MALAYSIA STEEL WORKS (KL) BHD ("MASTEEL" OR THE "COMPANY")

PROPOSED RIGHTS ISSUE WITH WARRANTS

1. INTRODUCTION

On behalf of the Board of Directors ("**Board**") of the Company, M&A Securities Sdn Bhd ("**M&A Securities**") wishes to announce that the Company proposes to undertake a renounceable rights issue of up to 226,369,915 new ordinary shares in Masteel ("**Rights Shares**") together with up to 226,369,915 free detachable warrants ("**Warrant(s)**") on the basis of 1 rights share for every 2 existing ordinary shares held in Masteel ("**Masteel Share**" or "**Shares**") together with 1 Warrant for every 1 Rights Share subscribed at an entitlement date to be determined later ("**Entitlement Date**") on a full subscription basis ("**Proposed Rights Issue with Warrants**").

2. PROPOSED RIGHTS ISSUE WITH WARRANTS

As at the date of this announcement (being the latest practicable date prior to this announcement ("**LPD**")), Masteel has an issued share capital of RM239,942,514.50 comprising 452,739,831 Masteel Shares of which 2,360,600 are held as treasury shares.

The Proposed Rights Issue with Warrants entails the issuance of up to 226,369,915 Rights Shares together with up to 226,369,915 Warrants at an indicative issue price of RM0.36 per Rights Share on the basis of 1 Rights Share for every 2 existing Masteel Shares together with 1 Warrant for every 1 Rights Share subscribed. The Rights Shares will be offered to the shareholders of Masteel whose names appear in the Record of Depositors of the Company as at the close of business on the Entitlement Date ("**Entitled Shareholders**"). The Entitlement Date will be determined by the Board after obtaining the approvals for the Proposed Rights Issue with Warrants from all relevant authorities and the shareholders of the Company.

The maximum number of Rights Shares and Warrants to be issued under the Proposed Rights Issue with Warrants is derived based on the number of issued share capital of Masteel, assuming all treasury shares are sold as at the date of this announcement ("**Maximum Scenario**"). Based on the Maximum Scenario, up to 226,369,915 Rights Shares will be made available for subscription and up to 226,369,915 Warrants will be issued pursuant to the Proposed Rights Issue with Warrants. Assuming no treasure shares are sold, up to 225,189,615 Rights Shares and up to 225,189,615 Warrants will be issued pursuant to the Proposed Rights Issue with Warrants ("**Minimum Scenario**"). The actual number of Rights Shares and Warrants offered under the Proposed Rights Issue with Warrants will be determined on the Entitlement Date.

The indicative salient terms of the Warrants are set out in Section 2.5 below.

2.1 Basis of determining the issue price of the Rights Shares and exercise price of the Warrants

(a) Rights Shares

The issue price of the Rights Shares under the Proposed Rights Issue with Warrants will be determined by our Board at a later date after taking into consideration, amongst others, the following:

(i) the historical share price of Masteel; and

(ii) the 5-day volume weighted average market price ("**5D-VWAMP**") of Masteel Shares up to the price-fixing date.

In any event, the discount of the issue price of the Rights Shares shall not be more than 25% from the 5D-VWAMP of Masteel Shares up to the price-fixing date. For illustrative purposes, an indicative issue price of RM0.36 per Rights Shares would represent a discount of approximately 13.1% to the theoretical ex-all price of Masteel Shares of approximately RM0.4142 per Share calculated based on the 5D-VWAMP of Masteel Shares up to 4 December 2020 of RM0.4683 (being the market day preceding the date of the announcement of the Proposed Rights Issue with Warrants) and assuming an exercise price of RM0.36 per Warrant.

(b) Warrants

The exercise price of the Warrants under the Proposed Rights Issue with Warrants will be determined by our Board at a later date, after taking into consideration, amongst others, the following:

(i) the 5D-VWAMP of Masteel Shares up to the price-fixing date; and

(ii) the theoretical ex-all price of Masteel Shares.

The Warrants are attached to the Rights Shares without any cost and will be issued in proportion to the Rights Shares subscribed by the Entitled Shareholders. In any event, the discount of the exercise price of the Warrants shall not be more than 50% from the theoretical ex-all price of Masteel Shares.

2.2 Entitlements to the Rights Shares

The Rights Shares will be provisionally allotted to the Entitled Shareholders. Fractional entitlements pursuant to the Proposed Rights Issue with Warrants if any, will be dealt with in such manner as the Board in its absolute discretion deems fit and in the best interest of the Company.

For the avoidance of doubt, the Warrants are attached to the Rights Shares without any cost to the Entitled Shareholders and renouncee(s). The Proposed Rights Issue with Warrants is renounceable in full or in part. The Warrants will be immediately detached from the Rights Shares upon issuance and will be separately traded. Accordingly, Entitled Shareholders can subscribe for and/or renounce their entitlements to the Rights Shares in full or in part. The renunciation of the Rights Shares by the Entitled Shareholders will accordingly entail the renunciation of the Warrants to be issued together with the Rights Shares. If the Entitled Shareholders decide to accept only part of their Rights Shares entitlements, they shall be entitled to the number of Warrants in proportion to the Rights Shares they have accepted.

The Rights Shares which are not taken up or validly taken up shall be made available for excess applications by the Entitled Shareholders and/or their renouncee(s). It is the intention of the Board to allocate the excess Rights Shares in a fair and equitable manner on a basis to be determined by the Board and announced later by the Company.

Any fractional entitlement under the Proposed Rights Issue with Warrants will be dealt with in such manner as the Board shall in their absolute discretion think expedient and in the best interest of Masteel.

2.3 Listing of the Rights Shares and Warrants

An application will be made to Bursa Malaysia Securities Berhad ("**Bursa Securities**") for the listing of and quotation for the following on the Main Market of Bursa Securities:

(i) the Rights Shares;

(ii) the Warrants; and

(iii) the new Masteel Shares to be issued from the exercise of the Warrants.

2.4 Ranking of the Rights Shares and the new Masteel Shares to be issued arising from the exercise of the Warrants

The Rights Shares and new Masteel Shares from the exercise of Warrants shall upon allotment and issuance, rank equally in all respects with the then existing Masteel Shares in issue, save and except that the these shares shall not be entitled to any dividend, rights, allotments and or other distributions, the entitlement date of which is prior to the date of allotment of these shares.

2.5 Indicative salient terms of the Warrants

The indicative salient terms of the Warrants are set out below:

Terms		**Details**
Number of Warrants	:	up to 226,369,915 new Warrants arising in connection with the Proposed Rights Issue with Warrants and are immediately detached from the Rights Shares upon issuance, each carrying the right to subscribe for one new Shares during the Exercise Period at the Exercise Price, subject to the terms and conditions of the Deed Poll
Detachability	:	The Warrants are immediately detachable upon allotment and issue of the Rights Shares. The Warrants will be traded separately.
Exercise Price	:	The basis of determining the exercise price of the Warrants is set out in Section 2.1(b) above. The exercise price and the number of outstanding Warrants shall however be subject to the adjustments in accordance with the terms and provisions of the Deed Poll during the exercise period.
Exercise Period	:	The period commencing on and including the date of issuance of the Warrants and ending at the close of business at 5.00 p.m. in Kuala Lumpur, on the date preceding the 5th anniversary of the date of issuance, or if such is not a day on which the stock market of Bursa Securities is open for trading of securities ("**Market Day**"), then it shall be the Market Day immediately preceding the said non-Market Day.
Exercise Rights	:	The rights conferred on a Warrant holder to subscribe for 1 new Masteel Share for each Warrant at any time during the Exercise Period and at the Exercise Price subject to the Deed Poll.
Deed Poll	:	The Warrants will be constituted by a Deed Poll to be executed by Masteel.
Board Lot	:	The Warrants are tradeable upon listing in board lots of 100 units carrying rights to subscribe for 100 new Masteel Shares at any time during the Exercise Period or such other number of units as may be prescribed by Bursa Securities.

Terms		Details
Ranking of Warrants	:	The Warrants shall as between the Warrant holders rank *pari passu* and rateably in all aspects amongst themselves
Ranking of new Masteel Shares to be issued pursuant to exercise of Warrants	:	The new Masteel Shares to be issued arising from the exercise of Exercise Rights represented by the Warrants, shall upon allotment and issue rank *pari passu* in all respects with the existing Masteel Shares, save and except that the new Masteel Shares will not be entitled to any dividend, right, allotment and/or any other forms of distribution where the entitlement date of such dividend, right, allotment and/or other forms of distribution precedes the relevant date of allotment and issuance of the new ordinary shares.
Modification		The Company may, from time to time, subject to the terms and conditions of the Deed Poll, without the consent or sanction of the warrant holders, modify, amend or add to the Deed Poll, if such modification, amendment or addition made does not materially prejudice the interests of the Warrant holders or is made to correct a manifest error or to comply with the prevailing laws of Malaysia.
Listing	:	The Warrants and new Masteel Shares to be issued from the exercise of the Warrants will be listed on the Main Market of Bursa Securities. Approval will be obtained from Bursa Securities for the admission of Warrants to the Official List of Bursa Securities and for the listing of and quotation for the Warrants and new Masteel Shares to be issued from the exercise of the Warrants on the Main Market of Bursa Securities.
Governing Law	:	Laws of Malaysia.

2.6 Shareholder's undertaking and underwriting arrangement

The Company has procured irrevocable written undertakings from TYY Resources Sdn Bhd, the major shareholder of Masteel ("**Undertaking Shareholder**") to subscribe for at least 69,746,308 Rights Shares pursuant to its entitlement application ("**Undertaking**"), as follow:

	Shareholding as at the LPD		Undertaking to subscribe for its Rights entitlements		
	No. of Shares	**%^**	**No. of Rights Shares**	**No. of Warrants**	**%***
TYY Resources Sdn Bhd	139,492,616	30.97	69,746,308	69,746,308	30.81

Notes:

^ % shareholdings calculated based on 450,379,231 issued Shares.

* Computed based on Maximum Scenario of 226,369,915 Rights Shares and 226,369,915 Warrants to be issued pursuant to the Proposed Rights Issue with Warrants.

As underwriting arrangement will be made for the remainder of unsubscribed Rights Shares under the Proposed Rights Issue with Warrants, the Undertaking Shareholder has confirmed that the Undertaking will not give rise to any mandatory take-over offer obligation pursuant to the Malaysian Code on Take-Overs and Mergers, 2016 ("**Code**") and the Rules on Take-Overs, Mergers and Compulsory Acquisitions issued by the Securities Commission Malaysia ("**SC**") ("**Rules**") immediately after the completion of the Proposed Rights Issue with Warrants.

The Undertaking Shareholder has confirmed that it will at all times observe and ensure compliance with the provisions of the Code and the Rules and will seek from the SC the necessary exemptions from undertaking such mandatory take-over offer, if required.

In addition, the public shareholding spread of Masteel will still be in compliance with the minimum public shareholding spread of 25% pursuant to Paragraph 8.02(1) of the Main Market Listing Requirements of Bursa Securities upon completion of the Proposed Rights Issue with Warrants.

The Undertaking Shareholder has confirmed via the Undertaking that it has sufficient financial resources to fulfil their respective Undertaking.

In addition to the Undertaking, the Company will endeavour to procure further undertakings from its shareholders ("**Additional Undertakings**"). Underwriting arrangements will be made for the remainder of Rights Shares not under the Undertaking and Additional Undertakings.

2.7 Utilisation of proceeds

Based on the issue price of RM0.36 per Rights Share, the Proposed Rights Issue with Warrants will raise gross proceeds of between RM81.1 million (under the Minimum Scenario) and RM81.5 million (under the Maximum Scenario). The actual proceeds to be raised from the Proposed Rights Issue with Warrants will be dependent on the issue price of the Rights Shares and the number of treasury shares held / resold by the Company as well as the exercise price of the Warrants and whether such Warrants will be exercised.

The details of the intended utilisation of gross proceeds under the Minimum Scenario and Maximum Scenario are as follows:

Details of utilisation	**Utilisation timeframe (from listing of Rights Shares)**	**Notes**	**Minimum Scenario**	**Maximum Scenario**
			RM'000	**RM'000**
Repayment of bank borrowings	Within 12 months	2.7.1	10,000	10,000
Working capital	Within 12 months	2.7.2	68,568	68,993
Estimated expenses for the Proposed Rights Issue with Warrants	Within 1 month	2.7.3	2,500	2,500
Total			**81,068**	**81,493**

2.7.1 Repayment of bank borrowings

The Company intends to utilise approximately RM10.0 million of the total proceeds from the Proposed Rights Issue with Warrants towards repayment of its existing trade lines for working capital used mainly to purchase raw materials related to its manufacturing, details of which are set out below:-

Outstanding balance as at the LPD	:RM304.23 million
Proposed repayment	:RM10.0 million
Interest rate	:3.9% - 5.1% per annum

For illustrative purposes, the repayment of the trade lines amounting to RM10.0 million is expected to result in interest savings of RM0.39 million to RM0.51 million per annum assuming an interest rate of 3.9% to 5.1% per annum.

2.7.2 Working capital

The Company proposes to utilise up to RM68.6 million under the Minimum Scenario and RM69.0 million under Maximum Scenario to finance the working capital requirements for Masteel and its subsidiaries (the "**Group**"). A breakdown of the utilisation is as follows:

Description	Minimum Scenario RM'000	Maximum Scenario RM'000
Purchasing of raw materials and consumables(1)	57,568	57,993
Utilities payment(2)	11,000	11,000
Total	**68,568**	**68,993**

Notes:

(1) Comprises of approximately 46,000 metric tonnes ("**MT**") of scrap metals.

(2) Tenaga National Berhad : RM9 million per month
Gas Malaysia Berhad : RM2 million per month

2.7.3 Estimated expenses for the Rights Issue with Warrants

Description	RM'000
Professional fees(1)	555
Fees to authorities	60
Underwriting fees	1,700
Miscellaneous charges (Printing, meeting expenses and advertising)	185
	2,500

Note:

(1) Comprises the professional fees of the Principal Adviser, Solicitors, Reporting Accountants, Independent Market Researcher, Share Registrar, and Company Secretary.

In the event the actual expenses are less than the allocated amount, the excess allocated amount shall be utilised as working capital for the Group. Any excess or shortfall of the actual proceeds raised will be adjusted towards or against the utilisation for the working capital requirement.

The proceeds to be raised from the Proposed Rights Issue with Warrants will be utilised firstly in priority to defray the expenses related to the Rights Issue with Warrants, secondly toward the repayment of bank borrowings and lastly toward the working capital. Any further funding required beyond the amount of proceeds raised from the Proposed Rights Issue with Warrants is expected to be sourced from internally generated funds and/or bank borrowings.

Pending utilisation of the proceeds from the Proposed Rights Issue with Warrants for the above purposes, the proceeds will be placed in deposits with licensed financial institutions or short-term money market instruments. The interests derived from the deposits with financial institutions or any gains arising from the short-term money market instruments will be used as additional general working capital for the Group.

2.8 Proceeds from the exercise of Warrants

Assuming an exercise price of the Warrants of RM0.36 each, the exercise of the Warrants will raise up to RM81.1 million (under the Minimum Scenario) and RM81.5 million (under the Maximum Scenario).

Any proceeds arising from the exercise of the Warrants in the future shall be utilised for the working capital of the Group which includes but is not limited to salaries, rental, materials, transportation and other related expenses for its ordinary course of business, the breakdown of which has yet to be determined. The exact details of the utilisation of such proceeds, including the breakdown of the utilisation have not been determined. Pending utilisation of such proceeds, the proceeds will be placed in deposits with licensed financial institutions or short-term money market instruments. The interests derived from the deposits with financial institutions or any gains arising from the short-term money market instruments will be used as additional general working capital for the Group.

3. RATIONALE FOR THE PROPOSED RIGHTS ISSUE WITH WARRANTS

After considering other methods of fundraising such as bank borrowings and private placements, as well as the capital structure of Masteel, our Board is of the opinion that the Proposed Rights Issue with Warrants is more appropriate method of raising funds, after taking into account the following:

(i) The issuance of Rights Shares would enable our Group to secure funding of for the purposes set out in Section 2.7 at least RM81.1 million under the Minimum Scenario and up to RM81.5 million under the Maximum Scenario to provide the Group with additional working capital in view of the expected increase in demand for steel, as the steel industry is expected to recover in the near future;

(ii) The Group will be able to secure funding explained in item (i) without incurring interest costs compared to bank borrowings;

(iii) Compared to other equity offerings, the Proposed Rights Issue with Warrants will involve the issuance of new Masteel Shares without diluting the Entitled Shareholders' shareholdings, provided that all Entitled Shareholders subscribe in full for their respective entitlements;

(iv) The Proposed Rights Issue with Warrants will increase the number of Masteel Shares in circulation which is may potentially enhance the liquidity and marketability of Masteel Shares on the Main Market of Bursa Securities;

(v) The Warrants attached to the Rights Shares are expected to enhance the attractiveness of the Rights Shares. It provides the shareholders with the option to further participate in the equity of our Company at a pre-determined price and enable them to benefit from the future growth of our Company and any potential capital appreciation arising thereof;

(vi) The Proposed Rights Issue with Warrants will strengthen our Company's financial position with enhanced shareholders' funds. These factors are expected to facilitate the continuous business expansion plans of our Company; and

(vii) The Warrants will also provide our Company with additional capital when they are exercised. The exercise of the Warrants will allow our Company to raise fresh proceeds without incurring additional financing cost and minimise any potential cash outflow in respect of interest servicing.

4. OTHER FUND-RAISING EXERCISES IN THE PAST 12 MONTHS

On 13 September 2019 and 17 September 2019, the Company proposed to undertake the following private placement pursuant to Section 75 and 76 of the Companies Act 2016 up to 42,500,000 new Masteel shares, representing up to approximately 10% of the Company's total number of issued shares. ("**Private Placement**")

Bursa Securities had, vide its letter dated 19 September 2019, approved the listing and quotation of the Proposed Private Placement. The above corporate proposal was implemented under a shareholders' mandate obtained at the Company's Annual General Meeting held on 20 June 2019. A total of 25,500,000 new Masteel Shares was issued from 1st October 2019 to 12 February 2020 at an average price of RM0.376 per share.

On 5 March 2020, Bursa Securities has granted the Company an extension of time until 18 September 2020 to complete the implementation of the Private Placement.

Bursa Securities' approval for the Private Placement lapsed on 18 September 2020 and no further extension of time was sought.

The total proceeds raised as at LPD by the Company from the Private Placement had been utilised in the following manner.

	Proposed and actual utilisation
	RM'000
Repayment of bank borrowings	9,752
Estimated expenses	96
Total	9,848

Save for the Private Placement, the Company had not undertaken any other equity fund-raising exercises in the past 12 months.

5. INDUSTRY OVERVIEW AND PROSPECTS

We are principally involved in the steel industry. The following sections set out the overview and the prospects of this industry, as well as the prospects of our Group.

5.1 Overview and outlook of the Malaysian economy

The Malaysian economy experienced the full impact of the COVID-19 pandemic in the second quarter of 2020, with the real gross domestic product ("**GDP**") contracting by 17.10%. The contraction was mainly attributed to the imposition of the Movement Control Order ("**MCO**") to contain the outbreak. Though affecting all sectors in the economy, the move was necessary to flatten the COVID-19 curve and save lives.

Hence, the Government of Malaysia ("**the Government**") has announced several stimulus packages totalling RM305.00 billion to support both households and businesses. Reinforced by the reopening of the economy in phases, growth is expected to improve gradually during the second half of the year, cushioning the significant contraction in the first half. Thus, Malaysia's GDP is expected to contract by 4.50%(1) in 2020, before rebounding between 6.50% and 7.50% in 2021. With the bold and swift measures undertaken, Malaysia has been recognised as one of the most successful countries in managing the socio-economic impact of the pandemic.

Note:-

(1) *According to Bank Negara Malaysia, the contraction of Malaysia's GDP in 2020 is estimated to be in the range of 3.50% to 5.50%.*

The construction sector contracted by 25.90% in the first half of 2020 and is expected to shrink by 11.80% in the second half with all segments declining significantly. At the same time, prolonged property overhangs continue to weigh down the performance of the sector. However, civil engineering and specialised construction activities subsectors are expected to improve gradually, cushioned by various measures under the economic stimulus packages. Overall, for the year, the sector is projected to contract by 18.70%.

The construction sector is expected to rebound by 13.90% in 2021 on account of the acceleration and revival of major infrastructure projects, coupled with affordable housing projects. The civil engineering subsector will continue to be the main driver of the construction sector. Among the major infrastructure projects include Mass Rapid Transit Line 2, Light Rail Transit Line 3, West Coast Expressway and Bayan Lepas Light Rail Transit as well as Pan Borneo and Coastal Highways in Sarawak. Utility projects include the Langat 2 Water Treatment Plant, Baleh Hydroelectric Dam and Sarawak Water Supply Grid Programme (Phase 1).

The residential subsector is anticipated to improve, supported by various measures taken by the Government to address the property overhang situation. Among the measures include the extension of Home Ownership Campaign ("**HOC**"), exemption of real property gains tax, the introduction of rent-to-own scheme as well as reduction of foreign ownership threshold. The performance of the non-residential subsector is expected to recover marginally, supported by on-going commercial projects, including Bukit Bintang City Centre, Cyberjaya City Centre, Forest City and Malaysia Vision Valley 2.0.

(Sources: Economic Outlook 2021 published by Ministry of Finance Malaysia, Bank Negara Malaysia)

5.2 Outlook and prospects of the steel industry in Malaysia

As a majority of Masteel Group's revenue is derived in Malaysia, this section will focus on the following:

- Overall demand for steel in Malaysia, represented by the apparent consumption of total steel products in Malaysia;
- Demand for steel billets in Malaysia, represented by the apparent consumption of steel billets in Malaysia; and
- Demand for steel bars in Malaysia, represented by the apparent consumption of steel bars in Malaysia.

Apparent consumption is used to represent domestic demand of a product which is calculated by the sum of production value and import value minus export value. The industry performance and outlook of these steel products in Malaysia are described as follows:

► Steel industry in Malaysia

Overall demand for steel in Malaysia, represented by the apparent consumption of total steel products, recorded a negative Compound Annual Growth Rate ("**CAGR**") of 1.23% from 9.44 million MT in 2017 to 9.21 million MT in 2019. The decrease in apparent consumption of total steel products in Malaysia in 2019 may be mainly due to a lower year-on-year ("**YOY**") growth in the construction sector in Malaysia. In 2019, the value of construction work done in Malaysia experienced a relatively low YOY growth of 0.56% as compared to a YOY growth of 5.13% in 2018.

In view of the outbreak of the COVID-19 virus since early 2020, the Government has imposed nationwide movement restrictions to contain the spread of the virus, namely MCO from 18 March 2020 to 3 May 2020, conditional MCO from 4 May 2020 to 9 June 2020, and recovery MCO from 10 June 2020 to 31 December 2020. However, following the resurgence of the COVID-19 infected cases, conditional MCO was re-imposed in most of the states and federal territories for different durations in the last quarter of 2020.

The imposition of these nationwide movement restrictions has negatively affected many businesses, including businesses in the steel industry. During the MCO period, most businesses were forced to temporarily close their operations except for those deemed essential services or unless they received approval from the relevant government authorities to operate, and even so, under a set of strict standard operating procedures and/or at reduced capacity. As the steel industry is mainly driven by the growth of the construction sector due to the widespread use of steel in construction activities, the temporary disruption of construction activities during the nationwide movement restriction periods has adversely affected the demand for steel.

Due to the uncertain economic conditions resulting from the COVID-19 pandemic, South East Asia Iron and Steel Institute ("**SEAISI**") foresees the overall demand for steel in Malaysia to fall by 8.00% to 8.47 million MT in 2020.

► **Steel billet market in Malaysia**

Demand for steel billets in Malaysia, represented by the apparent consumption of steel billets increased from 3.40 million MT in 2017 to 4.83 million MT in 2019[(1)] at a CAGR of 19.19%.

In view of the COVID-19 pandemic and the nationwide movement restrictions imposed by the Government which has caused disruptions to many economic sectors and affected the demand for steel products, SMITH ZANDER forecasts the demand for steel billets, based on the apparent consumption of steel billets, to decline by 6.21% from 4.83 million MT in 2019 to 4.53 million MT in 2020.

Note:

(1) *The apparent consumption in 2019 includes the total apparent consumption of steel billets and steel blooms as the breakdown is not publicly available.*

► **Steel bar market in Malaysia**

Demand for steel bars in Malaysia, represented by the apparent consumption of steel bars, decreased from 2.82 million MT in 2017 to 2.81 million MT in 2019 at a negative CAGR of 0.18%. A decrease in apparent consumption of steel bars in Malaysia may be due to a lower YOY growth in the country's construction activities as well as an increase in exports of steel bars in 2019. The exports of steel bars increased by 256.77% from 90,870 MT in 2018 to 324,197 MT in 2019.

In view of the negative impact on most businesses as a result of the COVID-19 pandemic and the nationwide movement restrictions imposed by the Government, SMITH ZANDER forecasts the demand for steel bars, based on the apparent consumption of steel bars, to decline by 6.41% from 2.81 million MT in 2019 to 2.63 million MT in 2020.

Nevertheless, once economic conditions recover and the impact of COVID-19 subsides, the steel industry in Malaysia is expected to be supported by the demand drivers outlined as follows:

► **Plans and policies by the Government to promote infrastructure development will drive the demand for steel products**

Infrastructure development is the construction of foundational services that can help to improve efficiency and productivity, enhance social welfare and the people's standard of living as well as stimulate economic growth of a country. As steel products such as steel bars are essential building materials for the construction of infrastructure, the outlook of Malaysia's steel industry is expected to benefit from the Government's persistent drive to develop and upgrade its infrastructure.

In 2019, the Government announced the revival of several major infrastructure projects including the Light Rail Transit Line 3, East Coast Rail Link ("**ECRL**"), as well as the Bandar Malaysia mixed development project, which were previously suspended. However, pursuant to the imposition of movement restrictions by the Government as a result of the COVID-19 pandemic in 2020, the construction sector has experienced disruptions in the supply chain of building materials, reduction in size of construction workforce or temporary halt of construction works, amongst others, leading to disruption and delays in construction of infrastructure projects. Such disruption has resulted in temporary dampening in construction activities which has consequently lowered the demand for steel products.

Nevertheless, as part of the economic stimulus package known as PRIHATIN Rakyat Economic Stimulus Package announced by the Government on 27 March 2020, several mega infrastructure projects such as Mass Rapid Transit Line 2 and ECRL will be continued in 2020, which is expected to ensure sustainable economic growth of the country as well as to cushion the negative economic impact caused by the COVID-19 pandemic. Further, under Budget 2021, the Government proposed to allocate RM15.00 billion to fund several infrastructure development projects including the Pan Borneo Highway, Gemas-Johor Bahru Electrified Double Tracking Project and Klang Valley Double Tracking Project; RM2.70 billion to fund rural infrastructure development projects including rural and inter-village road projects spanning 920 kilometres, building and repairing of 15,000 houses, and installation of 27,000 units of lamps; and RM2.50 billion for contractors in Class G1 to G4 to carry out small and medium construction projects across the country including additional RM200.00 million for maintenance projects for Federal Roads and RM50.00 million for People's Housing Programme (PPR) houses. In addition, the Government also announced projects revival of Rapid Transit System Link from Johor Bahru to Woodlands, Singapore, and Mass Rapid Transit Line 3 in Klang Valley, and is in continuous discussions with Singapore in regards to the revival of the Kuala Lumpur – Singapore High Speed Rail project. As the construction works for these projects progress, the demand for steel products will improve to support the construction works required.

The Government's continuous efforts in promoting infrastructure development in the country will continue to drive the demand for steel products which are essential to support construction activities undertaken for the infrastructure development projects.

- **Overall growth in the construction sector drives demand for steel products**

Apart from infrastructure development, the demand for steel is also driven by construction activities undertaken to construct residential, commercial and industrial properties.

Construction activities are largely economic-driven, whereby economic growth has the potential to contribute to increased disposable income among the population arising from higher employment, and increased earnings for businesses and companies due to greater operating scale and wider market reach. Consequently, this leads to increased demand for residential, commercial and industrial properties as well as supporting infrastructure, which in turn leads to higher demand for steel products.

The performance of the construction industry in Malaysia as measured by the value of construction work done, recorded a CAGR of 2.82% from RM138.45 billion in 2017 to RM146.37 billion in 2019, demonstrating growing demand for construction works for residential homes and to support business activities.

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However, in view of the COVID-19 pandemic, the Government has revised the GDP forecast growth in 2020, which was initially targeted at 4.80%, to the range of -3.50% to -5.50%, indicating potential adverse economic conditions for the year. This may reduce consumer purchasing power and consumers may be more prudent on making investment decisions, especially investing in high value assets such as properties, in view of anticipated adverse economic impact of the COVID-19 virus. Therefore, this may negatively impact the demand for properties and in turn lower the demand for construction services. Following this, the demand for steel products including steel billets and steel bars may decline as well. Smith Zander International Sdn Bhd ("SMITH ZANDER") forecasts Malaysia's value of construction work done to decrease by 18.38% to reach RM119.47 billion in 2020.

Nevertheless, in efforts to stimulate the property market and provide financial relief to home buyers, the Government has introduced several initiatives through the Pelan Jana Semula Ekonomi Negara (PENJANA) Short-Term Economic Recovery Plan (June-December 2020). One of the initiatives is to reintroduce the HOC whereby stamp duties are exempted on the instruments of transfer and loan agreement for residential properties purchased at a price between RM300,000 and RM2.50 million; of which the properties are also subject to at least 10.00% discounts given by the developer.(1) In addition, the 70.00% margin of financing limit applicable for the third housing loan onwards for property valued at RM600,000 and above has also been uplifted during the period of the HOC, subject to internal risk management practices of financial institutions. Under Budget 2021, the Government proposed to further extend the full stamp duty exemption on the instruments of transfer and loan agreement for the first residential property purchased by each home buyer to 31 December 2025, with property price limit increased from RM300,000 to RM500,000.

Note:-

(1) *The exemption on the instrument of transfer is limited to the first RM1.00 million of the home price while full stamp duty exemption is given on loan agreement effective for sales and purchase agreements signed between 1 June 2020 and 31 May 2021.*

Moving forward, with these initiatives put in place, consumers will be encouraged to purchase residential properties which will thus drive the demand for residential properties. This may in turn support the demand for construction activities and may spur the demand for steel products in the longer term. Further, as Malaysian economy recovers after the impact of the COVID-19 pandemic subsides, the construction industry may revive and will then drive the recovery and future growth of the steel industry in Malaysia.

In view of the Government's effort to combat the economic impact of the COVID-19 pandemic through the introduction of several stimulus packages to assist households and businesses, the Malaysian economy is expected to gradually recover in the second half of 2020 and subsequently rebound with a GDP growth between 6.50% and 7.50% in 2021. Further, the construction sector is also expected to gradually improve and rebound by 13.90% in 2021 on the account of the acceleration and revival of major infrastructure projects as well as affordable housing projects. Premised on the above, moving forward, the steel industry is expected to recover alongside the improving Malaysian economy and construction sector as well as continue to grow once the impact of the COVID-19 pandemic subsides.

(Source: Independent Market Research Report dated 17 November 2020 prepared by SMITH ZANDER)

5.3 Prospects of Masteel

Globally, the entire world's economy has been disrupted by the Covid-19 pandemic and it is unleashing major business slowdown everywhere. Malaysia is also not spared as the Government had announced a lockdown on non-essential businesses thereby bringing economic activity in the nation to a halt.

Oil prices also took a dive below USD 30/bbl at the beginning of 2020 affecting markets worldwide. While oil prices do not directly affect the steel industry, it is expected to hamper construction and development projects as the government's loss of revenue from oil-related sources would lead to a reduction in infrastructure spending.

With the Covid-19 global pandemic coupled with the crash in oil prices, our country's revenue will be severely affected. However, our new Perikatan Nasional government had announced that all major projects under Malaysia's Budget 2020 will continue as planned.

Overall demand for steel in Malaysia, represented by the apparent consumption of total steel products, recorded a negative CAGR of 1.23% from 9.44 million MT in 2017 to 9.21 million MT in 2019.

Oversupply in the local steel sector is expected to persist due to continued output and operations of a foreign-owned steel mill in Kuantan. The issue of oversupply due to imports in the Malaysian market is reduced via Ministry of International Trade and Industry's ("**MITI**") anti-dumping duty on steel products from Singapore and Turkey gazetted on 21 January 2020. Masteel is determined and confident to remain competitive in the local steel arena until equilibrium in the market is reached. As we strive to remain competitive, we continue to invest capital expenditures in the latest steel melting technology to optimize our costs.

Based on the success of the latest state-of-the-art equipment, the Company is in the process of installing its third plant. With its familiarity and operational experiences, the new facility will effectively be "plug and play" which will reduce any major gestation period. The Company will be able to rapidly reap the benefits upon commissioning. Furthermore, the new addition will provide Masteel with increased versatility in product range which includes alloy and stainless steel (in the near future). With the expected commissioning of the new plant by first quarter of 2021, Masteel will be better equipped and prepared to cope with such unprecedented economic impact arising from the current global Covid-19 pandemic, local political uncertainties and the decline of oil prices.

(Source: Management of Masteel)

6. FINANCIAL EFFECTS OF THE PROPOSES RIGHTS ISSUE WITH WARRANTS

6.1 Share capital

The effect of the Proposed Rights Issue with Warrants on the issued and paid-up share capital of Masteel is set out below:

	(1)Minimum Scenario		**(1)Maximum Scenario**	
	No. of Masteel Shares	**RM**	**No. of Masteel Shares**	**RM**
Existing issued and share capital	(2)450,379,231	239,942,515	(2)450,379,231	239,942,515
Assuming all treasury shares are resold	-	-	2,360,600	-
	450,379,231	239,942,515	452,739,831	239,942,515
To be issued pursuant to the Proposed Rights Issue with Warrants	225,189,615	81,068,261	226,369,915	81,493,169
Enlarged share capital after Proposed Rights Issue with Warrants	675,568,846	321,010,776	679,109,746	321,435,684
To be issued assuming full exercise of Warrants	225,189,615	81,068,261	226,369,915	81,493,169
Enlarged share capital	**900,758,461**	**402,079,037**	**905,479,661**	**402,928,853**

Notes:

(1) Based on indicative issue price of RM0.36 per Rights Share.

(2) Excluding a total of 2,360,600 ordinary shares bought-back by the Company and retained as treasury shares as at LPD.

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6.2 NA and gearing

Based on the audited consolidated statement of financial position of Masteel as at 31 December 2019, the pro forma effects of the Rights Issue with Warrants on the NA and gearing of Masteel and its subsidiaries are set out below:

Minimum Scenario

		(I)	**(II)**	**(III)**
	Audited as at 31 December 2019	**[1]Adjusted for subsequent events**	**After the Rights Issue with Warrants**	**[2]After (II) and assuming full exercise of all Warrants**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Share capital	233,310	239,943	321,011	402,079
Subscription money received	950	-	-	-
Warrant reserves	-	-	[3]31,527	-
Revaluation reserves	76,649	76,649	76,649	76,649
Treasury shares	(1,324)	(1,490)	(1,490)	(1,490)
Retained earnings	420,397	420,397	[3][4]386,370	417,897
Shareholders' funds/Net assets ("NA")	**729,982**	**735,499**	**814,067**	**895,135**
No. of Masteel Shares ('000)(excluding treasury shares)	434,365	450,379	675,569	900,758
NA per Masteel Share (RM)	1.68	1.63	1.21	0.99
Interest bearing borrowings (RM'000)	478,594	478,594	[5]468,594	468,594
Gearing	0.66	0.65	0.58	0.52

Notes:

(1) After taking into consideration the issuance of 14,200,000 new Masteel Shares issued from 1 January 2020 to 12 February 2020 at an average price of RM0.392 per share pursuant to the Private Placement, share buyback of 685,600 shares from 13 March 2020 to 25 March 2020 and the subscription money received of RM950,000 being converted into share capital.

(2) Assuming the exercise of all 225,189,615 Warrants at the exercise price of RM0.36 each.

(3) A reserve of RM31,526,546 is provided for the issuance of 225,189,615 Warrants at a fair value of RM0.27 each, calculated using the Black-Scholes valuation model.

(4) After deducting estimated expenses in relation to the Rights Issue with Warrants of RM2.5 million.

(5) After deducting the estimated RM10.0 million from the total proceeds of the Proposed Rights Issue with Warrants towards repayment of the Company's existing trade lines.

Maximum Scenario

		(I)	(II)	(III)
	Audited as at 31 December 2019	**[1]Adjusted for subsequent events**	**After the Proposed Rights Issue with Warrants**	**[2]After (II) and assuming full exercise of all Warrants**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Share capital	233,310	239,943	321,436	402,929
Subscription money received	950	-	-	-
Warrant reserves	-	-	[3]31,692	-
Revaluation reserves	76,649	76,649	76,649	76,649
Treasury shares	(1,324)	(1,490)	[4]-	-
Retained earnings	420,397	420,397	[3][5]386,205	417,897
Shareholders' funds/Net assets ("NA")	**729,982**	**735,499**	**815,982**	**897,475**
No. of Masteel Shares ('000)(excluding treasury shares)	434,365	450,379	679,110	905,480
NA per Masteel Share (RM)	1.68	1.63	1.20	0.99
Interest bearing borrowings (RM'000)	478,594	478,594	[6]468,594	468,594
Gearing	0.66	0.65	0.57	0.52

Notes:

(1) After taking into consideration the issuance of 14,200,000 new Masteel Shares issued from 1 January 2020 to 12 February 2020 at an average price of RM0.392 per share pursuant to the Private Placement, share buyback of 685,600 shares from 13 March 2020 to 25 March 2020 and the subscription money received of RM950,000 being converted into share capital.

(2) Assuming the exercise of all 226,369,915 Warrants at the exercise price of RM0.36 each.

(3) A reserve of RM31,691,788 is provided for the issuance of 226,369,915 Warrants at a fair value of RM0.27 each, calculated using the Black-Scholes valuation model.

(4) Assuming all 2,360,600 treasury shares resold at cost prior to the implementation of the Proposed Rights Issue with Warrants.

(5) After deducting estimated expenses in relation to the Proposed Rights Issue with Warrants of RM2.5 million.

(6) After deducting the estimated RM10.0 million from the total proceeds of the Proposed Rights Issue with Warrants towards repayment of the Company's existing trade lines.

6.3 Substantial shareholders' shareholdings

The pro forma effect of the Rights Issue with Warrants on the shareholdings of our substantial shareholders is set out below:

Minimum Scenario

	[1]As at LPD				(I) After the Rights Issue with Warrants				(II) After (I) and assuming full exercise of all Warrants			
	Direct		Indirect		Direct		Indirect		Direct		Indirect	
	No. of Shares ('000)	%	No. of Shares ('000)	%	No. of Shares ('000)	%	No. of Shares ('000)	%	No. of Shares ('000)	%	No. of Shares ('000)	%
TYY Resources Sdn Bhd	139,493	30.97	-	-	209,239	30.97	-	-	278,985	30.97	-	-
Dato' Sri Tai Hean Leng @ Tek Hean Leng	-	-	139,493	[2]30.97	-	-	209,239	30.97	-	-	278,985	30.97
Datin Ng Pik Lian	-	-	149,988	[3]33.30	-	-	224,982	33.30	-	-	299,976	33.30
Estate of Tai Chet Siang, Deceased	-	-	139,493	[2]30.97	-	-	209,239	30.97	-	-	278,985	30.97

Maximum Scenario

	[4]As at the LPD				(I) After the Proposed Rights Issue with Warrants				(II) After (I) and assuming full exercise of Warrants			
	Direct		Indirect		Direct		Indirect		Direct		Indirect	
	No. of Shares ('000)	%	No. of Shares ('000)	%	No. of Shares ('000)	%	No. of Shares ('000)	%	No. of Shares ('000)	%	No. of Shares ('000)	%
TYY Resources Sdn Bhd	139,493	30.81	-	-	209,239	30.81	-	-	278,985	30.81	-	-
Dato' Sri Tai Hean Leng @ Tek Hean Leng	-	-	139,493	[2]30.81	-	-	209,239	30.81	-	-	278,985	30.81

	[4]As at the LPD				(I) After the Proposed Rights Issue with Warrants				(II) After (I) and assuming full exercise of Warrants			
	Direct		Indirect		Direct		Indirect		Direct		Indirect	
	No. of Shares ('000)	**%**	**No. of Shares ('000)**	**%**	**No. of Shares ('000)**	**%**	**No. of Shares ('000)**	**%**	**No. of Shares ('000)**	**%**	**No. of Shares ('000)**	**%**
Datin Ng Pik Lian	-	-	149,988	[3]33.13	-	-	224,982	33.13	-	-	299,976	33.13
Estate of Tai Chet Siang, Deceased	-	-	139,493	[2]30.81	-	-	209,239	30.81	-	-	278,985	30.81

Notes:

(1) Excluding a total of 2,360,600 ordinary shares bought-back by the Company and retained as treasury shares as at LPD.

(2) Deemed interested pursuant to Section 8(4) of the Companies Act 2016 by virtue of their interests in TYY Resources Sdn Bhd.

(3) Deemed interested pursuant to Section 8(4) of the Companies Act 2016 by virtue of her interest in TYY Resources Sdn Bhd and Kemajuan Rekacekap Sdn Bhd.

(4) Assuming a total of 2,360,600 are resold as at LPD.

6.4 Earnings and EPS

The Proposed Rights Issue with Warrants is not expected to have a material effect on the earnings of the Group for the financial year ending 31 December 2020. However, the EPS of the Group may be diluted upon the issuance of the Rights Shares and the new Masteel Shares arising from the exercise of the Warrants.

The potential effects of the Proposed Rights Issue with Warrants on the future consolidated earnings and EPS of Masteel Group will depend on, amongst others, the level of returns generated from the use of proceeds to be raised from the Proposed Rights Issue with Warrants.

6.5 Convertible securities

As at the LPD, we have no outstanding convertible securities issued.

7. APPROVALS REQUIRED

The Proposed Rights Issue with Warrants is conditional upon the following being obtained:

(a) approval of Bursa Securities for the listing of and quotation for the following:

   (i) the Rights Shares and Warrants to be issued pursuant to the Proposed Rights Issue with Warrants;

   (ii) admission of the Warrants on the Official List of Bursa Securities; and

   (iii) new Masteel Shares to be issued pursuant to the exercise of the Warrants,

   on the Main Market of Bursa Securities;

(b) approval of the shareholders of Masteel for the Proposed Rights Issue with Warrants at an extraordinary general meeting ("**EGM**") to be convened; and

(c) approval, waiver and/or consent of any other relevant authorities and/or persons, if required.

8. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS, CHIEF EXECUTIVE AND/OR PERSONS CONNECTED WITH THEM

None of the Directors and/ or major shareholder of Masteel and/ or chief executive and/ or persons connected to them have any interest in the Proposed Rights Issue with Warrants, except for their respective entitlements as shareholders of the Company under the Proposed Rights Issue with Warrants including the right to apply for additional Rights Shares under the excess Rights Shares application, which are also available to all existing shareholders of the Company.

Note: As disclosed in Section 2.6, TYY Resources Sdn Bhd has given the Undertaking to subscribe for at least 69,746,308 Rights Shares based on the full subscription of its entitlement.

9. DIRECTORS' STATEMENT

The Board having considered all aspects of the Proposed Rights Issue with Warrants (including but not limited to the terms, rationale and financial effects of the Proposed Rights Issue with Warrants) is of the opinion that the Proposed Rights Issue with Warrants is in the best interest of the Company.

10. ADVISER

M&A Securities has been appointed by the Company as the Principal Adviser for the Proposed Rights Issue with Warrants.

11. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances, the Proposed Rights Issue with Warrants are expected to be completed in the second quarter of 2021.

12. APPLICATIONS TO THE RELEVANT AUTHORITIES

Applications to the relevant authorities in respect of the Proposed Rights Issue with Warrants are expected to be submitted within 1 month from the date of this announcement.

13. EGM

The notice to convene the EGM together with the circular setting out the details of the Proposed Rights Issue with Warrants will be dispatched to the shareholders of the Company in due course.

This announcement is dated 7 December 2020.