

MELEWAR INDUSTRIAL GROUP BERHAD (“MIG” OR “COMPANY”)

PROPOSED DISPOSAL OF 100% EQUITY INTEREST HELD IN MELEWAR STEEL TUBE SDN. BHD.(“MST”) TO MYCRON STEEL BERHAD (“MYCRON”) FOR A DISPOSAL CONSIDERATION OF RM70.0 MILLION TO BE SATISFIED VIA A COMBINATION OF ISSUANCE OF NEW ORDINARY SHARES IN MYCRON AND NOVATION OF DEBT BY MIG TO MYCRON

1. INTRODUCTION

On behalf of the Board of Directors of MIG (“**Board**”), AFFIN Investment Bank Berhad (“**AFFIN Investment**”) wishes to announce that the Company had on 12 September 2014 entered into a conditional share sale and purchase agreement (“**CSSA**”) with Mycron for the proposed disposal of 100% equity interest in MST to Mycron for a disposal consideration of RM70.0 million to be satisfied in the following manner:

- (i) issuance of 104,545,455 new ordinary shares of RM0.25 each in Mycron (“**Consideration Shares**”) at an issue price of RM0.44 per Consideration Share amounting to RM46.0 million; and
- (ii) novation of debt by MIG to Mycron in relation to an amount owing by MIG to MST amounting to RM24.0 million (“**Novation of MIG Debt**”)

(“**Proposed Disposal of MST**”).

Further details on the Proposed Disposal of MST are set out in the ensuing sections of this announcement.

2. DETAILS OF THE PROPOSED DISPOSAL OF MST

2.1 Proposed Disposal of MST

The Proposed Disposal of MST involves the disposal by MIG of 90,000,000 ordinary shares of RM1.00 each in MST (“**MST Shares**” or “**Sale Shares**”), representing 100% equity interest of MST, to Mycron for a disposal consideration of RM70.0 million (“**Disposal Consideration**”) to be satisfied in the following manner:

- (i) issuance of 104,545,455 Consideration Shares to MIG at an issue price of RM0.44 per Consideration Share amounting to RM46.0 million.

The Consideration Shares will be issued after Mycron completes a par value reduction exercise which involves the reduction of RM0.75 of the par value of the existing ordinary share of RM1.00 each in Mycron (“**Mycron Share(s)**”) pursuant to Section 64 of the Companies Act, 1965 (“**Act**”) (“**Proposed Par Value Reduction of Mycron**”).

- (ii) Novation of MIG Debt.

2.2 Basis and justification of arriving at the Disposal Consideration

The Disposal Consideration was arrived at based on a willing-buyer willing-seller basis after taking into consideration the equity value of MST, as appraised by an independent valuer, FHMH Corporate Advisory Sdn. Bhd., ranging between RM60.0 million and RM71.0 million in its letter dated 18 August 2014 after taking into consideration the relative valuation method.

The relative valuation method derives the fair value of MST by applying the average valuation metrics such as the price-to-earnings multiple (“**PE Multiple**”), the price-to-book multiple and the enterprise value to the earnings before interest, tax, depreciation and amortisation (“**EBITDA**”) multiple (“**EV/EBITDA Multiple**”) of the listed comparable companies which have similar principal activities to MST on its average earnings, net assets and EBITDA.

The Board is of the opinion that the Disposal Consideration is justified after taking into consideration, amongst others, the following:

- (i) the PE Multiple of MST of 11.05 times is within the range of the PE Multiples of the selected companies comparable to MST (“**MST Comparable Companies**”) from 9.53 times to 13.04 times, details of which are as follows:

| Name | PE Multiple |
|--|--------------|
| | times |
| Choo Bee Metal Industries Berhad (“ Choo Bee ”) | 13.04 |
| Hiap Teck Venture Berhad (“ Hiap Teck ”) | 11.77 |
| Prestar Resources Berhad (“ Prestar ”) | 9.53 |
| High | 13.04 |
| Low | 9.53 |

| | |
|------------|--------------|
| MST | 11.05 |
|------------|--------------|

(Source: Bloomberg as at 11 September 2014, being the latest practicable date prior to the date of this announcement “**LPD**”)

Note:

* Calculated based on the Disposal Consideration divided by the average unaudited proforma profit after tax (“**PAT**”) of MST of approximately RM6.332 million for the past 2 years from the financial year ended (“**FYE**”) 30 June 2013 up to FYE 30 June 2014, assuming MIG’s steel tube trading, sales and marketing business (“**Steel Tube Marketing Business**”) was under MST since the beginning of the FYE 30 June 2013.

- (ii) the EV/EBITDA Multiple of MST of 8.39 times is within the range of the EV/EBITDA Multiples of the MST Comparable Companies of 7.80 times to 11.69 times, details of which are as follows:

| Name | EV/EBITDA Multiple |
|-------------|--------------------|
| | times |
| Choo Bee | 7.80 |
| Hiap Teck | 11.45 |
| Prestar | 11.69 |
| High | 11.69 |
| Low | 7.80 |

| | |
|------------|--------------|
| MST | *8.39 |
|------------|--------------|

(Source: Bloomberg as at the LPD)

Note:

* Calculated based on the enterprise value of MST (being the Disposal Consideration plus total borrowings of approximately RM68.8 million minus total cash and cash equivalents of approximately RM4.1 million as at 30 June 2014) divided by the average unaudited proforma EBITDA of MST of approximately RM16.064 million for the past 2 years from the FYE 30 June 2013 up to FYE 30 June 2014, assuming the Steel Tube Marketing Business was under MST since the beginning of the FYE 30 June 2013.

Choo Bee, Hiap Teck and Prestar were selected as the MST Comparable Companies in view that these companies' principal products are generally similar to MST's principal products such as steel pipes and tubes and their principal activities are generally similar to MST.

However, the MST Comparable Companies may not be directly comparable to MST in terms of composition of business, scale of operations, track record, shareholders' profile, marketability and liquidity of the shares and future business prospects.

The details of the MST Comparable Companies are as follows:

| <u>Company</u> | <u>Principal activities</u> | <u>Market capitalisation</u> | <u>Revenue</u> | <u>PAT</u> |
|----------------|---|------------------------------|----------------|---------------|
| | | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> |
| Choo Bee | Choo Bee processes steel coils into steel products, fabricates steel products and trades hardware products. Through its subsidiaries, the company provides construction materials, fabricates and manufactures pipes and leases leasehold land. | 197,825 | 469,070 | 22,419 |
| Hiap Teck | Hiap Teck is an investment holding company. Through its subsidiaries, the company imports, exports and deals in steel products, metal hardware and building materials. Hiap Teck also invests and rents properties. | 560,288 | 1,107,318 | 24,292 |
| Prestar | Prestar is an investment holding company which provides property rental and indent trading. Through its subsidiaries, the company manufactures and supplies guardrails, trades building materials and imports and distributes general hardware and tools. Prestar also exports and imports material handling equipment. | 118,542 | 600,538 | 17,081 |

(Source: Bloomberg as at the LPD and the latest annual reports of the respective MST Comparable Companies)

| | | | | |
|-----|--|---|----------|--------|
| MST | MST is principally involved in the manufacturing of steel pipes and tubes, steel tube trading, sales & marketing operation and provision of galvanising and slitting services. | - | *225,480 | *5,961 |
|-----|--|---|----------|--------|

Note:

* Based on the unaudited proforma income statement of MST for the FYE 30 June 2014.

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2.3 Information on MST

MST was incorporated in Malaysia on 2 December 1983 as a private limited company under the Act, under the name Poly Distribution Sdn. Bhd. On 3 December 1985, MST changed its name to Maruichi Management Services Sdn. Bhd. On 21 July 2003, MST changed its name to Meleq Maruichi Steel Tube Sdn. Bhd. MST assumed its present name on 7 July 2004. As at the LPD, MST is a wholly-owned subsidiary of MIG.

On 15 January 2014, the Company announced that it had entered into a business transfer agreement (“**BTA**”) with MST for the following:

- (i) the sale and transfer of the Steel Tube Marketing Business to MST, which comprises the following:
 - the outstanding forward steel tube orders of the Steel Tube Marketing Business;
 - the customer portfolios of the Steel Tube Marketing Business;
 - the intellectual property rights of the Steel Tube Marketing Business such as trademarks and trade names;
 - the employees of the Steel Tube Marketing Business;
 - the trade receivables of the Steel Tube Marketing Business; and
 - the outstanding financing facilities of the Steel Tube Marketing Business.
- (ii) the novation of MIG’s existing financing facilities with its financiers to MST.

(collectively referred to as the “**Internal Reorganisation**”)

On 2 May 2014, the Company announced that the Internal Reorganisation was completed which allow MST to directly sell its steel products to third party customers.

Following the above, the principal activities of MST are as follows:

- (i) manufacturing of steel pipes and tubes;
- (ii) steel tube trading, sales & marketing operation; and
- (iii) provision of galvanising and slitting services.

The principal market for MST’s steel products is in Malaysia and its principal products are as follows:

| <u>No.</u> | <u>Classification</u> | <u>Uses</u> |
|------------|--|---|
| 1. | Black and Carbon Steel Pipe, Square and Rectangular Hollow Section | For bicycle, vehicles, agricultural implements, civil engineering, steel towers, furniture and mining industries. |
| 2. | Gas and Water Pipe | For carrying gas, water, steam, oil and air. |
| 3. | Galvanised Steel Conduit | For electrical wiring. |
| 4. | Light Gauge Steel Plain and Lipped Channel | For civil engineering, transportation & electrical communication equipment and machinery. |

As at the LPD, the authorised and issued and paid-up share capital of MST is as follows:

| | <u>No. of MST Shares</u> | <u>Par value</u> | <u>Amount</u> |
|----------------------------------|--------------------------|------------------|---------------|
| | | RM | RM |
| Authorised share capital | 100,000,000 | 1.00 | 100,000,000 |
| Issued and paid-up share capital | 90,000,000 | 1.00 | 90,000,000 |

Please refer to **Appendix I** of this announcement for a summary of the key audited financial information of MST for the past 3 years from the FYE 30 June 2011 up to FYE 30 June 2013 and the unaudited financial results of MST for the FYE 30 June 2014.

2.4 Mode of settlement

The Disposal Consideration will be satisfied in the following manner:

- (i) issuance of 104,545,455 Consideration Shares to MIG at an issue price of RM0.44 per Consideration Share amounting to RM46.0 million on the Completion Date (as defined in **Section 2.10.3** of this announcement), after the completion of the Proposed Par Value Reduction of Mycron; and
- (ii) Novation of MIG Debt.

The Novation of MIG Debt will be used to set-off against the Disposal Consideration as follows:

| | |
|---|--------------------------|
| | <u>RM</u> |
| Disposal Consideration | 70,000,000 |
| <i>Less:</i> | |
| Novation of MIG Debt | (24,000,000) |
| Effective Disposal Consideration | <u>46,000,000</u> |

The effective Disposal Consideration will be settled by the issuance of Consideration Shares to MIG on the Completion Date, after the completion of the Proposed Par Value Reduction of Mycron, details of which are illustrated below:

| | |
|--|---------------------------|
| | <u>RM</u> |
| Effective Disposal Consideration | 46,000,000 |
| <i>Divided by:</i> | |
| 1-month volume weighted average market price ("VWAMP") of Mycron Shares up to 11 September 2014, being the issue price per Consideration Share | 0.44 |
| Number of Consideration Shares to be issued to MIG | <u>104,545,455</u> |

Upon the completion of the Proposed Disposal of MST and after the issuance of 104,545,455 Consideration Shares by Mycron to MIG, MIG's shareholding in Mycron will increase from approximately 54.79% to approximately 71.26%.

There is no arrangement for any payment on a deferred basis.

2.5 Expected loss arising from the Proposed Disposal of MST

The Proposed Disposal of MST will not result in any gain or loss to the MIG group.

2.6 Original cost of investment in MST

The original cost and date of investment in MST by MIG are as follows:

| <u>Date of investment</u> | <u>No. of MST Shares</u> | <u>Cost of investment</u> |
|---------------------------|--------------------------|---------------------------|
| | | RM |
| 1 April 1987 | 2 | 2 |
| 23 January 2006 | 8,097,852 | 8,097,852 |
| 1 September 2006 | 8,890,825 | 8,890,825 |
| 1 February 2007 | 16,673,000 | 16,673,000 |
| 1 July 2007 | 26,338,321 | 26,338,321 |
| 25 April 2014 | 30,000,000 | 30,000,000 |
| Total | 90,000,000 | 90,000,000 |

2.7 Consideration Shares to be issued to MIG pursuant to the Proposed Disposal of MST

2.7.1 Number, type and par value

The number, type and par value of the Consideration Shares to be issued to MIG pursuant to the Proposed Disposal of MST are as follows:

| <u>Number</u> | <u>Type</u> | <u>Par value</u> |
|---------------|-----------------|------------------|
| 104,545,455 | Ordinary shares | * RM0.25 |

Note:

* *The Proposed Par Value Reduction of Mycron to be undertaken by Mycron involves the reduction of the existing par value of Mycron Shares of RM1.00 each to RM0.25 each in order to facilitate the issuance of the Consideration Shares pursuant to the Proposed Disposal of MST.*

MIG has the intention to retain the Consideration Shares as an investment in subsidiaries upon the completion of the Proposed Disposal of MST.

2.7.2 Ranking of the Consideration Shares

After the completion of the Proposed Par Value Reduction of Mycron, the Consideration Shares to be issued to MIG shall rank *pari passu* with the then Mycron Shares and shall be free from all encumbrances save and except that the Consideration Shares will not be entitled to any dividends, rights, allotment and/or other distribution that may be declared, made or paid prior to the allotment and issuance of the Consideration Shares.

The Consideration Shares will be listed and quoted on the Main Market of Bursa Malaysia Securities Berhad ("**Bursa Securities**").

2.7.3 Basis and justification of the issue price of the Consideration Shares

The issue price of RM0.44 per Consideration Share was based on the 1-month VWAMP of Mycron Shares up to and including 11 September 2014, being the last market day prior to the signing of the CSSA in relation to the Proposed Disposal of MST.

The issue price of RM0.44 per Consideration Share represents a discount of 1.8 sen or 3.93% to the 5-day VWAMP of Mycron Shares up to and including 11 September 2014 of RM0.458, being the last market day prior to the signing of the CSSA in relation to the Proposed Disposal of MST.

The issue price of RM0.44 per Consideration Share is justified after taking into consideration, amongst others, the following:

- (i) the expected par value of new Mycron Shares of RM0.25 after the completion of the Proposed Par Value Reduction of Mycron; and
- (ii) the historical share prices of Mycron for the past 1 month up to and including 11 September 2014, being the last market day prior to the signing of the CSSA in relation to the Proposed Disposal of MST, ranging from RM0.385 to RM0.455.

For the avoidance of doubt, the Proposed Par Value Reduction of Mycron will not have any effect on the share price of Mycron.

2.7.4 Information on Mycron

Mycron was incorporated in Malaysia on 24 July 2003 as a public limited company under the Act. Mycron was listed on the Main Market of Bursa Securities on 21 June 2004.

The principal activity of Mycron is investment holding whilst its subsidiary is principally involved in the manufacturing and trading of cold rolled steel sheets in coils ("**CRC Steel Sheets**").

Mycron's wholly-owned subsidiary, Mycron Steel CRC Sdn. Bhd. ("**MSCRC**"), was incorporated in Malaysia under the Act, under the name Cold Rolling Industry (Malaysia) Sdn. Bhd. on 6 January 1989 and commenced production in June 1990. MSCRC assumed its present name on 19 January 2004. MSCRC operates its cold rolling mill factory on an 18 acre site located in Shah Alam, Selangor Darul Ehsan.

The installed facilities include, amongst others, the following:

- (i) Continuous Picking Line;
- (ii) Hitachi 6-High Cold Reduction Mill;
- (iii) Electrolytic Cleaning Line;
- (iv) Batch Annealing Furnaces;
- (v) Recoiling Line; and
- (vi) Combined Skinpass Mill & Tension Levelling Line.

The principal market for MSCRC's products is in Malaysia.

Please refer to **Appendix II** of this announcement for further information on Mycron.

2.8 Liabilities to be assumed by Mycron

Save for the Novation of MIG Debt, there are no other liabilities, including contingent liabilities and guarantees to be assumed by Mycron arising from the Proposed Disposal of MST.

2.9 Practice Note (“PN”) 16 and PN 17 of the Main Market Listing Requirements of Bursa Securities

The Proposed Disposal of MST is not expected to result in MIG becoming a Cash Company or a PN17 Company.

2.10 Salient terms of the CSSA

2.10.1 Sale and purchase of Sale Shares

MIG shall, as the legal and beneficial owner, sell the Sale Shares and Mycron, in full reliance upon MIG’s warranties, shall purchase the Sale Shares, on a willing-buyer willing-seller basis, free from any encumbrances and with all rights, benefits and entitlements attaching to the Sale Shares and accruing as at and from the Completion Date (including the right to receive all dividends or distributions declared, made or paid on or after the Completion Date) on the terms and subject to the conditions contained in the CSSA.

2.10.2 Conditions Precedent

The CSSA shall be conditional upon the following conditions being fulfilled within 210 days from the date of the CSSA (“**Condition Period**”) or for a further period of 60 days or such other period as Mycron may determine to fulfill the Conditions Precedent (“**Extended Condition Period**”):

(i) Conditions Precedent to be satisfied by MIG:

- (a) approval from the shareholders of MIG for the Proposed Disposal of MST in accordance with the terms and subject to the conditions of the CSSA;
- (b) approval from the Board of Directors of MST for the transfer of the Sale Shares to Mycron, issuance of new share certificates in respect of the Sale Shares in favour of Mycron, the entering of Mycron’s name into the Register of Members of MST as the holder of the Sale Shares and the Novation of MIG Debt, in accordance with the terms and subject to the conditions of the CSSA;
- (c) approval from MST’s financiers in accordance with the terms of the financing arrangements or other facilities granted to MST, if required;
- (d) MIG, Mycron and MST having executed all necessary documents in connection with the Novation of MIG Debt; and
- (e) there having been no breach by MIG and MST of its obligations, undertakings, representations and warranties as contained in the CSSA.

(ii) Conditions Precedent to be satisfied by Mycron:

- (a) Mycron being satisfied in all respects with the results of a due diligence review and enquiries into the accounting, tax, legal, operational, strategic, financial and other affairs of MST, which shall be completed within 3 months from the date of the CSSA;
- (b) approval from Bursa Securities for the listing of and quotation for the Consideration Shares on the Main Market of Bursa Securities in accordance with the terms and subject to the conditions of the CSSA;
- (c) approval from the shareholders of Mycron for the acquisition of the Sale Shares, issuance of the Consideration Shares and the execution of the CSSA by Mycron in accordance with the terms and subject to the conditions of the CSSA ("**Proposed Acquisition of MST by Mycron**"); and
- (d) the completion of the Proposed Par Value Reduction of Mycron in accordance with the Act and subject to the order of the High Court of Malaya.

(Collectively referred to as the "**Conditions Precedent**")

(iii) Third Parties' Approvals

To fulfill the relevant Conditions Precedent, MIG and Mycron shall be responsible at its own cost and expense, for submitting application to obtain the necessary approval of any relevant authorities, if so required.

(iv) Unconditional Date

The CSSA will become unconditional upon the satisfaction or fulfillment of all Conditions Precedent.

Any Condition Precedent agreed to be waived by Mycron will be deemed as a satisfaction or fulfillment of that Condition Precedent.

2.10.3 Completion

The following shall occur on the last day of the calendar month in which the last Condition Precedent to be satisfied is fulfilled or waived ("**Completion Date**"):

(i) MIG's obligations

On the Completion Date, MIG shall deliver the share certificates and undated duly executed transfer forms in respect of the Sale Shares to Mycron.

(ii) Mycron's obligations

On the Completion Date, Mycron shall allot and issue the Consideration Shares to MIG and all corporate guarantees provided by MIG to MST's financiers will be replaced by Mycron and MIG shall be released and discharged in full from such corporate guarantees.

2.10.4 Termination

Mycron reserves the right to terminate the CSSA should any of the following event occur before or on the Completion Date:

- (i) if MIG fails to comply with its obligations as set out in **Section 2.10.3** above;
- (ii) if any of MIG's warranties (as stated in **Section 2.10.5** below) are not complied with or otherwise untrue or misleading in any material respect;
- (iii) there is a breach of any material terms or conditions of the CSSA or a failure to perform or observe any material undertaking, obligation or agreement in the CSSA by MIG;
- (iv) a petition for winding up is presented against MST and/or MIG;
- (v) an order is made or a member's resolution is passed for the winding up of MST and/or MIG;
- (vi) an administrator, receiver and/or manager is appointed by the creditor, court and/or pursuant to any statutes or regulations, over the undertaking, assets and properties of MST and/or MIG or any part thereof;
- (vii) any licence required for the operation of MST's business will or have been suspended or revoked; and
- (viii) any event which affects or is likely to affect materially and adversely the financial position or business prospects of MST.

2.10.5 Warranties

The warranties provided by MIG and Mycron pursuant to the CSSA include, amongst others, the following:

(i) Warranties by MIG

MIG warrants and undertakes to and with Mycron that:

- (a) save for the Internal Reorganisation which was completed on 30 April 2014, the business of MST has been carried on in the ordinary and usual course and in the same manner (including nature and scope) as provided in its audited accounts so as to maintain the business as a going concern;
- (b) save for the Internal Reorganisation which was completed on 30 April 2014, there has been no material adverse change in the business, operations, financial, cashflow, trading position or prospects of MST;
- (c) the profits of MST have not been materially affected by changes or inconsistencies in accounting treatment;
- (d) there are no material liabilities (including disputed or contingent liabilities) which are outstanding on the part of MST, other than disclosed in its audited accounts or which have arisen in the ordinary course of business of the MST,

none of which has a material adverse effect on the financial or trading position of MST;

- (e) MST has not made any change in any method of accounting or accounting practice and it has not changed its accounting reference period save and except for those changes made to comply with the requirements of the Malaysian Financial Reporting Standards;
- (f) details of all bank accounts of MST as of the Completion Date will be provided to Mycron on or prior to Completion;
- (g) MST does not have any bank borrowings which exceed applicable facility limits (and has not had any that have done so during the last twelve (12) months);
- (h) MST does not have any outstanding material capital commitments or agreed to make any material capital expenditure in excess of RM5.0 million in aggregate or RM1.0 million per item, exclusive of tax.
- (i) having regard to MST's existing bank and other facilities, MST has sufficient working capital for the purposes of carrying on its business in its present form and at its present level of turnover for the next twelve (12) months following the date of the CSSA and for the purposes of executing, carrying out and fulfilling in accordance with its terms all orders, projects and contractual obligations which have been placed with or undertaken by MST;
- (j) all licences necessary for the carrying on of the business of MST as now carried on have been obtained and are valid and subsisting and all conditions applicable to any such licence (including any planning consent) and all applicable rules, regulations, directives, standards or guidelines ("**Guidelines**") promulgated or issued by any regulatory body or authority which MST is required to comply with have been complied with in all material respects, and to the best of the knowledge, information and belief of MIG, none of such licences or Guidelines have been breached nor has the Company received any notification that any of such licences or Guidelines have been breached, suspended, cancelled, refused or revoked, in whole or in part, in the ordinary course of events, as the case may be;
- (k) MST does not have any outstanding material liability under any contract, transaction or binding arrangement entered into within the past twelve (12) months, which has expired or has been terminated as at the date of CSSA;
- (l) MST is not involved, whether as plaintiff or defendant or otherwise in any claim, legal action, proceeding, suit, litigation, prosecution, investigation, enquiry or arbitration (other than as claimant in the collection of debts arising in the ordinary and usual course of MST's business), and no such claim, legal action, proceeding, suit, litigation, prosecution, investigation, enquiry or arbitration is pending or threatened by or against MST (or any person for whose acts or defaults MST may be vicariously liable).

- (m) no claim sounding in damages has been made and/or remains currently outstanding against MST;
- (n) no order has been made, petition presented, resolution passed (or meeting convened with a view to any resolution, and no written resolution has been circulated) or meeting convened for the winding-up, judicial management or dissolution of MST;
- (o) all taxes assessed or imposed by any government or governmental or statutory body which have been assessed upon MST and which are due and payable on or before completion of the CSSA have been paid, or will be paid or were paid on or before the relevant due date for payment; and
- (p) MST has has good and valid title to all of the assets which it purports to own as reflected in the audited accounts and management accounts.

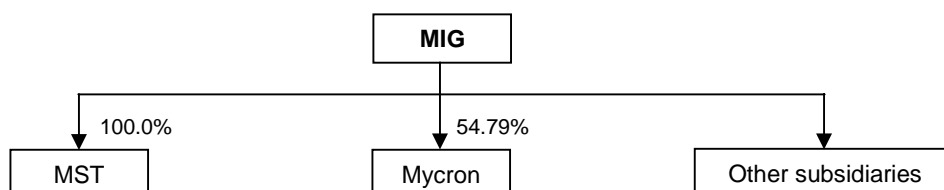
(ii) Warranties by Mycron

Mycron warrants and undertakes to and with MIG that:

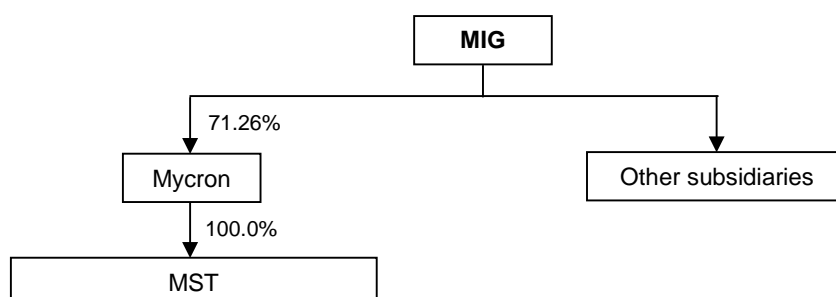
- (a) Mycron's obligations under the CSSA are valid, binding and enforceable against it in accordance with their terms;
- (b) no litigation, liquidation, arbitration or administrative proceedings are current or pending or, so far as Mycron is aware, threatened against Mycron (i) to restrain the entry into, exercise of the rights under or performance or enforcement of or compliance with the obligations under the CSSA; or (ii) which has or could have a material adverse effect on Mycron;
- (c) the Consideration Shares to be allotted and issued by Mycron to MIG shall be free and clear of all encumbrances whatsoever, be credited as fully paid up and shall rank pari passu in all respect with each other and with the existing ordinary shares of Mycron listed on Bursa Securities; and
- (d) Mycron shall not do any act, matter or thing or cause to be done any act, matter or thing outside the ordinary course of business which individually or in the aggregate, is designed to have an adverse effect on the market price of the ordinary shares of Mycron listed on Bursa Securities or to cause the market price of such ordinary shares as at the date of the CSSA to substantially fall between the date of the CSSA and the Completion Date.

3. GROUP STRUCTURE

The group structure of MIG before the completion of the Proposed Disposal of MST is as follows:



The group structure of MIG after the completion of the Proposed Disposal of MST is as follows:



4. RATIONALE FOR THE PROPOSED DISPOSAL OF MST

Presently, the principal activity of MIG is property investment and investment holding. Its subsidiary companies are principally involved in the following:

- (i) manufacturing and trading of steel pipes and tubes;
- (ii) manufacturing and trading of CRC Steel Sheets;
- (iii) manufacturing, distribution and trading of steel and iron products;
- (iv) provision of engineering and technical consultancy services.

Its associated company is principally involved in power generation and steam sales.

Following the above, the MIG group's business activities can be divided into 3 business divisions as follows:

- (i) Iron and steel;
- (ii) Energy; and
- (iii) Engineering.

The Proposed Disposal of MST will enable MIG to streamline all of its steel businesses under Mycron and benefit in terms of having an enlarged Mycron group with a clearer focus in the steel industry as well as the synergistic benefits arising from the enlarged Mycron group in the areas of combined operations and sharing of resources.

Upon the completion of the Proposed Disposal of MST and after the issuance of 104,545,455 Consideration Shares by Mycron to MIG, MIG's shareholding in Mycron is expected to increase from approximately 54.79% to approximately 71.26%, in which MIG will remain as the single largest shareholder of Mycron.

5. RISK FACTORS

The risk factors associated with the Proposed Disposal of MST, which are by no means exhaustive, are as follows:

5.1 Delay or non-completion of the Proposed Disposal of MST

The completion of the Proposed Disposal of MST is conditional upon the conditions precedent set out in the CSSA being fulfilled or waived. The non-fulfillment of the conditions precedent as disclosed in **Section 2.10.2** of this announcement may result in the CSSA being terminated.

Nevertheless, the Board will take reasonable steps to ensure that all the conditions precedent are met and that every effort is made to obtain all necessary approvals for the Proposed Disposal of MST.

5.2 Recognition of MST's revenue

Presently, MIG is recognising 100% of the revenue of MST arising from the sales of steel tube and pipes. However, upon the completion of the Proposed Disposal of MST, MIG will not be able to recognise 100% of MST's revenue and profits.

Notwithstanding the above, upon the completion of the Proposed Disposal of MST and after the issuance of 104,545,455 Consideration Shares to MIG, MIG's shareholding in Mycron is expected to increase from approximately 54.79% to approximately 71.26%. As such, MIG will still be able to indirectly recognise MST's revenue and profits through Mycron.

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6. EFFECTS OF THE PROPOSED DISPOSAL OF MST

For illustration purposes, the effects of the Proposed Disposal of MST on the share capital, substantial shareholders' shareholdings, earnings and EPS, NA per share and gearing of MIG are as follows:

6.1 Share capital and substantial shareholders' shareholdings

The Proposed Disposal of MST will not have any effect on the share capital and substantial shareholders' shareholdings in MIG as the Proposed Disposal of MST does not involve any issuance of new MIG shares.

6.2 NA per share and gearing

The proforma effects of the Proposed Disposal of MST on the NA per share and gearing of MIG assuming the Proposed Disposal of MST had been effected on 30 June 2013 (being the latest audited consolidated statement of financial position of MIG) are as follows:

| <u>Group level</u> | <u>Audited as at 30 June 2013</u> | <u>After the Proposed Disposal of MST</u> |
|---|---------------------------------------|---|
| | <u>RM</u> | <u>RM</u> |
| Share capital | 226,755,408 | 226,755,408 |
| Share premium | 241,447 | 241,447 |
| Treasury shares | (2,042,193) | (2,042,193) |
| Accumulated losses | (38,195,048) | ^(a) (38,795,048) |
| Asset revaluation reserves | 15,081,721 | 15,081,721 |
| Foreign currency translation reserve | 3,592,543 | 3,592,543 |
| Shareholders' funds/NA | 205,433,878 | 204,833,878 |
| Number of MIG shares in issue ('000) ^(b) | 225,523 | 225,523 |
| NA per share (RM) ^(c) | 0.91 | 0.91 |
| Total interest-bearing borrowings (RM' 000) | 802,861,181 | 802,861,181 |
| Gearing ratio (times) ^(d) | 3.91 | 3.92 |

Notes:

- (a) After taking into consideration the estimated expenses of approximately RM600,000 expected to be incurred in relation to the Proposed Disposal of MST.
- (b) Excluding 1,232,600 treasury shares held as at the LPD.
- (c) Calculated based on NA divided by the number of MIG shares in issue excluding treasury shares.
- (d) Calculated based on total interest-bearing borrowings divided by the corresponding shareholders' funds.

6.3 Earnings and EPS

The Proposed Disposal of MST is not expected to have any effects on the EPS of MIG for the FYE 30 June 2015 in view that the Proposed Disposal of MST does not involve any new issuance of MIG Shares.

7. INTEREST OF THE DIRECTORS, MAJOR SHAREHOLDER AND/OR PERSONS CONNECTED WITH THEM

None of the Directors, major shareholder of MIG and/or persons connected to them have any interest, whether direct or indirect, in the Proposed Disposal of MST in view that MIG is transacting with Mycron, a 54.79% owned-subsiary company of MIG.

8. APPROVALS REQUIRED

The Proposed Disposal of MST is subject to the approvals being obtained from the following:

- (i) the shareholders of MIG, at an extraordinary general meeting (“EGM”) to be convened;
- (ii) the non-interested shareholders of Mycron, at an EGM to be convened;
- (iii) Bursa Securities, for the listing of and quotation for 104,545,455 Consideration Shares to be issued to MIG pursuant to the Proposed Disposal of MST;
- (iv) sanction of the High Court of Malaya, for the Proposed Par Value Reduction of Mycron; and
- (v) any other relevant authorities, if required.

The Proposed Disposal of MST is not conditional upon any other corporate exercises of the Company.

However, the Proposed Disposal of MST is conditional upon the completion of the Proposed Par Value Reduction of Mycron which was announced by Mycron on 12 September 2014.

9. DIRECTORS’ STATEMENT

The Board, having considered all aspects of the Proposed Disposal of MST such as the rationale and effects for the Proposed Disposal of MST as well as the terms and conditions of the CSSA, is of the opinion that the Proposed Disposal of MST is in the best interest of the Company.

10. ADVISER

AFFIN Investment has been appointed as the Principal Adviser to MIG for the Proposed Disposal of MST.

11. APPLICATION TO THE RELEVANT AUTHORITIES

Barring any unforeseen circumstances, the applications to the relevant authorities will be made within 2 months from the date of this announcement.

12. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances and subject to receipt of all required approvals, the Board expects the Proposed Disposal of MST to be completed by the first quarter of 2015.

13. HIGHEST APPLICABLE PERCENTAGE RATIO

The highest percentage ratio applicable to the Proposed Disposal of MST pursuant to Paragraph 10.02(g) of the Main Market Listing Requirements of Bursa Securities is 62.08% which is based on the aggregate value of the consideration received in relation to the transaction as compared to the market value of all ordinary shares of MIG excluding treasury shares as per Paragraph 10.02(g)(v) of the Main Market Listing Requirements of Bursa Securities.

14. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents are made available for inspection at MIG's registered office at Suite 12.03, 12th Floor, No. 566 Jalan Ipoh, 51200 Kuala Lumpur, during normal business hours (from 9.00 a.m. to 5.30 p.m.) from Monday to Friday (except public holidays) for a period of 3 months from the date of this announcement:

- (i) the CSSA; and
- (ii) the letter issued by FHMH Corporate Advisory Sdn. Bhd. in relation to the equity valuation of MST.

This announcement is dated 12 September 2014.

A summary of the key financial information of MST based on its audited financial statements for the past 3 years from the FYE 30 June 2011 up to FYE 30 June 2013 and its unaudited financial results for the FYE 30 June 2014 are as follows:

| | Audited for the FYE 30 June | | | Unaudited for the |
|---|-----------------------------|---------|---------|-------------------|
| | 2011 | 2012 | 2013 | FYE 30 June 2014 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | 201,963 | 216,497 | 250,881 | 218,792 |
| Profit before tax ("PBT") / (Loss before tax) ("LBT") | 1,892 | (1,755) | 2,126 | 1,983 |
| PAT / (Loss after tax) ("LAT") | 865 | (2,269) | 1,223 | (6,514) |
| Shareholders' funds / NA | 60,233 | 57,963 | 59,187 | 83,399 |
| Total interest-bearing borrowings | 10,590 | 10,092 | 9,491 | 68,808 |
| Gearing (times) ^(a) | 0.18 | 0.17 | 0.16 | 0.83 |

Note:

(a) Calculated based on the total interest-bearing borrowings divided by the corresponding shareholders' funds.

COMMENTARIES ON THE PAST FINANCIAL PERFORMANCE OF MST

FYE 30 June 2011

For the FYE 30 June 2011, MST recorded revenue of approximately RM202 million as compared to approximately RM227 million in the previous year, representing a decrease of approximately 11.0%. This was mainly due to the decrease in sales volume of steel pipes of approximately 14.4% as compared to the previous year. Gross profit margin for FYE 30 June 2011 was lower at 5.8% as compared to 7.3% recorded in the previous year due to higher production cost per tonne.

Following the above, MST recorded a lower PAT of approximately RM0.87 million for the FYE 30 June 2011 as compared to approximately RM2.5 million in the previous year, representing a decrease of approximately 65.2%.

FYE 30 June 2012

For the FYE 30 June 2012, MST recorded revenue of approximately RM216 million as compared to approximately RM202 million in the previous year, representing an increase of approximately 7.2%. This was mainly due to the increase in sales volume of steel pipes of approximately 6.4% as compared to the previous year. However, gross profit margin for FYE 30 June 2012 was lower at 4.1% as compared to 5.8% recorded in the previous year due to higher production cost per tonne.

Consequently, MST recorded a LAT of approximately RM2.3 million for the FYE 30 June 2012 as compared to a PAT of approximately RM0.87 million in the previous year. This was mainly due to the higher production cost per tonne and an impairment charge of RM406,000 on plant & equipment recorded for the FYE 30 June 2012.

FYE 30 June 2013

For the FYE 30 June 2013, MST recorded revenue of approximately RM251 million as compared to approximately RM216 million in the previous year, representing an increase of approximately 15.9%. This was mainly due to the increase in sales volume of steel pipes of approximately 20.9% as compared to the previous year. Gross profit margin for FYE 30 June 2013 was higher at 5.1% as compared to 4.1% recorded in the previous year due to lower production cost per tonne.

Consequently, MST recorded a PAT of approximately RM1.2 million for the FYE 30 June 2013 as compared to a LAT of approximately RM2.3 million in the previous year.

FYE 30 June 2014

As stated in **Section 2.3** of this announcement, MST completed the acquisition of the Steel Tube Marketing Business from MIG on 30 April 2014. Pursuant to the terms of the BTA, the operations of the Steel Tube Marketing Business were transferred from MIG to MST with effect from 1 December 2013.

For the FYE 30 June 2014, MST recorded revenue of approximately RM219 million as compared to RM251 million in the previous year, representing a decrease of approximately 12.8%. This was mainly due to the decrease in sales volume of steel pipes of approximately 11.3% as compared to the previous year. Gross profit margin for FYE 30 June 2014 was higher at 7.5% as compared to 5.1% recorded in the previous year due to lower production cost per tonne.

For the FYE 30 June 2014, MST recorded a LAT of approximately RM6.5 million mainly due to a one-off deferred tax liability charge of RM7.5 million arising from the creation of intangible assets of RM30.0 million as a result of the Internal Reorganisation.

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1. AUTHORISED AND ISSUED AND PAID-UP SHARE CAPITAL

As at the LPD, the authorised and issued and paid-up share capital of Mycron is as follows:

| | <u>No. of Mycron Shares</u> | <u>Par value</u> | <u>Amount</u> |
|----------------------------------|-----------------------------|------------------|---------------|
| | | RM | RM |
| Authorised share capital | 500,000,000 | 1.00 | 500,000,000 |
| Issued and paid-up share capital | 179,000,000 | 1.00 | 179,000,000 |

2. BOARD OF DIRECTORS

As at the LPD, the directors of Mycron are as follows:

| <u>Name</u> | <u>Designation</u> |
|---|--|
| Tunku Dato' Ya'acob bin Tunku Tan Sri Abdullah ("Tunku Dato' Ya'acob") | Non-Independent Non-Executive Chairman |
| Azlan bin Abdullah | Executive Director / Chief Executive Officer |
| Tunku Dato' Kamil Ikram bin Tunku Tan Sri Abdullah | Non-Independent Non-Executive Director |
| Datuk Lim Kim Chuan | Non-Independent Non-Executive Director |
| General Tan Sri Dato' Sri Hj Suleiman bin Mahmud RMAF (Rtd) | Independent Non-Executive Director |
| Tan Sri Datuk Seri Razman Md Hashim | Independent Non-Executive Director |
| Dato' Sri Iskandar Michael bin Abdullah | Independent Non-Executive Director |

3. SUBSTANTIAL SHAREHOLDERS

As at the LPD, the substantial shareholders of Mycron and their respective shareholdings in Mycron based on the Register of Substantial Shareholders are as follows:

| <u>Name</u> | <u>Direct</u> | | <u>Indirect</u> | |
|-------------------------------------|-----------------------------|----------|-----------------------------|----------------------|
| | <u>No. of Mycron Shares</u> | <u>%</u> | <u>No. of Mycron Shares</u> | <u>%</u> |
| MIG | 97,504,766 | 54.79 | - | - |
| Melewar Group Berhad | ^(a) 52,300 | 0.03 | - | - |
| Khyra Legacy Berhad | - | - | 97,504,766 | ^(b) 54.79 |
| Iternum Melewar Sdn. Bhd. ("IMSB") | - | - | 97,504,766 | ^(c) 54.79 |
| Melewar Equities BVI Ltd ("MEBVI") | - | - | 97,504,766 | ^(d) 54.79 |
| Melewar Khyra Sdn. Bhd. ("MKSB") | - | - | 97,504,766 | ^(d) 54.79 |
| Melewar Equities Sdn. Bhd. ("MESB") | - | - | 97,504,766 | ^(e) 54.79 |
| Tunku Dato' Ya'acob | - | - | 97,557,066 | ^(f) 54.82 |

Notes:

- (a) Deemed interested by virtue of it being a substantial shareholder of IMSB. IMSB is a substantial shareholder of MESB, who in turn is the holding company of MEBVI, a substantial shareholder of MIG.
- (b) Deemed interested by virtue of it being the holding company of IMSB and MKSB. IMSB is a substantial shareholder of MESB who in turn is the holding company of MEBVI, a substantial shareholder of MIG.
- (c) Deemed interested by virtue of it being a substantial shareholder of MESB, who in turn is the holding company of MEBVI, a substantial shareholder of MIG.
- (d) Deemed interested by virtue of it being a substantial shareholder of MIG.
- (e) Deemed interested by virtue of it being the holding company of MEBVI, a substantial shareholder of MIG.
- (f) Deemed interested by virtue of Section 6A(4) of the Act through MIG.

4. SUMMARY OF FINANCIAL INFORMATION

A summary of the key financial information of Mycron based on its audited consolidated financial statements for the past 3 years from FYE 30 June 2011 up to FYE 30 June 2013 and its unaudited financial results for the FYE 30 June 2014 are as follows:

| | Audited for the FYE 30 June | | | Unaudited for the |
|-----------------------------------|-----------------------------|----------|---------|-------------------|
| | 2011 | 2012 | 2013 | FYE 30 June 2014 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | 414,377 | 443,289 | 513,330 | 447,956 |
| PBT / (LBT) | 353 | (16,730) | 11,047 | (14,146) |
| PAT / (LAT) | 512 | (15,756) | 6,998 | (9,228) |
| Shareholders' funds/NA | 264,679 | 252,622 | 264,012 | 257,902 |
| Total interest-bearing borrowings | 155,768 | 179,045 | 146,643 | 161,060 |
| Gearing (times) ^(a) | 0.59 | 0.71 | 0.56 | 0.62 |

Note:

(a) Calculated based on the total interest-bearing borrowings divided by the corresponding shareholders' funds.

Commentaries on the past financial performance of Mycron

FYE 30 June 2011

For the FYE 30 June 2011, the Mycron group recorded revenue of approximately RM414 million as compared to approximately RM465 million in the previous year, representing a decrease of approximately 11%. The decrease in revenue was mainly due to the decrease in sales volume of CRC Steel Sheets to 156,000 tonnes as compared to 181,000 tonnes in the previous year, representing a decrease of approximately 14% as a result of softening demand from its customers. Gross profit margin for FYE 30 June 2011 was lower at 3.8% as compared to 9.6% recorded in the previous year due to intense competition from the global markets and the domestic market. The competition in the domestic market was further strained by cheaper imports of CRC Steel Sheets from the People's Republic of China.

Consequently, the Mycron group recorded a PAT of approximately RM0.5 million for the FYE 30 June 2011 as compared to approximately RM25.5 million in the previous year, representing a decrease of approximately 98%.

FYE 30 June 2012

For the FYE 30 June 2012, the Mycron group recorded revenue of approximately RM443 million as compared to approximately RM414 million in the previous year, representing an increase of approximately 7%. The sales volume of CRC Steel Sheets increased to 165,000 tonnes as compared to 156,000 tonnes in the previous year, representing an increase of approximately 6%. However, gross profit margin for FYE 30 June 2012 was lower at 3.1% as compared to 3.8% recorded in the previous year due to intense competition in the domestic market. During the financial year, there was also a one-off impairment charge on other receivable/investment amounting to approximately RM9.1 million.

Following the above, the Mycron group recorded a LAT of approximately RM15.8 million as compared to a PAT of approximately RM0.5 million in the previous year.

FYE 30 June 2013

For the FYE 30 June 2013, the Mycron group recorded revenue of approximately RM513 million as compared to approximately RM443 million in the previous year, representing an increase of approximately 16%. This was due to the increase in the sales volume of CRC Steel Sheets to 204,000 tonnes as compared to 165,000 tonnes in the previous year, representing an increase of approximately 24%. Gross profit margin for FYE 30 June 2013 was higher at 6.6% as compared to 3.1% recorded in the previous year due to forward orders taken earlier prior to the price increase by its supplier.

Consequently, the Mycron group recorded a PAT of approximately RM7.0 million as compared to a LAT of approximately RM15.8 million in the previous year.

FYE 30 June 2014

For the FYE 30 June 2014, the Mycron group recorded revenue of approximately RM448 million as compared to approximately RM513 million in the previous year, representing a decrease of approximately 13%. This was due to the decrease in the sales volume of CRC Steel Sheets to 186,000 tonnes as compared to 204,000 tonnes in the previous year, representing a decrease of approximately 9%. Gross profit margin for FYE 30 June 2014 was lower at 3.6% as compared to 6.6% recorded in the previous year due to lower sales volume and lower unit selling price. During the financial year, there was also an impairment charge of RM6.3 million in relation to a revaluation of plant & equipment.

Consequently, the Mycron group recorded a LAT of approximately RM9.2 million as compared to a PAT of approximately RM7.0 million in the previous year.

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