

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

**PROPOSED PRIVATE PLACEMENT OF UP TO 42,500,000 NEW ORDINARY SHARES IN
MASTEEL (“MASTEEL SHARE(S)” OR “SHARE(S”), REPRESENTING UP TO
APPROXIMATELY 10% OF THE TOTAL NUMBER OF ISSUED SHARES OF MASTEEL
(EXCLUDING TREASURY SHARES) PURSUANT TO SECTIONS 75 AND 76 OF THE
COMPANIES ACT 2016 (“PROPOSED PRIVATE PLACEMENT”)**

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 private placement of up to 42,500,000 Masteel Shares, representing up to approximately 10% of the Company’s total number of issued shares (“**Placement Share(s)**”). The Proposed Private Placement will be undertaken in accordance with the Subscription Agreement entered into with Macquarie Bank Limited (“**Macquarie Bank**” or the “**Investor**”) on even date, as set out in **Section 2.4** of this announcement.

Further details on the Proposed Private Placement are set out in the ensuing sections.

2. DETAILS OF THE PROPOSED PRIVATE PLACEMENT

2.1 Size of the Proposed Private Placement

As at 30 August 2019, being the latest practicable date prior to this announcement (“**LPD**”), the number of issued shares in Masteel is 427,239,831 Masteel Shares, of which 1,675,000 Masteel Shares are held as treasury shares (“**Treasury Shares**”). The Proposed Private Placement will involve the placement of up to 42,500,000 Placement Shares, representing up to approximately 10% of the Company’s total number of issued shares excluding Treasury Shares.

The Proposed Private Placement will be implemented in line with the general mandate under Sections 75 and 76 of the Companies Act 2016 (“**Act**”), which Masteel obtained from its shareholders at its annual general meeting on 20 June 2019 (“**General Mandate**”). Under the General Mandate, the Board is authorised to allot and issue new Masteel Shares of up to 10% of the Company’s issued share capital.

2.2 Basis of arriving at the issue price of the Placement Shares

The issue price of the Placement Shares will be fixed at a later date, in accordance with the terms of the Subscription Agreement (as defined in **Section 2.4** below) and in compliance with Paragraph 6.04(a) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“**Bursa Securities**”) (“**Listing Requirements**”).

Pursuant to Paragraph 6.04(a) of the Listing Requirements and the Subscription Agreement, the Placement Shares may be issued at a discount, if any, of not more than 10.0% to the 5-day volume weighted average market price (“**VWAP**”) of Masteel Shares immediately preceding the price-fixing date.

For illustration purposes, we have assumed that the indicative issue price of the Placement Shares is RM0.38 per Placement Share. The indicative issue price of RM0.38 represents a discount of approximately 9.52% or RM0.04 to the 5-day VWAP of Masteel Shares up to and including the LPD of RM0.42 per Masteel Share.

2.3 Ranking and listing of the Placement Shares

The Placement Shares will, upon allotment and issue, rank equally in all respects with the existing Masteel Shares, except that the Placement Shares will not be entitled to any dividend, right, allotment and/or other distribution that may be declared, made or paid where the entitlement date precedes the date of allotment and issuance of the Placement Shares.

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

2.4 Placement to Macquarie Bank

In view of the Proposed Private Placement, the Company had on even date entered into a conditional share subscription agreement with Macquarie Bank in relation to the issuance and allotment of up to 42,500,000 Placement Shares to the Investor (“**Subscription Agreement**”).

The Proposed Private Placement is expected to be implemented in multiple tranches within 12 months from the date on which the conditions precedent in the Subscription Agreement are satisfied, subject to the period approved by Bursa Securities for the Proposed Private Placement and any extended period as may be approved by Bursa Securities, depending on the prevailing market conditions and investors’ interest at the point of implementation.

The details of the Subscription Agreement are as follows:-

(a) Key terms of the Subscription Agreement

Issuer	:	Masteel
Investor	:	Macquarie Bank
Subscription Total	:	Up to 42,500,000 Placement Shares. Subject to the terms and conditions of the Subscription Agreement, Masteel grants to the Investor:-
	(a)	the right to initially subscribe for up to 25,500,000 Placement Shares (“ 1st Tranche ”); and
	(b)	the conditional right to further subscribe for up to 17,000,000 Placement Shares (“ 2nd Tranche ”)
Subscription Notice	:	A notice from the Investor to Masteel in the prescribed form set out in the Subscription Agreement
Subscription Notice Date	:	The date on which the Company receives the relevant Subscription Notice from Macquarie Bank
Conditions precedent to the subscription of Placement Shares (“ Conditions Precedent ”)	:	The conditions precedent to the subscription will include but are not limited to:-
	(a)	the Investor notifying the Issuer that it is satisfied with the results of the due diligence investigations;
	(b)	the Investor obtaining all necessary internal approvals to proceed with the transaction as contemplated in the Subscription Agreement;
	(c)	all necessary resolution(s) to approve, implement and effect the transactions contemplated by the transaction as contemplated in the Subscription Agreement (including but not limited to a resolution to authorise the directors of the Issuer to allot and issue the Placement Shares) have been passed at a duly convened general meeting of the Company;

- (d) all necessary authorisations for the issue and delivery and listing of the Placement Shares and to approve, implement and effect the transactions contemplated by the Subscription Agreement have been obtained or made and are all in full force and effect, provided that where any authorisation is subject to any conditions, such conditions being acceptable to the Company and the Investor;
- (e) no facts, matters or circumstances exist which are required to be announced by the Company pursuant to the relevant laws and regulations and which have not been so announced;
- (f) no other event or series of events has occurred which may have a Material Adverse Effect (as defined in the Subscription Agreement);
- (g) all filings related to the transaction has been duly completed; and
- (h) there having been delivered to the Investor opinions as to Malaysian law, in form and substance satisfactory to the Investor, confirming the legality and enforceability of the transaction.

The Company must also deliver to the Investor the following:-

- (a) duly executed counterparts by Masteel of each transaction document;
- (b) evidence that each transaction document has been duly stamped, where necessary;
- (c) a verification certificate substantially in the form as set out in the Subscription Agreement, together with the corresponding attachments thereto;
- (d) shareholders' approval(s) pursuant to the Act for the issue of the Placement Shares in accordance with the transaction documents and the Listing Requirements;
- (e) approval from the Directors of Masteel for the execution and performance by Masteel of the transaction documents; and
- (f) Bursa Securities' approval for the listing of the Placement Shares (including any relevant waivers obtained) and any other regulatory approvals deemed reasonably necessary for the Proposed Private Placement,

provided that where any authorisation is subject to any conditions, such conditions being acceptable to the Parties, acting reasonably.

Subscription Period	: The subscription period shall commence from and including the date on which the Conditions Precedent are satisfied to the Subscription Expiry Date.
Subscription Price	: On each Subscription Notice Date, the subscription price of each Placement Share shall be an amount equal to 91%* of the VWAP of the Masteel Shares as traded on Bursa Securities during the 5 consecutive Trading Days immediately preceding the relevant Subscription Notice Date calculated to 3 decimal places, rounded up. In any event, the Subscription Price shall not be less than the Floor Price (as defined below), unless otherwise agreed between the Parties pursuant to the terms and conditions of the Subscription Agreement.
	Subject to Paragraph 6.04(a) of the Listing Requirements, crossing transactions and block trades (whether on-market or off-market) and transactions executed by any Group Member (as defined in the Subscription Agreement), or director of such Group Member shall be excluded from calculating the VWAP of Masteel Shares.
	<i>* This represents a discount of not more than 10% to the 5-day VWAP immediately preceding the price-fixing date in accordance to Paragraph 6.04(a) of the Listing Requirements.</i>
Committed Subscription	: Subject to the Subscription Total and the terms and conditions of the Subscription Agreement, the Investor shall subscribe to a minimum number of Masteel Shares which shall be at least 12% of the traded volume of Masteel Shares on the days of which Bursa Securities is open for trading ("Trading Day(s)") in the Subscription Period ("Minimum Subscription Shares"), excluding any Unqualified Trading Days.
	The Committed Subscription shall be cancelled immediately when a termination notice is issued pursuant to the Subscription Agreement.
Unqualified Trading Day	: A Trading Day on which any of the following events, as determined by Macquarie Bank, occurs:- (a) where the traded price of Masteel Shares during any time of such Trading Day is either:- (i) equal to or below 110% of the Floor Price; or (ii) equal to or below 90% of the closing price on the preceding Trading Day; (b) when a Market Disruption Event or a Disruption Event (as defined in the Subscription Agreement) occurs or is continuing during any time of such Trading Day; (c) when the traded volume of Masteel Shares on such Trading Day is 300% or more of the median daily traded volume of the immediately preceding 10 Trading Days; (d) where there are Placement Shares that have not been delivered to the Investor's account in accordance with the terms of the Subscription Agreement;

	<ul style="list-style-type: none"> (e) an event that would require the Investor to undertake a take-over offer for all or substantially all of Masteel Shares and other securities that the Investor does not already hold in Masteel under the Rules on Takeovers, Mergers and Compulsory Acquisitions or any other applicable law or regulations, or breach any foreign ownership limit imposed by the relevant authorities in Malaysia; (f) in the event Masteel breaches its obligation not to provide material non-public information to the Investor or its representatives, and such breach is continuing; (g) the Company delivers a Subscription Rejection in respect of a subscription on such Trading Day. (h) any Trading Day after the day on which subscription of all of the Placement Shares in the 1st Tranche have been completed, but before the Investor delivers the first subscription notice to subscribe for Placement Shares under the 2nd Tranche; or (i) an event of default under the Subscription Agreement. 								
Subscription Rejection	: If the aggregate number of the Placement Shares subscribed on any single Trading Day exceeds 1,000,000 shares, Masteel may reject the subscription of the Placement Shares in excess of 1,000,000 shares by issuing a notice as prescribed in the Subscription Agreement.								
Subscription Payment Amount	: For each subscription, the amount payable for the subscription of Placement Shares by the Investor shall be an amount equal to the Subscription Price multiplied by the number of Placement Shares, and shall be indicated in the Subscription Notice to be delivered by the Investor to Masteel.								
Structuring Fee	In respect of each calendar month, the Company shall pay to Macquarie Capital Securities (Malaysia) Sdn Bhd, which has acted as arranger, against an invoice issued by Macquarie Capital Securities (Malaysia) Sdn Bhd for an amount equal to the aggregate Structuring Fee as calculated in accordance with the table below for each subscription in the relevant calendar month:-								
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center; padding: 2px;">Subscription Price per Placement Share</th> <th style="text-align: center; padding: 2px;">Structuring Fee</th> </tr> </thead> <tbody> <tr> <td style="text-align: center; padding: 2px;">RM0.95 or more</td> <td style="text-align: center; padding: 2px;">0.54% of the Subscription Payment Amount</td> </tr> <tr> <td style="text-align: center; padding: 2px;">More than RM0.75 and less than RM0.95</td> <td style="text-align: center; padding: 2px;">0.52% of the Subscription Payment Amount</td> </tr> <tr> <td style="text-align: center; padding: 2px;">RM0.75 or less</td> <td style="text-align: center; padding: 2px;">0.50% of the Subscription Payment Amount</td> </tr> </tbody> </table>	Subscription Price per Placement Share	Structuring Fee	RM0.95 or more	0.54% of the Subscription Payment Amount	More than RM0.75 and less than RM0.95	0.52% of the Subscription Payment Amount	RM0.75 or less	0.50% of the Subscription Payment Amount
Subscription Price per Placement Share	Structuring Fee								
RM0.95 or more	0.54% of the Subscription Payment Amount								
More than RM0.75 and less than RM0.95	0.52% of the Subscription Payment Amount								
RM0.75 or less	0.50% of the Subscription Payment Amount								
Floor Price	: RM0.35. Unless otherwise agreed upon by the Parties to the Subscription Agreement, the Subscription Price cannot be lower than the Floor Price.								
Subscription Expiry Date	: The Subscription Agreement will expire 12 months from the date on which the Conditions Precedent are satisfied, provided that if the Subscription Agreement is terminated earlier, such early termination date.								

Termination	<p>: The Investor may immediately terminate the Subscription Agreement by written notice to Masteel following the occurrence of an event of default (as defined in the Subscription Agreement) or if it is not reasonably satisfied with the results of its current investigations into the affairs of Masteel and its subsidiaries and associates (collectively, the “Masteel Group”).</p> <p>Masteel may terminate the Subscription Agreement by issuing a written notice to the Investor not less than 5 Trading Days prior to the termination taking effect (“Notice Period”).</p> <p>For avoidance of doubt, the Investor shall have the right to issue a Subscription Notice during the Notice Period, subject to the approval of Masteel being obtained for such subscription.</p>
Early Termination Fees	<p>: If Masteel (i) fails to fulfil the conditions precedent set out in the Subscription Agreement or have them expressly waived by the Investor; or (ii) unilaterally elects to terminate the Subscription Agreement before the Subscription Expiry Date prior to the subscription of 8,500,000 Placement Shares; or (iii) does not perform its obligations under the Subscription Agreement or otherwise breaches any of the terms of the Subscription Agreement, Masteel shall pay the Investor a fee of RM65,000 no later than 15 calendar days after receiving a letter or notice of demand from the Investor. Such fee shall constitute reimbursement for the costs, including but not limited to the external legal and due diligence costs incurred by the Investor in connection with the Subscription Agreement.</p>
Right of First Refusal	<p>: Subject to the terms of the Subscription Agreement, the Investor shall be offered the right of first refusal to arrange and participate in any future financing transactions entered into or proposed to be entered into by Masteel which are substantially similar to the subscriptions contemplated in the Subscription Agreement (including any transactions contemplated by way of debt or equity financing facilities) which the Investor is permitted by law to participate or enter into. This right of first refusal shall survive post termination or expiry of the Subscription Agreement until 12 calendar months after such termination or expiry.</p> <p>The Investor is not obliged to act in relation to any financing activity and in any event if for any reason the Investor does not act on any particular financing activity, it does not prejudice the rights of the Investor of its rights of first refusal in respect of any subsequent activity.</p>
Governing law of Subscription Agreement	<p>: Laws of Malaysia</p>

2.5 Utilisation of proceeds

Based on an indicative issue price of RM0.38 per Placement Share, the Proposed Private Placement is expected to raise an estimated gross proceeds of up to approximately RM16.15 million to be utilised in the following manner:-

Details of utilisation	Timeframe for utilisation	(RM'000)
(i) Repayment of bank borrowings	Within 12 months	15,920
(ii) Estimated expenses for the Proposed Private Placement	Upon completion	230
Total		16,150

(i) Repayment of bank borrowings

The Company intends to utilise approximately RM15.92 million of the total proceeds from the Proposed Private Placement towards repayment of its existing trade lines for working capital, details of which are set out below:-

Lender	: Kuwait Finance House (Malaysia) Berhad
Purpose of borrowing	: To finance Masteel's working capital requirement (i.e. purchase of raw materials related to steel bars manufacturing)
Outstanding balance as at the LPD	: Approximately RM69.1 million
Proposed repayment	: RM15.92 million
Interest rate	: 5.85 – 6.35 % per annum

For illustrative purposes, the repayment of the trade lines amounting to RM15.92 million is expected to result in interest savings of RM0.93 million to RM1.01 million per annum assuming an interest rate of 5.85% to 6.35% per annum.

(ii) Estimated expenses for the Proposed Private Placement

The proceeds earmarked for estimated expenses in relation to the Proposed Private Placement will be utilised in the following manner:-

	(RM'000)
Professional fees (i.e. adviser, solicitors, Structuring Fee)	190
Regulatory fees	25
Other incidental expenses in relation to the Proposed Private Placement	15
Total	230

The actual proceeds to be raised from the Proposed Private Placement are dependent on the issue price and actual number of Placement Shares to be subscribed and issued. If the actual amount varies from the above estimate, the excess or deficit, as the case may be, would be reallocated to or from the amount earmarked for the repayment of bank borrowings and/or estimated expenses for the Proposed Private Placement.

Pending the utilisation of proceeds from the Proposed Private Placement for the above purposes, the proceeds will be placed as deposits with licensed financial institutions or short-term money market instruments.

3. RATIONALE AND JUSTIFICATION FOR THE PROPOSED PRIVATE PLACEMENT

After considering various fund-raising options, the Board has decided to pursue the Proposed Private Placement as it will enable us to raise funds expeditiously and in a cost efficient manner. In addition, the Proposed Private Placement will reduce our existing trade lines, thus allowing us to save on finance cost. The Proposed Private Placement to be implemented via the Subscription Agreement will also serve to enhance trading liquidity of Masteel's shares.

4. EFFECTS OF THE PROPOSED PRIVATE PLACEMENT

The pro forma effects of the Proposed Private Placement are set out below.

4.1 Share capital

For illustration purposes, the pro forma effects of the Proposed Private Placement on the share capital of Masteel are as follows:-

	No. of Shares	(RM)
Issued capital as at the LPD	427,239,831	230,094,115
Less: Treasury Shares	(1,675,000)	(1,328,949)
	425,564,831	228,765,166
Placement Shares to be issued	42,500,000	⁽¹⁾ 16,150,000
Enlarged share capital	468,064,831	244,915,166

Note:-

(1) Assuming all 42,500,000 Placement Shares are issued at an indicative issue price of RM0.38 per Placement Share and the amount is fully credited to the share capital account in accordance with the Act.

4.2 Earnings and earnings per share ("EPS")

The Proposed Private Placement is not expected to have any material effect on the earnings of Masteel Group for the FYE 31 December 2019. However, there may be a corresponding dilution in the EPS of Masteel Group if the finance cost savings from the utilisation of placement proceeds is insufficient to offset the increase in the number of shares issued under the Proposed Private Placement.

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

Based on the audited consolidated financial statements of Masteel as at 31 December 2018, the pro forma effects of the Proposed Private Placement on the NA per Share and gearing of Masteel Group are as follows:-

	Audited as at 31 December 2018 (RM'000)	After adjustments for subsequent event (RM'000)	Pro forma I After the Proposed Private Placement (RM'000)
Share capital	230,094	230,094	⁽⁴⁾ 246,244
Treasury Shares	(1,199)	⁽²⁾ (1,329)	(1,329)
Retained earnings	428,723	428,723	⁽⁵⁾ 428,493
Total equity / NA	657,618	657,488	673,408
No. of Shares issued	⁽¹⁾ 425,859	⁽³⁾ 425,564	⁽³⁾ 468,065
NA per Share (RM)	1.54	1.54	1.44
Total borrowings	390,009	390,009	⁽⁶⁾ 374,089
Gearing (times)	0.59	0.59	0.56

Notes:-

- (1) Excluding 1,381,000 Treasury Shares as at 31 December 2018.
- (2) After adjusting for the 294,000 Shares bought back by Masteel and retained as Treasury Shares.
- (3) Excluding 1,675,000 Treasury Shares as at the LPD.
- (4) Assuming all 42,500,000 Placement Shares are placed out at an indicative issue price of RM0.38 per Placement Share.
- (5) After deducting the estimated expenses of RM0.23 million for the Proposed Private Placement.
- (6) Assuming the proceeds to be raised from the Proposed Private Placement will be utilised for the repayment of bank borrowings amounting to approximately RM15.92 million.

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4.4 Substantial shareholders' shareholdings

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

Substantial shareholders	Shareholdings as at the LPD				Pro forma After the Proposed Private Placement ⁽¹⁾			
	Direct		Indirect		Direct		Indirect	
	No. of Shares (RM'000)	⁽²⁾ %	No. of Shares (RM'000)	⁽²⁾ %	No. of Shares (RM'000)	⁽²⁾ %	No. of Shares (RM'000)	⁽²⁾ %
TYY Resources Sdn Bhd	130,893	30.76	-	-	130,893	27.96	-	-
Dato' Sri Tai Hean Leng @ Tek Hean Leng	-	-	⁽³⁾ 130,893	30.76	-	-	⁽³⁾ 130,893	27.96
Datin Ng Pik Lian	-	-	⁽⁴⁾ 141,388	33.22	-	-	⁽⁴⁾ 141,388	30.20
Estate of Tat Chet Siang, Deceased	-	-	⁽³⁾ 130,893	30.76	-	-	⁽³⁾ 130,893	27.96

Notes:-

(1) Assuming all 42,500,000 Placement Shares are issued pursuant to the Proposed Private Placement.

(2) Excluding 1,675,000 Treasury Shares as at the LPD.

(3) Deemed interested pursuant to Section 8(4) of the Act by virtue of their interests in TYY Resources Sdn Bhd.

(4) Deemed interested pursuant to Section 8(4) of the Act by virtue of her interest in TYY Resources Sdn Bhd and Kemajuan Rekacekap Sdn Bhd.

Macquarie Bank has indicated that it does not intend to be a long-term shareholder of the Masteel, and may sell any of the Placement Shares throughout the course of and after the Subscription Period.

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 Private Placement is subject to the following approvals:-

- (i) Bursa Securities, for the listing of and quotation for the Placement Shares on the Main Market of Bursa Securities; and
- (ii) any other relevant parties, if required.

The Proposed Private Placement 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 Private Placement.

7. DIRECTORS' STATEMENT

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

8. ADVISER

UOBKH has been appointed by the Company to act as the Adviser and Placement Agent for the Proposed Private Placement.

9. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances, the Board expects the Proposed Private Placement to be completed by the 2nd half of 2020.

10. APPLICATION TO RELEVANT AUTHORITIES

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

11. DOCUMENT FOR INSPECTION

A copy of the Subscription Agreement is available for inspection during normal office hours at the corporate 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 from Mondays to Fridays (except public holidays) for a period of 3 months from the date of this announcement.

This announcement is dated 13 September 2019.