date. In deciding the size of the said final discount, the Board would take into consideration the final issue price of the Warrants (i.e. entry cost), with the aim that together with the final exercise price (i.e. subsequent cost), the

Warrants would, in the opinion of the Board, be sufficiently attractive for the shareholders of Masteel to subscribe for their respective entitlements to the Warrants pursuant to the Proposed Warrants Issue and to exercise the Warrants in the future. This is, however, subject to such final exercise price not being lower than the par value of Masteel Shares of RM0.50 each.

The final exercise price of the Warrants would be determined by the Board on the above bases, at a later date closer to the implementation of the Proposed Warrants Issue concurrently with the final issue price of the Warrants.

2.4 Ranking of the Shares arising from the Exercise of the Warrants

All the new Masteel Shares to be issued upon the exercise of the Warrants shall, on allotment and issue, rank pari passu in all respects with the then existing Masteel Shares except that they shall not be entitled to any dividends that may be declared prior to the date of exercise of the Warrants, nor shall they be entitled to any distributions or entitlements for which the entitlement date is prior to the date of exercise of the Warrants.

2.5 Utilisation of Proceeds

Based on the indicative issue price of RM0.20 per Warrant, the Proposed Warrants Issue is expected to raise cash proceeds of between RM21.1 million and RM21.4 million under the Minimum Scenario and Maximum Scenario respectively (“**Warrants Proceeds**”).

The Warrants Proceeds are proposed to be utilised in the following manner:

Proposed utilisation	Proceeds to be raised		Expected time frame for utilisation of proceeds from date of listing of Warrants
	Minimum Scenario	Maximum Scenario	
Working capital requirements of the Group ^(a)	RM20.4 million	RM20.7 million	Within 6 months
Defraying estimated expenses relating to the Proposed Warrants Issue ^(b)	RM0.7 million	RM0.7 million	Within 1 month
Total	RM21.1 million	RM21.4 million	

Notes:-

(a) *The Company intends to utilise the proceeds to be raised from the Proposed Warrants Issue as additional working capital for the Group’s expanding scale of operations. The Company has commissioned a new slit rolling equipment in its rolling mill in Petaling Jaya which produces a new product range for the Company. The Warrants Proceeds will be utilised to finance the expanded operations which are expected to include the purchases of raw materials and overhead costs. For illustrative purposes and subject to revision from time to time by the Board in its absolute discretion, it is estimated that, under the Maximum Scenario, up to RM14.5 million will be utilised for purchases of raw materials, while the remaining RM6.2 million will be utilised for overhead costs. Owing to the lower Warrants Proceeds to be raised under the Minimum Scenario, the amount allocated for overhead costs will be adjusted accordingly.*

(b) *An estimated RM0.7 million will be utilised to defray expenses (comprising professional fees, fees payable to the relevant authorities, expenses in convening the EGM, printing, despatch and advertising expenses, and other miscellaneous charges) relating to the Proposed Warrants Issue. If the actual expenses are higher than budgeted, the deficit will be funded from the portion allocated for working capital. Conversely, any surplus following utilisation for expenses will be channelled to the Group’s working capital requirements.*

With regard to the Maximum Scenario, assuming that the Warrants are fully exercised in future at an indicative exercise price of RM0.80 per Warrant, up to 107,066,666 new Masteel Shares would be issued and Masteel would potentially raise additional cash proceeds of up to about RM85.7 million over the tenure of the Warrants. Such proceeds are earmarked by the Company to be used for funding future repayment of bank borrowings and/or working capital requirements of the Group. This would apply similarly to the Minimum Scenario where cash proceeds of up to about RM84.3 million would potentially be raised with the issue of up to 105,378,333 new Masteel Shares.

2.6 Undertaking from Substantial Shareholder and Underwriting Arrangement

As at the date of this Circular, the Company has obtained a written irrevocable undertaking from one of its substantial shareholders, namely TYY Resources Sdn Bhd to subscribe and/or procure subscription in full for its entitlement under the Proposed Warrants Issue (“**Undertaking**”) as shown in the table below:-

Shareholder	As at the LPD			Entitlement under the Proposed Warrants Issue		
	No. of Masteel Shares held	% ⁽¹⁾	% ⁽²⁾	No. of Warrants entitled	% ⁽³⁾	% ⁽⁴⁾
TYY Resources Sdn Bhd	64,076,219	30.40	29.92	32,038,110	30.40	29.92

Notes:-

- (1) Percentage of shareholding assumed to be entitled for the Warrants under the Minimum Scenario.
- (2) Percentage of shareholding assumed to be entitled for the Warrants under the Maximum Scenario.
- (3) Percentage of Warrants to be entitled under the Minimum Scenario.
- (4) Percentage of Warrants to be entitled under the Maximum Scenario.

The aforesaid shareholder has further confirmed that it has sufficient financial resources to take up the Warrants for which it has undertaken to subscribe and such confirmation has been verified by MIMB, being the Adviser for the Proposed Warrants Issue.

The Undertaking will not give rise to any take-over implications pursuant to Section 6, Part II of the Malaysian Code on Take-Overs and Mergers, 1998 (“**Code**”) as the Warrants are not voting shares. In the future, if the abovementioned shareholder who has provided the Undertaking decides to exercise the Warrants and it results in the triggering of the Code, it may seek an exemption under the Code from the SC before it exercises its Warrants.

There is no minimum subscription amount to be raised from the Proposed Warrants Issue. Underwriting arrangement will be made by the Company for all the Warrants which are not subject to the Undertaking involving up to 75,028,556 Warrants, representing approximately 70.08% of the total Warrants to be issued under the Maximum Scenario pursuant to the Proposed Warrants Issue. The underwriting arrangement is only expected to be in place prior to the implementation of the Proposed Warrants Issue. Details of the underwriting arrangement will be disclosed in the Abridged Prospectus to be issued for purposes of the Proposed Warrants Issue.

2.7 Entitlements to the Warrants

The Warrants will be provisionally allotted to the shareholders of the Company who are entitled for the Proposed Warrants Issue. Any fractional entitlements arising from the Proposed Warrants Issue will be disregarded and shall be dealt with in such manner as the Board shall in its absolute discretion think fit and expedient in the best interest of the Company.

2.8 Foreign Shareholders and Documents relating to the Proposed Warrants Issue

An abridged prospectus and the relevant documents to be issued pursuant to the Proposed Warrants Issue will not be registered under applicable securities legislation of any overseas jurisdiction. Accordingly, the Proposed Warrants Issue will not be offered for subscription in any country other than Malaysia.

Therefore the abridged prospectus and the relevant documents relating to the Proposed Warrants Issue will not be sent to foreign shareholders who have not provided an address in Malaysia for the service of documents as at the Entitlement Date. The foreign shareholders may, prior to the Entitlement Date, provide an address in Malaysia for service of documents to their respective stockbrokers as well as the Company's Share Registrar. Alternatively, such foreign shareholders may collect the abridged prospectus and the relevant documents from the Company's Share Registrar, in which event, the Share Registrar shall be entitled to request for such evidence (i.e. identification or authorisation documents) as it may deem necessary to satisfy itself as to the identity and authority of the person collecting the abridged prospectus and the relevant documents.

A shareholder of the Company may only exercise his/her rights in respect of the Proposed Warrants Issue to the extent that it would be lawful to do so, and the Company would not, in connection with the Proposed Warrants Issue, be in breach of the laws of any jurisdiction that the shareholders of the Company might be subject to. The shareholders of the Company shall be solely responsible for seeking advice as to the laws of any jurisdiction that they may be subject to, and a participation by a shareholder of the Company in the Proposed Warrants Issue shall be on the basis of a warranty by the shareholder that he/she may lawfully participate without the Company being in breach of the laws of any jurisdiction.

The foreign shareholders who do not provide an address in Malaysia or who are not entitled to subscribe for the Warrants pursuant to the Proposed Warrants Issue under the laws and jurisdiction to which they are subject to, shall have no claim whatsoever against the Company in respect of their rights entitlement or any net proceeds arising from the Proposed Warrants Issue.

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2.9 Principal Terms of the Warrants

Form and Denomination	:	The Warrants will be issued in registered form and constituted by a deed poll to be executed by the Company.
Number of Warrants	:	Up to 107,066,666 Warrants to be issued pursuant to the Proposed Warrants Issue on the basis of one (1) Warrant for every two (2) existing Masteel Shares held.
Exercise Price	:	The exercise price payable in respect of each Masteel Share to which a Warrant holder will be entitled to subscribe upon exercise of the exercise rights (as defined below) shall be determined at a later date by the Board based on a discount that is deemed appropriate by the Board after taking into consideration the five (5)-day VWAP of Masteel Shares immediately prior to the price fixing date and the final issue price of the Warrants, subject to such exercise price not being less than the par value of Masteel Shares of RM0.50 each.
Exercise Period	:	Five (5) years commencing from and inclusive of the date of issue of the Warrants. The Warrants which are not exercised during the exercise period shall thereafter lapse and cease to be valid.
Exercise Rights	:	Each Warrant entitles the holder to subscribe for one (1) new Masteel Share at the exercise price at any time during the exercise period.
Deed Poll	:	The Warrants are constituted by a deed poll to be executed by Masteel.
Board Lot	:	The Warrants are tradable upon listing on Bursa Securities in board lots of 100 Warrants.
Status of new Masteel Shares to be issued pursuant to the exercise of the Warrants	:	All new Masteel Shares to be issued upon the exercise of the Warrants shall, on allotment and issue, rank pari passu in all respects with the then existing Masteel Shares except that they shall not be entitled to any dividends that may be declared prior to the date of exercise of the Warrants, nor shall they be entitled to any distributions or entitlements for which the entitlement date is prior to the date of exercise of the Warrants.
Rights of Warrant holders on liquidation, winding up, compromise or arrangement of the Company	:	<p>If a resolution is passed for a members' voluntary winding up of the Company or there is a compromise or arrangement, whether or not for the purpose of or in connection with a scheme for the reconstruction of the Company or the amalgamation of the Company with one or more companies, then:</p> <p>(i) for the purpose of such winding-up, compromise or arrangement (other than a consolidation, amalgamation or merger in which the Company is the continuing corporation) to which the Warrant holders (or some person designated by them for such purpose by Special Resolution) shall be a party, the terms of such winding-up, compromise and arrangement shall be binding on all the Warrant holders; and</p> <p>(ii) in any other case, every Warrant holder shall be entitled upon and subject to the conditions of the deed poll at any time within six (6) weeks after the passing of such resolution for a members' voluntary winding-up of the Company or the granting of the court order approving the compromise or arrangement (as the case may be), to exercise their Warrants by submitting the exercise form duly completed authorising the debiting of his Warrants together with payment of the relevant</p>

		<p>Exercise Price to elect to be treated as if he had immediately prior to the commencement of such winding-up exercised the exercise rights to the extent specified in the exercise form(s) and had on such date been the holder of the new Masteel Shares to which he would have become entitled pursuant to such exercise and the liquidator of the Company shall give effect to such election accordingly.</p> <p>Upon the expiration of the above six (6) weeks period, all exercise rights of the Warrants shall lapse and cease to be valid for any purpose.</p>
Adjustment in the exercise price and/or the number of Warrants held by holders of Warrants in the event of alteration to the share capital of the Company	:	Subject to the provisions of the Deed Poll, the Exercise Price and/or the number of Warrants held by each holder of Warrant may be adjusted by the Board in consultation with the Company's external auditors or principle adviser (for a corporate exercise of Masteel that triggers such adjustment), in the event of capitalisation issues, rights issue, consolidation or subdivision of shares or capital reduction exercises in accordance with the provisions of the Deed Poll.
Warrant holders' rights to participate in any distribution and/or offer of further securities in the Company	:	The Warrant holders are not entitled to participate in any distribution and/or offer of further securities in the Company until and unless such holders exercise the exercise rights of the Warrants into new Masteel Shares.

2.10 Admission to Bursa Securities

Bursa Securities had, vide its letter dated 31 May 2010, approved the following:-

- (a) admission of the Warrants to the Official List of Bursa Securities; and
- (b) the listing of and quotation for the Warrants and any new Masteel Shares to be issued arising from the exercise of the Warrants, on the Main Market of Bursa Securities.

The details of the abovementioned approvals are as disclosed in Section 1.0 of this letter to the shareholders of Masteel.

3.0 RATIONALE FOR THE PROPOSED WARRANTS ISSUE

The Board is of the view that the Proposed Warrants Issue is currently the most appropriate avenue for raising new equity funds for the Masteel Group after taking into consideration other available options based on the following factors:

- (a) the Proposed Warrants Issue will enable the Group to raise new equity funds without incurring additional interest or other debt related expenses;
- (b) whilst raising funds for the Company, the Proposed Warrants Issue will also provide the shareholders of Masteel with a five (5)-year option (at an exercise price which the Board opines to be affordable) to increase their equity participation in the Company at a pre-determined exercise price during the tenure of the Warrants;
- (c) there will be no immediate dilution in the earnings per Masteel Share until the exercise of the Warrants; and
- (d) if and when the Warrants are exercised into new Masteel Shares, the Group would raise new equity funds and this would be expected to result in improvements to the net asset value, cash flow and gearing positions of the Group, and eventually, the earnings of the Group depending on the use of such new proceeds by the Masteel Group.

4.0 INDUSTRY OVERVIEW AND FUTURE PROSPECTS

Masteel is principally involved in the manufacturing of long steel products including steel bars and steel billets which are widely used in light structural construction as well as the construction of concrete structures of buildings and infrastructure-related projects. Some observations on the overview and outlook of the iron and steel industry (including those of the long steel product segment) and the future prospects of the Masteel Group are set out in the sections below.

4.1 Overview and Outlook of the Iron and Steel Industry

The World Steel Association (“**Worldsteel**”) today released its short range outlook for 2010 and 2011. Worldsteel forecasts that apparent steel use will increase by 10.7% to 1,241 million metric tons (“**mmt**”) in 2010 after contracting by -6.7% in 2009. This represents an improved figure over the Autumn 2009 forecast for both 2009 and 2010. With these projections, world steel demand in 2010 will exceed pre-crisis levels of 2007. In 2011, it is forecast that world steel demand will grow by 5.3% to reach a historical high of 1,306 mmt. The resilience of the emerging economies, especially China, has been the critical factor enabling the earlier than expected recovery of world steel demand.

China’s apparent steel use in 2010 is expected to increase by 6.7% to 579 mmt after the impressive increase of 24.8% in 2009. The pace of economic growth and steel production seen in the 1st quarter of 2010 suggests that apparent steel use could be even higher than this forecast. In 2011, the growth rate will slow to 2.8%, which will bring China’s apparent steel use to 595 mmt. In 2011, China will account for 45.5% of world apparent steel use, compared to 48.4% in 2009.

India’s steel demand maintained stable growth during the crisis and is expected to grow by 13.9% and 13.7% in 2010 and 2011 respectively, after 7.7% in 2009. In 2011, India’s apparent steel use will reach 71.6 mmt.

In the North American Free Trade Agreement (“**NAFTA**”) region, apparent steel use in the United States (“**US**”) fell by -41.6% in 2009 and recorded 57.4 mmt. With the recovery in the US economy and stock rebuilding, apparent steel use is expected to grow by 26.5% in 2010 and then 7.5% to 78.1 mmt in 2011, bringing its apparent steel use back to the level of 1991. For NAFTA, the level of apparent steel use that is expected in 2011 is similar to that of 1993.

The European Union economies have seen a fall in apparent steel use of -35.2% in 2009 with Spain and Italy hardest hit by the collapse of their construction sectors. In 2010, the region will see an increase of 13.7% in steel demand due to inventory rebuilding and a slight increase in real steel use. In 2011, real demand will drive the recovery and apparent steel use is expected to grow by 7.9% to reach 145.2 mmt, bringing it back to the level of 1997.

Japan, which experienced a fall in apparent steel use of -31.7% in 2009, will see its steel use increase by 10.3% in 2010, but in 2011, its steel demand is expected to stagnate with -0.2% growth due to weakening of its major steel using sectors. This brings Japan’s apparent steel use in 2011 to 58.6 mmt, the level achieved in 1983.

(Source: Worldsteel Short Range Outlook dated 20 April 2010, The World Steel Association’s website, www.worldsteel.org)

The outlook of the long steel products sector which Masteel operates in is expected to mirror that of the general steel industry.

4.2 Future Prospects of the Masteel Group

With the strong growth being registered this year in Brazil, China, India, Russia, the US as well as the overall economic recovery in other Asian countries, the demand for steel products (including long steel products such as steel bars and steel billets) is expected to increase as compared to 2009 and Masteel expects the overall demand for its steel products to grow. Prices for steel products have continued to rise, underscored by the 100% increase in iron ore prices effective from 1 April 2010.

With the commissioning of a new slit rolling equipment in Masteel's rolling mill in Petaling Jaya, Masteel expects to improve its profit margin by producing new range of steel bars which sells at a price premium over conventional steel bars. The timely installation of this equipment is expected to help enhance Masteel's share of steel bar markets both domestically and abroad.

With the overall strengthening of both demand and prices of steel bars and billets from the various stimulus packages that are being implemented by various governments, Masteel expects to be able to factor in any rise in raw material costs into the selling prices of its products without impeding its targeted sales volume for the year.

5.0 EFFECTS OF THE PROPOSED WARRANTS ISSUE

5.1 Share Capital

The effects of the Proposed Warrants Issue on the share capital of Masteel are as follows:-

	Minimum Scenario		Maximum Scenario	
	No. of Shares	RM	No. of Shares	RM
<u>Issued and paid-up share capital</u>				
As at the LPD ⁽¹⁾	210,786,666	105,393,333	210,786,666	105,393,333
To be issued assuming full placement of the Placement Shares ⁽²⁾	-	-	3,346,666	1,673,333
	210,786,666	105,393,333	214,133,332	107,066,666
Upon full exercise of the Warrants	⁽³⁾ 105,378,333	52,689,167	⁽⁴⁾ 107,066,666	53,533,333
	316,164,999	158,082,500	321,199,998	160,599,999

Notes:

(1) Including the 30,000 treasury shares held as at the LPD.

(2) As at the LPD, a total of 16,120,000 Shares have been issued to investors pursuant to the Private Placement..

(3) Assuming the 30,000 treasury shares will continue to be held by the Company (thus will not be entitled for the Warrants) and that the Company does not exercise its share buy-back authority on or prior to the Entitlement Date.

(4) Assuming the 30,000 treasury shares will be resold in the open market prior to or on the Entitlement Date (thus will be entitled for the Warrants) and that the Company does not exercise its share buy-back authorities on or prior to the Entitlement Date.

As at the LPD, there are no existing convertible securities issued by Masteel.

5.2 Earnings and Earnings Per Share

The Proposed Warrants Issue is not expected to have any material effect on the earnings of the Masteel Group for the financial year ending 31 December 2010, save for the dilutive effect on the earnings per Masteel Share if and when the Warrants are exercised into new Shares, which would increase the issued and paid-up share capital of the Company. However, the degree of any effect of any exercise of the Warrants on the earnings per Masteel Share would be dependent on the quantum of the proceeds arising from the exercise of the Warrants and the returns generated from the utilisation of the Warrants Proceeds.

The Proposed Warrants Issue may be expected to contribute positively to the earnings of the Masteel Group through the raising of fresh proceeds to be used as working capital for the Group's new slit rolling equipment, which allows the Group to reduce its reliance on borrowings in financing the operations of its new line, thus avoiding potential cash outflow for interest servicing costs.

5.3 NA and Gearing

The proforma effects of the Proposed Warrants Issue on the NA per Masteel Share based on the audited consolidated financial statements of Masteel for the financial year ended 31 December 2009 are set out below:-

Minimum Scenario

		(I)	(II)	(III)
	Audited As at 31 December 2009 RM'000	As at the LPD ⁽¹⁾ RM'000	After (I) and the Proposed Warrants Issue ⁽³⁾ RM'000	After (II) and assuming full exercise of the Warrants ⁽⁶⁾ RM'000
Share capital	97,333	105,393	105,393	158,083
Share premium	22,977	31,360 ⁽²⁾	31,360	105,124
Revaluation reserves	31,030	31,030	31,030	31,030
Treasury shares	(30)	(30)	(30)	(30)
Warrants reserves	-	-	42,151 ⁽⁴⁾	-
Retained earnings	266,009	266,009	244,234 ⁽⁵⁾	244,234
Shareholders' equity/ NA	417,319	433,762	454,138	538,441
No. of Shares	194,666,666	210,786,666	210,786,666	316,164,999
NA per Share (RM) ⁽⁷⁾	2.14	2.06	2.15	1.70
Borrowings	264,842	264,842	264,842	224,842 ⁽⁸⁾
Gearing (times)	0.63	0.61	0.58	0.42

Notes:-

(1) As at the LPD, a total of 16,120,000 Shares have been issued to investors pursuant to the Private Placement.

(2) Out of the 16,120,000 Masteel Shares issued to investors pursuant to the Private Placement, 10,700,000 Masteel Shares were issued at RM1.015 each while 5,420,000 Masteel Shares were issued at RM1.03 each.

(3) Assuming the 30,000 treasury shares will continue to be held by the Company and will not be entitled for the Warrants.

(4) Computed based on the theoretical fair value of the Warrants as at the LPD of RM0.40 per Warrant, which was arrived at using the Black-Scholes Option Pricing Model.

(5) After adjusting for the differential in fair value of RM0.20 per Warrant and deducting estimated expenses of RM0.70 million in relation to the Proposed Warrants Issue.

(6) Assuming an exercise price of RM0.80 per Warrant.

(7) Excluding the 30,000 treasury shares held by the Company.

(8) Assuming RM40.0 million of the proceeds raised from the exercise of the Warrants are utilised for repayment of borrowings and the remaining RM44.3 million for working capital purposes.

Maximum Scenario

		(I)	(II)	(III)	(IV)
	Audited as at 31 December 2009	As at the LPD ⁽¹⁾	After full placement of the Placement Shares and resale of the 30,000 treasury shares ⁽³⁾	After (II) and the Proposed Warrants Issue	After (III) and assuming full exercise of the Warrants ⁽⁶⁾
	RM'000	RM'000	RM'000	RM'000	RM'000
Share capital	97,333	105,393	107,067	107,067	160,600
Share premium	22,977	31,360 ⁽²⁾	32,766 ⁽³⁾	32,766	107,713
Revaluation reserves	31,030	31,030	31,030	31,030	31,030
Treasury shares	(30)	(30)	-	-	-
Warrants reserves	-	-	-	42,827 ⁽⁴⁾	-
Retained earnings	266,009	266,009	266,009	243,895 ⁽⁵⁾	243,895
Shareholders' equity/ NA	417,319	433,762	436,872	457,585	543,238
No. of Shares	194,666,666	210,786,666	214,133,332	214,133,332	321,199,998
NA per Share (RM)	2.14 ⁽⁷⁾	2.06 ⁽⁷⁾	2.04	2.14	1.69
Borrowings	264,842	264,842	264,842	264,842	224,842 ⁽⁸⁾
Gearing (times)	0.63	0.61	0.61	0.58	0.41

Notes:-

(1) As at the LPD, a total of 16,120,000 Shares have been issued to investors pursuant to the Private Placement.

(2) Out of the 16,120,000 Masteel Shares issued to investors pursuant to the Private Placement, 10,700,000 Masteel Shares were issued at RM1.015 each while 5,420,000 Masteel Shares were issued at RM1.03 each.

(3) Assuming issuance of the remaining 3,346,666 Placement Shares to investors at an issue price of RM0.92 per Placement Share, which is the five (5)-day VWAP of Masteel Shares up to and including the LPD, and resale of the 30,000 treasury shares at cost.

(4) Computed based on the theoretical fair value of the Warrants as at the LPD of RM0.40 per Warrant, which was arrived at using the Black-Scholes Option Pricing Model.

(5) After adjusting for the differential in fair value of RM0.20 per Warrant and deducting estimated expenses of RM0.70 million in relation to the Proposed Warrants Issue.

(6) Assuming an exercise price of RM0.80 per Warrant.

(7) Excluding the 30,000 treasury shares.

(8) Assuming RM40.0 million of the proceeds raised from the exercise of the Warrants are utilised for repayment of borrowings and the remaining RM45.7 million for working capital purposes.

5.4 Shareholdings of Substantial Shareholders

The Proposed Warrants Issue will have no effect on the shareholdings of the substantial shareholders prior to the exercise of the Warrants into new Masteel Shares by any Warrant holder.

Assuming that all shareholders of the Company subscribe for their respective entitlements under the Proposed Warrants Issue and exercise all of their entitled Warrants into new Masteel Shares, the number of Masteel Shares held by each substantial shareholder will increase proportionately but there would be no change in terms of the percentage of shareholdings in Masteel.

For illustrative purposes only and based on the assumption stated in the preceding paragraph, the effects of the Proposed Warrants Issue and the full exercise of the Warrants on the substantial shareholders' shareholdings are as follows:

Minimum Scenario								
	As at 18 May 2010				(I) After the Proposed Warrants Issue			
	Direct No. of Shares	%	Indirect No. of Shares	%	Direct No. of Shares	%	Indirect No. of Shares	%
TYT Resources Sdn Bhd	64,076,219	30.40	-	-	64,076,219	30.40	-	-
Lembaga Tabung Haji	19,364,500	9.19	-	-	19,364,500	9.19	-	-
Dato' Sri Tai Hean Leng @ Tek Hean Leng	4,082,000	1.94	64,076,219	30.40 ¹	4,082,000	1.94	64,076,219	30.40 ¹
Tai Ho Seng @ Teh Hoo Sing (deceased)	1,333,333	0.63	64,076,219	30.40 ¹	1,333,333	0.63	64,076,219	30.40 ¹
Tai May Chean	-	-	70,635,885	33.52 ²	-	-	70,635,885	33.52 ²
Tay Kwok Peng (Administrator of the Estate of Tai Chet Siang)	-	-	64,076,219	30.40 ¹	-	-	64,076,219	30.40 ¹
	(II) After (I) and assuming full exercise of the Warrants							
	Direct No. of Shares	%	Indirect No. of Shares	%				
TYT Resources Sdn Bhd	96,114,329	30.40	-	-				
Lembaga Tabung Haji	29,046,750	9.19	-	-				
Dato' Sri Tai Hean Leng @ Tek Hean Leng	6,123,000	1.94	96,114,329	30.40 ¹				
Tai Ho Seng @ Teh Hoo Sing (deceased)	2,000,000	0.63	96,114,329	30.40 ¹				
Tai May Chean	-	-	105,953,828	33.52 ²				
Tay Kwok Peng (Administrator of the Estate of Tai Chet Siang)	-	-	96,114,329	30.40 ¹				

Notes:

- (1) Deemed interested pursuant to Section 6A(4)(c) of the Act by virtue of their interests in TYT Resources Sdn Bhd.
- (2) Deemed interested pursuant to Section 6A(4)(c) of the Act by virtue of her interest in TYT Resources Sdn Bhd and Kemajuan Rekacekap Sdn Bhd.

Maximum Scenario									
	As at 18 May 2010				(I) After full placement of the Placement Shares and resale of the 30,000 treasury shares*				
	Direct No. of Shares	%	Indirect No. of Shares	%	Direct No. of Shares	%	Indirect No. of Shares	%	
TYT Resources Sdn Bhd	64,076,219	30.40	-	-	64,076,219	29.92	-	-	
Lembaga Tabung Haji	19,364,500	9.19	-	-	19,364,500	9.04	-	-	
Dato' Sri Tai Hean Leng @ Tek Hean Leng	4,082,000	1.94	64,076,219	30.40 ¹	4,082,000	1.91	64,076,219	29.92 ¹	
Tai Ho Seng @ Teh Hoo Sing (deceased)	1,333,333	0.63	64,076,219	30.40 ¹	1,333,333	0.62	64,076,219	29.92 ¹	
Tai May Chean	-	-	70,635,885	33.52 ²	-	-	70,635,885	32.99 ²	
Tay Kwok Peng (Administrator of the Estate of Tai Chet Siang)	-	-	64,076,219	30.40 ¹	-	-	64,076,219	29.92 ¹	
	(II) After (I) and the Proposed Warrants Issue				(III) After (II) and assuming full exercise of the Warrants				
	Direct No. of Shares	%	Indirect No. of Shares	%	Direct No. of Shares	%	Indirect No. of Shares	%	
TYT Resources Sdn Bhd	64,076,219	29.92	-	-	96,114,329	29.92	-	-	
Lembaga Tabung Haji	19,364,500	9.04	-	-	29,046,750	9.04	-	-	
Dato' Sri Tai Hean Leng @ Tek Hean Leng	4,082,000	1.91	64,076,219	29.92 ¹	6,123,000	1.91	96,114,329	29.92 ¹	
Tai Ho Seng @ Teh Hoo Sing (deceased)	1,333,333	0.62	64,076,219	29.92 ¹	2,000,000	0.62	96,114,329	29.92 ¹	
Tai May Chean	-	-	70,635,885	32.99 ²	-	-	105,953,828	32.99 ²	
Tay Kwok Peng (Administrator of the Estate of Tai Chet Siang)	-	-	64,076,219	29.92 ¹	-	-	96,114,329	29.92 ¹	

Notes:

- * Assuming that none of the Placement Shares and 30,000 treasury shares are placed out to the substantial shareholders.
- (1) Deemed interested pursuant to Section 6A(4)(c) of the Act by virtue of their interests in TYT Resources Sdn Bhd.
- (2) Deemed interested pursuant to Section 6A(4)(c) of the Act by virtue of her interest in TYT Resources Sdn Bhd and Kemajuan Rekacekap Sdn Bhd.

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6.0 APPROVALS REQUIRED

The Proposed Warrants Issue is conditional upon approvals being obtained from the following:-

- (a) Bursa Securities, for the admission of the Warrants to the Official List of Bursa Securities, and the listing of and quotation for the Warrants and the new Masteel Shares to be issued upon exercise of the Warrants on the Main Market of Bursa Securities;
- (b) BNM, for the issuance of the Warrants to non-resident shareholders of the Company pursuant to the Proposed Warrants Issue (if any) and for any additional Warrants to be issued from time to time arising from any adjustments made pursuant to the provisions of the deed poll governing the Warrants to be executed by the Company;
- (c) MITI;
- (d) shareholders of Masteel at the forthcoming EGM for the Proposed Warrants Issue; and
- (e) any other relevant authorities/parties (if applicable).

In addition, the Proposed Warrants Issue is also subject to the registration of the Abridged Prospectus with the SC.

7.0 HISTORICAL MARKET PRICES OF MASTEEL SHARES

The monthly highest and lowest prices of Masteel Shares as traded on Bursa Securities for the past twelve (12) months are as follows:

		Highest (RM)	Lowest (RM)
2009	June	1.039	0.843
	July	1.020	0.843
	August	1.020	0.910
	September	0.960	0.900
	October	1.120	0.910
	November	1.070	0.950
	December	1.000	0.945
2010	January	1.180	0.980
	February	1.140	1.010
	March	1.130	1.040
	April	1.110	1.030
	May	1.060	0.900

The last transacted price of Masteel Shares on 17 May 2010, being the date immediately before the announcement of the Proposed Warrants Issue was RM1.01 per Share.

The last transacted price of Masteel Shares as at 4 June 2010, being prior to the printing of this Circular, was RM0.910 per Share.

(Source: Bloomberg)

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8.0 PROPOSALS ANNOUNCED BUT PENDING IMPLEMENTATION

The Board confirms that, as at the date of this Circular, save for the Proposed Warrants Issue which is the subject matter of this Circular and as disclosed below, there are no other corporate proposals which have been announced by the Company but are pending implementation:-

- (i) the private placement of up to 19,466,666 new Masteel Shares, representing not more than ten percent (10%) of the issued and paid-up share capital of the Company. As at the LPD, 16,120,000 Masteel Shares issued pursuant to the Private Placement have been placed out, listed and quoted on the Main Market of Bursa Securities; and
- (ii) the subscription and share sale agreement dated 2 June 2010 between Masteel, IBA Pharma SA (“**IBA**”) and Bio Molecular Industries Sdn Bhd (“**BioM**”), a wholly-owned subsidiary of Masteel, whereby IBA shall subscribe for 5,000,000 new ordinary shares of RM1.00 each in BioM (“**BioM Shares**”) and Masteel shall sell to IBA 5,112,000 BioM Shares for a cash consideration of RM1,000 (“**Proposed Partnership**”). Further details of the Proposed Partnership are as disclosed in the Company’s announcement dated 2 June 2010.

The Proposed Warrants Issue is not conditional upon the Private Placement, the Proposed Partnership and/or any other corporate proposals.

9.0 ESTIMATED TIME FRAME FOR COMPLETION AND TENTATIVE TIMETABLE FOR THE PROPOSED WARRANTS ISSUE

The Proposed Warrants Issue is expected to be completed by third (3rd) quarter of 2010. The tentative timetable for the Proposed Warrants Issue is as follows:-

Event	Date
Notice of Books Closure Date	12 July 2010
Books Closure Date	26 July 2010
Commencement of trading of rights	27 July 2010
Despatch of the Abridged Prospectus	28 July 2010
Cessation of trading of rights	3 August 2010
Closing date for application for Warrants	10 August 2010
Listing of Warrants on the Main Market of Bursa Securities	24 August 2010

Note:

The above timetable is for all intent and purposes merely tentative, and no assurance can be given in any manner and by any party that the tentative dates will indeed be achieved. The tentative dates stated above may be subject to change(s), depending on the eventual timing or unfolding of various subjective factors or events including implementation procedures, circumstances unforeseen or beyond the control of Masteel and/or its advisers, etc. Any delay in any of the above mentioned date or event would likely result in a delay of subsequent dates or events.

10.0 INTERESTS OF DIRECTORS AND MAJOR SHAREHOLDERS, AND/OR PERSONS CONNECTED TO THEM

None of the Directors and/or major shareholders of Masteel and persons connected to them have any interest, direct or indirect, in the Proposed Warrants Issue beyond their respective entitlements under the Proposed Warrants Issue (if any), which are also available to other shareholders of the Company, including the rights to apply for excess Warrants.

11.0 DIRECTORS’ RECOMMENDATION

After considering all aspects of the Proposed Warrants Issue including the Warrants Proceeds to be raised and the proposed utilisation of the Warrants Proceeds as disclosed in Section 2.5, the rationale as disclosed in Section 3.0, the overview and future prospects of the industry as disclosed in Section 4.0 and the financial effects as disclosed in Section 5.0 of this letter to the shareholders of Masteel, the

Board is of the opinion that the Proposed Warrants Issue is in the best interest of the Company. Accordingly, the Board recommends that you vote in favour of the Proposed Warrants Issue at the forthcoming EGM premised on the above bases.

12.0 EGM

The EGM for the Proposed Warrants Issue, notice of which is enclosed in this Circular, will be held at Rebana 2 & 3, Level 1, Convention Centre, Grand BlueWave Hotel Shah Alam, Persiaran Perbandaran, Seksyen 14, 40000 Shah Alam, Selangor Darul Ehsan on Thursday, 24 June 2010 at 3.45 p.m., or immediately after the conclusion of the Company's Thirty-Eighth AGM (which will be held at the same venue on the same day at 3.00 p.m.), whichever is earlier, or at any adjournment thereof for the purpose of considering and if thought fit, passing the relevant resolution pertaining to the Proposed Warrants Issue.

If you are unable to attend and vote in person at the EGM for the Proposed Warrants Issue, you should complete, sign and return the Proxy Form enclosed with this Circular in accordance with the instructions printed therein as soon as possible so as to arrive at the registered office of the Company at Unit B-05-3A, 5th Floor, Block B (West Wing), PJ8 Office Suite, No. 23, Jalan Barat, Seksyen 8, 46050 Petaling Jaya, Selangor Darul Ehsan no later than forty-eight (48) hours before the time appointed for holding the EGM or any adjournment thereof. The lodgement of the Proxy Form will not preclude you from attending and voting in person at the EGM should you subsequently wish to do so.

13.0 FURTHER INFORMATION

Shareholders are advised to refer to the attached Appendix for further information.

Yours faithfully,
For and on behalf of the Board
MALAYSIA STEEL WORKS (KL) BHD

DATO' SRI TAI HEAN LENG @ TEK HEAN LENG
Managing Director/ Chief Executive Officer

ADDITIONAL INFORMATION**1. RESPONSIBILITY STATEMENT**

This Circular has been seen and approved by the Board and the Directors collectively and individually accept full responsibility for the accuracy of the information given in this Circular and confirm that, after having made all reasonable enquiries and to the best of their knowledge and belief, there are no false or misleading statements or other material facts the omission of which would make any statement herein misleading.

2. CONSENTS

MIMB has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name and all references thereon in the form and context in which they appear.

3. DECLARATIONS

To the best of MIMB's knowledge and belief, MIMB is not aware of any potential conflict of interest that exists or is likely to exist in respect of its role as an Adviser to the Company for the Proposed Warrants Issue.

Notwithstanding, MIMB wishes to inform that EBB, the holding company of MIMB, has extended various banking facilities to the Masteel Group with a limit of up to RM98 million comprising overdraft and trade financing facilities. As at 3 June 2010, the outstanding balance of the said banking facilities amounted to approximately RM87.8 million.

MIMB is nevertheless of the opinion that the relationship between EBB and the Masteel Group does not give rise to a material conflict of interest situation due to the following reasons:

- (a) MIMB (apart from the fees earned from the role of an Adviser to Masteel for the Proposed Warrants Issue and any participation in the underwriting of the Warrants) and EBB will not derive any direct financial benefit from the Proposed Warrants Issue. In this regard, it may be further observed that:
 - (i) The Proposed Warrants Issue merely involves an issue of securities to all existing shareholders of Masteel on a rights or pro-rata basis. MIMB and EBB do not hold any equity interest in Masteel, and have no interest in the Warrants.
 - (ii) The Company intends to utilise the proceeds to be raised from the Proposed Warrants Issue as additional working capital for the Group.
- (b) In carrying out its role as an Adviser to the Company, MIMB is obliged to adhere to policies, guidelines, requirements, etc. issued by the relevant authorities such as the SC, Bursa Securities and BNM. Further, there are other professional advisers involved in the Proposed Warrants Issue exercise, in particular, solicitors.
- (c) MIMB's role as an Adviser for the Proposed Warrants Issue is carried out professionally and objectively, with regard to relevant terms of the due diligence planning memorandum. In this regard, due diligence processes and verification exercises (involving active participation by the Board and senior management of Masteel, professional solicitors and MIMB) have been duly undertaken and performed in relation to the preparation of relevant documents relating to the Proposed Warrants Issue.

4. MATERIAL LITIGATION, CLAIMS OR ARBITRATION

As at the LPD, the Masteel Group is not engaged in any material litigation, claims or arbitration, either as plaintiff or defendant, and the Directors of Masteel do not have any knowledge of any proceedings pending or threatened against the Masteel Group or of any facts likely to give rise to any proceeding which may materially and adversely affect the financial position or business of the Masteel Group save for the following:

- (i) On 7 March 1993, Kamseng Machine Works Pte Ltd (“**Kamseng**”) issued a letter of demand against Masteel for a sum of SGD1.06 million in respect of alleged variation orders executed by Kamseng and suggested a reference to arbitration. Kamseng filed an Originating Summons on 9 April 1997 for appointment of an arbitrator which was contested by Masteel. Kamseng’s application was allowed by the High Court and Masteel appealed to the Court of Appeal but the appeal was dismissed on 26 February 2003. Masteel has since filed an application for leave to appeal against the Court of Appeal’s decision to the Federal Court on 14 March 2003 but the application for leave to appeal was dismissed on 13 July 2004. Arbitration has commenced and the parties have filed their respective claims and counter-claims. Masteel has a counter-claim in excess of Kamseng’s claim in respect of damages for breach of contract and the cost incurred in hiring replacement contractors to complete the works and remedy the defects. The solicitors of Masteel handling the legal suit are of the opinion that Masteel’s chance of success in the claim proper is good. Masteel has filed an application in court for security for cost and on 21 June 2007, the court allowed the application. The arbitrator has also stayed the arbitration proceedings pending the outcome of that application for security for cost. Kamseng has filed an appeal to the Court of Appeal against this order for security for cost. Both parties had filed leave applications to the Court of Appeal on 22 April 2008 and leave was granted for both parties to file the appeal within 14 days. On 30th April 2008, the Company had filed their Notice of Appeal. Kamseng had served their Record of Appeal and the Company has filed and served its Record of Appeal on 6th July 2009 and now awaiting a hearing to be fixed by the Court of Appeal for the said appeals. The hearing date has not been fixed by the Court of Appeal.
- (ii) On 19 July 2004, Sergam Berhad (“**Sergam**”) issued a notice of demand against Masteel claiming for a sum in the amount of RM7,560,243.60 together with interest at 8% per annum calculated on a daily basis from the date of demand until full settlement for goods sold and delivered to Masteel. Sergam subsequently filed their Statement of Claim after which Masteel filed a Statement of Defence and Counterclaim. Sergam filed their Defence to the Counterclaim on 1 September 2006 and their Summary Judgment Application on 19 June 2007 which was fixed for mention on 6 May 2008. On 13 August 2009, the High Court dismissed Sergam’s Summary Judgment application with costs. Thereafter, Sergam’s solicitor filed and served a sealed copy of the case management notice and the said notice was fixed for mention on 25 May 2010 pending parties filing Agreed Facts, Issues to be Tried and respective Summary of Case. On 25 May 2010, the above matter was adjourned to 9 June 2010 for mention. Masteel’s solicitors are of the opinion that the chances of succeeding in this case are good.
- (iii) Cheng Kung Engineering & Construction Sdn Bhd (“**Cheng Kung**”) and Masteel entered into an agreement whereby Cheng Kung agreed to supply equipment and to provide engineering services to Masteel to be installed for the purpose of erection of a Fume Plant for the sum of RM1,919,123.09 (“**Agreement**”). Cheng Kung allegedly claims that they have completed the supply and installation of the equipment and the said equipment was duly delivered to Masteel in good service and order in accordance to the terms and conditions of the Agreement. Pursuant thereto, Cheng Kung had on 11 October 2001 brought a legal suit against Masteel claiming for the balance sum of contract price amounting to RM467,357.83 and interest accruing in the sum of RM182,996.03 up to 1 July 2001.

On the other hand, Masteel claims that Cheng Kung failed to comply with the terms and conditions of the said Agreement. Masteel states that Cheng Kung failed to complete the said works in accordance with the said Agreement and the time schedule of the Agreement. As a consequence, Masteel had suffered losses as they had to use their own workers and/or an independent contractor to complete the said works where Cheng Kung had failed to do so.

As a result, Masteel counterclaims from the Plaintiff a sum of RM143,934.00 in damages for the delay of the said works; a sum of RM143,934.00 in damages for Cheng Kung's failure to complete the said works in accordance with the given specification and/or flaws on the work done and/or for Cheng Kung's failure to comply with the warranty; and a sum of RM622,000.00 for the value of the work done by a third party because of Cheng Kung's failure to complete the work done. The amended statement of defence and counter claim of Masteel is dated 12 December 2002.

Cheng Kung applied to court for summary judgment by admission against Masteel (Enclosure 13), which was dismissed by the Learned Senior Assistant Registrar with costs on 9 November 2004. Cheng Kung filed an appeal (Enclosure 40).

Masteel's solicitors filed an application and obtained an order to amend the Statement of Defence and to include Counter Claim (Enclosure 31). Cheng Kung appealed against this decision.

On 8 November 2005, the Learned High Court Judge dismissed both the aforesaid appeals by Cheng Kung with costs. Cheng Kung filed appeals against these decisions, which came up for hearing at the Court of Appeal on 4 February 2010.

On 4 February 2010, the Court of Appeal allowed Cheng Kung's appeal in relation to Enclosure 40, however the Court of Appeal granted Masteel's solicitors' application for stay until the outcome of trial on the Counter Claim. Cheng Kung's appeal in relation to Enclosure 31 was dismissed with costs.

On 5 March 2010, Masteel's solicitors filed an application for leave to appeal in respect of the Enclosure 40 at the Federal Court and the said application is now fixed for hearing on 21 June 2010. Masteel's solicitors are of the opinion that Masteel has an average chance of success in this appeal.

5. MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES

Save as disclosed below, there are no other material commitments and contingent liabilities incurred or known to be incurred by the Masteel Group as at the LPD:-

	RM'000
<u>Capital expenditure</u>	
Approved and contracted for:	
Property, plant and equipment	13,596
	<u>13,596</u>

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6. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents are available for inspection at the registered office of Masteel at Unit B-05-3A, 5th Floor, Block B (West Wing), PJ8 Office Suite, No. 23, Jalan Barat, Seksyen 8, 46050 Petaling Jaya, Selangor Darul Ehsan, Malaysia during normal business hours from the date of this Circular up to and including the date of the EGM:-

- (a) Memorandum and Articles of Association of Masteel;
- (b) the letter of consent referred to in Section 2 above;
- (c) the relevant cause papers in respect of the material litigations referred to in Section 4 above;
- (d) the audited consolidated financial statements of the Masteel Group for the past two (2) FYE 31 December 2008 and 31 December 2009 and the unaudited financial statements of the Masteel Group for the three (3)-month financial period ended 31 March 2010; and
- (e) the draft deed poll constituting the Warrants to be issued pursuant to the Proposed Warrants Issue.

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MALAYSIA STEEL WORKS (KL) BHD

www.masteel.com.my

(Company No. 7878-V)

(Incorporated in Malaysia under the Companies Act, 1965)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an Extraordinary General Meeting (“EGM”) of Malaysia Steel Works (KL) Bhd (“**Masteel**” or the “**Company**”) will be held at Rebana 2 & 3, Level 1, Convention Centre, Grand BlueWave Hotel Shah Alam, Persiaran Perbandaran, Seksyen 14, 40000 Shah Alam, Selangor Darul Ehsan on Thursday, 24 June 2010 at 3.45 p.m., or immediately after the conclusion of the Company’s Thirty-Eighth (38th) Annual General Meeting (which will be held at the same venue on the same day at 3.00 p.m.), whichever is earlier, or at any adjournment thereof for the purpose of considering and if thought fit, passing the following resolution, with or without any modifications:-

ORDINARY RESOLUTION

PROPOSED RENOUNCEABLE RIGHTS ISSUE OF UP TO 107,066,666 FIVE (5)-YEAR WARRANTS (“WARRANTS”) ON THE BASIS OF ONE (1) WARRANT FOR EVERY TWO (2) EXISTING ORDINARY SHARES OF RM0.50 EACH IN MASTEEL (“MASTEEL SHARES”) HELD ON AN ENTITLEMENT DATE TO BE DETERMINED LATER AT AN INDICATIVE ISSUE PRICE OF RM0.20 PER WARRANT (“PROPOSED WARRANTS ISSUE”)

“**THAT**, subject to the Companies Act, 1965, the Articles of Association of the Company, the Listing Requirements of Bursa Malaysia Securities Berhad (“**Bursa Securities**”) for the Main Market, the approval of Bank Negara Malaysia and subject further to the approval of Bursa Securities and/or other regulatory authorities where necessary for the Warrants to be admitted to the Official List of Bursa Securities and for the listing of and quotation for the Warrants and new Masteel Shares to be issued upon exercise of the Warrants, approval be and is hereby given to the Directors of the Company to:

- (i) issue and allot up to 107,066,666 Warrants, by way of renounceable provisional allotment to the registered shareholders of the Company whose names appear on the Record of Depositors at the close of business on an entitlement date to be determined and announced by the Directors of the Company, on the basis of one (1) Warrant for every two (2) existing Masteel Shares held at an issue price to be determined on the basis as set out in Section 2.2 of the Circular to Shareholders of Masteel dated 9 June 2010 (the “**Circular**”) and announced later by the Board and to utilise the proceeds of the Proposed Warrants Issue by the Company for the purposes as set out in Section 2.5 of the Circular. Each Warrant entitles the holder thereof to subscribe for one (1) new Masteel Share at an exercise price to be determined on the basis as set out in Section 2.3 of the Circular, subject to any adjustments in accordance with the provisions of the deed poll to be executed by the Directors of the Company constituting the Warrants, at any time during the exercise period commencing on and including the date of issue of the Warrants and expiring five (5) years from the date of issue of the Warrants (“**Exercise Period**”);
- (ii) allot and issue new Masteel Shares pursuant to the exercise of any Warrant (subject to any adjustments to the exercise rights attached to and the number of the Warrants made in accordance with the deed poll to be executed by the Directors of the Company constituting the Warrants) and the new Masteel Shares so issued and allotted pursuant to the exercise of the Warrants shall rank *pari passu* in all respects with the then existing Masteel Shares except that they will not be entitled to any dividends, that may be declared prior to the date of exercise of the Warrants, nor shall they be entitled to any distributions or entitlements for which the entitlement date is prior to the date of exercise of the Warrants;
- (iii) allot and issue any further warrants as may be required or permitted to be issued as a consequence of the adjustment pursuant to the provisions of the deed poll to be executed by the Directors of the Company constituting the Warrants (“**Further Warrants**”) and which shall be treated as equal in all respects and form part of the same series of the Warrants, and such number of new Masteel Shares credited as fully paid-up arising from the exercise of the exercise rights represented by such Further Warrants (subject to any further adjustments to the exercise rights attached to and the number of the Further Warrants made in accordance with the deed poll to be executed by the Directors of the

Company constituting the Warrants), and that such new Masteel Shares so issued and allotted shall, upon allotment and issue, rank *pari passu* in all respects with the then existing ordinary shares of the Company except that they shall not be entitled to any dividends that may be declared prior to the date of exercise of the Further Warrants, nor shall they be entitled to any distributions or entitlements for which the entitlement date is prior to the date of exercise of the Further Warrants; and

- (iv) give effect to the aforesaid with full power to assent to any modification, variation and/or amendment, as may be required/approved by the relevant authorities, to deal with fractional Warrants arising from the Proposed Warrants Issue to shareholders in their absolute discretion deem fit and expedient, and to take up all steps and to execute or enter into all such agreements, arrangements, undertakings, indemnities, transfers, assignments, guarantees and documents including the deed poll and the underwriting agreement as may be required in order to implement, finalise and give full effect to the said Proposed Warrants Issue in the best interest of the Company.”

By Order of the Board

Tai Yit Chan (MAICSA 7009143)
Wong Lai Kuan (MAICSA 7032123)
Company Secretaries
Petaling Jaya
9 June 2010

Notes:-

1. *A member [other than an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991] entitled to attend and vote at the Meeting is entitled to appoint a maximum of two (2) Proxies to attend and vote on his (her) behalf. A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.*
2. *Where a member appoints two (2) Proxies, the appointment shall be invalid unless he/she specifies the proportions of his (her) holdings to be represented by each Proxy.*
3. *Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one (1) Proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.*
4. *The Proxy Form shall be signed by the appointer or his (her) attorney duly authorised in writing or, if the member is a corporation, must be executed under its common seal or by its duly authorised attorney or officer.*
5. *The instrument appointing a Proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority must be deposited by hand at or by facsimile transmission tot the Registered Office of the Company at Unit B-05-3A, 5th Floor, Block B (West Wing), PJ8 Office Suite, No. 23, Jalan Barat, Seksyen 8, 46050 Petaling Jaya, Selangor Darul Ehsan not less than 48 hours before the time set for the Meeting or any adjournment thereof.*

**MALAYSIA STEEL WORKS (KL) BHD**

www.masteel.com.my

(Company No. 7878-V)

(Incorporated in Malaysia under the Companies Act, 1965)

PROXY FORM

No. of Shares	
CDS Account No.	

I/We,(NRIC No. /Company No.)

of

being a member of MALAYSIA STEEL WORKS (KL) BHD hereby appoint the Chairman of the Meeting or

.....(NRIC No.)

ofor failing whom.....

(NRIC No.) of

as my/our Proxy(ies) to vote for me/us on my/our behalf at the Extraordinary General Meeting of the Company to be held at Rebana 2 & 3, Level 1, Convention Centre, Grand BlueWave Hotel Shah Alam, Persiaran Perbandaran, Seksyen 14, 40000 Shah Alam, Selangor Darul Ehsan on Thursday, 24 June 2010 at 3.45 p.m., or immediately after the conclusion of the Company's Thirty-Eighth Annual General Meeting (which will be held at the same venue on the same day at 3.00 p.m.), whichever is earlier, or at any adjournment thereof on the following resolution in the manner indicated below:-

	RESOLUTION		FOR	AGAINST
1.	Proposed Warrants Issue	Ordinary Resolution		

(Please indicate with an 'X' in the spaces provided how you wish your votes to be cast. If you do not do so, the proxy will vote or abstain from voting at his discretion.)

For appointment of two proxies, percentage of shareholdings to be represented by the proxies:

Signature/ Common Seal

Number of shares held:

Date:

Contact No.:

Proxy 1
Proxy 2

Total

Percentage

%

%

100%

Notes:-

1. A member [other than an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991] entitled to attend and vote at the Meeting is entitled to appoint a maximum of two (2) Proxies to attend and vote on his (her) behalf. A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
2. Where a member appoints two (2) Proxies, the appointment shall be invalid unless he(she) specifies the proportions of his (her) holdings to be represented by each Proxy.
3. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one (1) Proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
4. The Proxy Form shall be signed by the appointer or his (her) attorney duly authorised in writing or, if the member is a corporation, must be executed under its common seal or by its duly authorised attorney or officer.
5. The instrument appointing a Proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority must be deposited by hand at or by facsimile transmission to the Registered Office of the Company at Unit B-05-3A, 5th Floor, Block B (West Wing), PJ8 Office Suite, No. 23, Jalan Barat, Seksyen 8, 46050 Petaling Jaya, Selangor Darul Ehsan not less than 48 hours before the time set for the Meeting or any adjournment thereof.



Fold this flap for sealing

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AFFIX
STAMP

The Secretary
MALAYSIA STEEL WORKS (KL) BHD (7878-V)
Unit B-05-3A
5th Floor, Block B (West Wing)
PJ8 Office Suite
No. 23, Jalan Barat
Seksyen 8
46050 Petaling Jaya
Selangor Darul Ehsan
Malaysia

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