

MESTRON HOLDINGS BERHAD ("MESTRON" OR "THE COMPANY")

PROPOSED BONUS ISSUE OF WARRANTS

1. INTRODUCTION

On behalf of the Board of Directors of Mestron ("**Board**"), M&A Securities Sdn Bhd ("**M&A Securities**") wishes to announce that Mestron proposes to undertake the proposed bonus issue free warrants ("**Warrants**") on the basis of 1 Warrants for every 2 existing ordinary shares in Mestron ("**Mestron Share(s)**" or "**Share(s)**") held by the entitled shareholders on an entitlement date to be determined and announced later ("**Entitled Shareholders**") ("**Entitlement Date**") ("**Proposed Bonus Issue of Warrants**").

2. DETAILS OF THE PROPOSED BONUS ISSUE OF WARRANTS

2.1 Basis and number of Warrants to be issued

The Proposed Bonus Issue of Warrants entails the issuance of Warrants on the basis of 1 Warrants for every 2 existing Shares held by the Entitled Shareholders on the Entitlement Date.

As at 2 April 2021, being the latest practicable date ("**LPD**") prior to this announcement, Mestron has a total issued share capital of RM76,264,417 comprising 906,900,000 Mestron Shares. Further, Mestron has up to 41,100,000 Mestron Shares to be issued under a private placement exercise of up to 158,000,000 new Mestron Shares ("**Placement Share(s)**") on the ACE Market of Bursa Malaysia Securities Berhad ("**Bursa Securities**"), which was approved by Bursa Securities on 7 September 2020 ("**Private Placement**")¹.

Based on the total number of issued Mestron Shares as at the LPD and the remaining Placement Shares to be issued under the Private Placement, the Proposed Bonus Issue of Warrants would entail the issuance of up to 474,000,000 Warrants.

Fractional entitlements, arising from the Proposed Bonus Issue of Warrants, if any, will be disregarded and shall be dealt with by the Board in such manner at its absolute discretion as it may deem fit and expedient in order to minimise the incidence of odd lots and in the best interest of the Company.

The Entitlement Date will be determined and announced at a later date by the Board upon receipt of all relevant approvals.

The Proposed Bonus Issue of Warrants will not be implemented in stages over a period of time.

For avoidance of doubt, any Warrants to be issued in relation to the Mestron Shares held by promoters of Mestron (i.e. Por Teong Eng and Loon Chin Seng) which is currently under moratorium will also be subject to a similar moratorium.

2.2 Indicative salient terms of the Warrants

The indicative salient terms of the Warrants are set out as follows:

Issuer	: Mestron
Issue size	: Up to 474,000,000 Warrants

¹ Bursa Securities had vide its letter dated 3 March 2021 granted Mestron an extension of time of 6 months from 7 March 2021 until 7 September 2021 to complete the implementation of the Private Placement.

Form and denomination	: The Warrants will be issued in registered form and constituted by a deed poll to be executed by the Company (" Deed Poll ")
Tenure	: 5 years commencing from and inclusive of the Warrant issue date (" Issue Date ")
Subscription Rights	: Each Warrant shall entitle its holders of Warrant (" Warrant Holders ") to subscribe for 1 new Share at any time during the Exercise Period, subject to adjustments in accordance with the provisions of the Deed Poll
Exercise Price	: The basis of determining the exercise price of the Warrants is set out in Section 2.5 below. 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 Warrants may be exercised at any time during the tenure of 5 years commencing from and including the date of issue of the Warrants until 5.00 p.m. (Malaysia time) on the expiry date. If such date is not a market day, then it shall be the next market day immediately preceding the said non market day (" Exercise Period "). Any Warrant not exercised during the Exercise Period will cease to be valid for any purpose and will be deemed to have lapsed.
Mode of exercise	: The Warrant Holders are required to lodge a subscription form with the Company's registrar, duly completed, signed and stamped together with payment by way of banker's draft or cashier's order drawn on a bank operating in Malaysia or money order or postal order issued by a post office in Malaysia for the aggregate of the exercise price payable when exercising their Warrants to subscribe for new Shares. The payment of such fee must be made in Ringgit Malaysia
Board lot	: For the purpose of trading on Bursa Securities, a board lot of Warrants shall comprise of 100 Warrants unless otherwise revised by the relevant authorities
Adjustments to the exercise price and/or number of Warrants	: Subject to the provisions of the Deed Poll, the exercise price and/or the number of unexercised Warrants held by each Warrants Holders shall be adjusted, calculated or determined by the Board in consultation with an approved adviser appointed by the Company and certified by the auditors of Mestron in the event of alteration to the share capital of the Company at any time during the tenure in accordance with the provisions of the Deed Poll
Rights in the event of winding up, liquidation or an event of default	: If a resolution is passed for a members' voluntary winding-up of the Company or there is a compromise or arrangement whether or not for the purpose of or in connection with a scheme for the reconstruction of the Company or the amalgamation of the Company with 1 or more companies: (i) for the purposes of such winding-up, compromise or arrangement (other than a consolidation, amalgamation or merger in which the Company is the

continuing corporation) to which the Warrant Holders, or some persons designated by them for such purposes by a special resolution shall be a party, the terms of such winding up, compromise and arrangement shall be binding on all the Warrant Holders; and

- (ii) every Warrant Holder shall be entitled (upon and subject to the conditions) to exercise the Subscription Rights at any time within six (6) weeks after the passing of such resolution for a members' voluntary winding-up of the Company or within six (6) weeks from the granting of the court order approving the winding up, compromise or arrangement, as the case may be, to elect to be treated as if he had immediately prior to the commencement of such winding-up, compromise or arrangement exercised the Subscription Rights attached to such Warrants to the extent specified in the subscription form(s), whereupon the Company shall allot new Shares to the Warrant Holders credited as fully paid subject to the prevailing laws and such Warrant Holder shall be entitled to receive out of the assets of the Company which would be available in liquidation as if he had on such date been the holder of the new Shares to which he would have become entitled pursuant to such exercise of his Subscription Rights and the liquidator of the Company shall give effect to such election accordingly. Upon the expiry of the above six (6) weeks, all Subscription Rights of the Warrants will lapse and cease to be valid for any purpose.

Rights of the Warrant holders	: The Warrants do not confer on their holders any voting rights or any right to participate in any form of distribution and/or offer of further securities in the Company until and unless such holders of Warrants exercise their Warrants for new Shares in accordance with the provisions of the Deed Poll and such new Shares have been allotted and issued to such holders
Listing	: The Warrants will be listed on the ACE Market of Bursa Securities
Governing law	: Laws of Malaysia

2.3 Ranking of the Warrants and the new Shares to be issued arising from the exercise of Warrants

The Warrant Holders will not be entitled to any voting rights or right to participate in any form of distribution other than on winding-up, compromise or arrangement of Mestron to be set out in the Deed Poll to be executed by the Company and/or offer of further securities in Mestron until and unless such Warrant Holders exercise their Warrants into new Mestron Shares.

The new Shares to be issued arising from the exercise of the Warrants shall, upon allotment, issuance and full payment of the exercise price, rank equally in all respects with the existing issued Shares, save and except that the holders of such new Shares shall not be entitled to any dividends, rights, allotments and/or other distributions which may be declared, made or paid to the shareholders, the entitlement date of which is prior to the date of allotment and issuance of such new Shares.

2.4 Listing of and quotation for the Warrants and the new Shares to be issued arising from the exercise of Warrants

An application will be made to Bursa Securities for:

- (i) The admission of the Warrants to the official list of Bursa Securities; and
- (ii) The listing of and quotation for the Warrants and new Shares to be issued arising from the exercise of the Warrants,

on the ACE Market of Bursa Securities.

2.5 Basis and justification for the issue price and exercise price of the Warrants

The Warrants will be issued at no cost to the Entitled Shareholders.

The exercise price of the Warrants will be determined by the Board at a later date after all relevant approvals have been obtained, and after taking into consideration the following:

- (i) the historical price movement of Mestron Shares;
- (ii) the 5-day volume weighted average market price ("**5DVWAP**") of Mestron Shares and prevailing market condition; and
- (iii) the future funding requirements of Mestron and its subsidiaries ("**Mestron Group**" or "**Group**").

For illustrative purposes only in this announcement, the exercise price of the Warrants is assumed to be RM0.20 ("**Indicative Exercise Price**") which represents a discount of approximately 29.3% to the 5DVWAMP of Mestron Shares up to and including the LPD of RM0.2830 per Share. Correspondingly, the theoretical ex-all price of Mestron Shares for the Proposed Bonus Issue of Warrants, computed based on the 5DVWAMP of Mestron Shares up to and including the LPD of RM0.2830 per Share, is RM0.2553 per Share. Thus, the Indicative Exercise Price represents a discount of approximately 21.7% to the said theoretical ex-all price.

2.6 Utilisation of proceeds from the exercise of Warrants

The Proposed Bonus Issue of Warrants is not expected to raise any immediate funds as the Warrants will be issued at no cost to the Entitled Shareholders.

The eventual proceeds to be raised from the exercise of the Warrants (if any) is dependent on the number of Warrants exercised during the tenure of the Warrants as well as the exercise price of the Warrants, which will be determined and fixed at a later date.

For illustration purposes only in this announcement, the gross proceeds to be raised upon full exercise of the Warrants based on the Indicative Exercise Price is up to approximately RM94.80 million. Such proceeds will be utilised as additional working capital for the Group or reserved funds for future business expansion. The exact details of such utilisation are subject to the Group's operating requirements and business development strategies at the relevant times and therefore cannot be determined at this juncture.

Pending the utilisation of proceeds, such proceeds shall be placed in deposits with financial institutions or short-term money market instruments. Interest derived from such deposits or gains from such money market instruments will be used as additional working capital for the Group.

2.7 Details of equity fund-raising exercises undertaken in the past 12 months

Save for the Private Placement, Mestron has not undertaken any equity fund-raising exercise in the past 12 months before the announcement of the Proposed Bonus Issue of Warrants.

As at the LPD, a total of 116,900,000 Mestron Shares was issued and listed on the ACE Market of Bursa Securities on 8 December 2020, 8 January 2021 and 5 March 2021, pursuant to the Private Placement. The status of utilisation of proceeds raised from the Private Placement is as follows:

Utilisation of proceeds	(1) Actual proceeds raised	Actual utilisation	Unutilised amount
	RM'000	RM'000	RM'000
Future business projects/ investment	9,537	-	9,537
Repayment of bank borrowings	3,974	3,188	786
Working capital	7,393	-	(2)7,496
Estimated expenses for Private Placement	318	215	(2)-
Total proceeds	21,222	3,123	17,819

Notes:

- (1) Allocated proportionately based on the gross proceeds raised as disclosed in the announcement dated 18 August 2020 in relation to the Private Placement.
- (2) Reallocation of the excess proceeds of RM0.10 million earmarked for the estimated expenses for the Private Placement to working capital.

As at the date of this announcement, the implementation of the Private Placement has yet to be completed.

3. RATIONALE FOR THE PROPOSED BONUS ISSUE OF WARRANTS

After due consideration, the Board is of the view that the Proposed Bonus Issue of Warrants is the most appropriate avenue of rewarding the existing shareholders of the Company as the Proposed Bonus Issue of Warrants will:

- (i) Enable shareholders of Mestron to participate in convertible securities of the Company, which are tradable on the ACE Market of Bursa Securities, without incurring any cost;
- (ii) Provide shareholders of Mestron with an opportunity to increase their equity participation in the Company at a pre-determined exercise price over the tenure of the Warrants, and to allow shareholders to further participate in the future growth of the Company when the Warrants are exercised;
- (iii) Allow existing shareholders of the Company to benefit from any potential capital appreciation of the Warrants;
- (iv) Provide the Company with additional working capital when the Warrants are exercised in the future. The exercise of the Warrants will allow the Company to obtain proceeds without incurring interest expenses as compared to bank borrowings; and
- (v) Strengthen the capital base of the Company by increasing the size of the shareholders' funds pursuant to the exercise of the Warrants.

4. PROSPECT AND OUTLOOK

4.1 Industry outlook

The Group is principally involved in the steel pole industry and its customer base mainly comprises of construction companies and information and telecommunication infrastructure contractor.

Accordingly, the outlook of the steel pole industry is largely dependent and correlated with the outlook of both construction and telecommunication industry.

The construction sector contracted by 25.9% in the first half of 2020 and is expected to shrink by 11.8% 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 specialized 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 18.7%.

The construction sector is expected to rebound by 13.9% 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 2 (MRT2), Light Rail Transit 3 (LRT3), West Coast Expressway (WCE) and Bayan Lepas Light Rail Transit (LRT) 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 HOC, exemption of Real Property Gain 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.

The information and communication subsector expanded by 5.8% in the first half of 2020, primarily supported by higher usage of internet, particularly online transactions, entertainments, educational and work from home (WFH) activities. The subsector is projected to expand further by 7.1% in the second half of the year buoyed by various Government initiatives. The initiatives include a tax exemption of up to RM5,000 for information, communication and technology (ICT) equipment to support WFH activities and individual income tax relief of up to RM2,500 on the purchase of digital devices.

For the year, the subsector is anticipated to accelerate by 6.4% as WFH activities, virtual communication and online businesses become the new normal. In 2021, the subsector is projected to expand by 7.9%, with the fifth generation cellular network (5G) spectrum facilitating e-commerce and e-learning activities. The roll-out of the National Fourth Industrial Revolution (4IR) Policy and Digital Economy Blueprint in the fourth quarter of 2020 is expected to enhance the productivity and competitiveness of the subsector. The formation of the Malaysian Digital Economy Task Force, which focusses on digital technology, cybersecurity, trade and digital content is expected to support the acceleration of the subsector.

(Source: Economic Outlook 2021, Ministry of Finance Malaysia)

4.2 Prospect of the Group

Moving forward, the Board is optimistic on the prospect of the Group and expect the business of the Group to benefit from the anticipated increased construction activities in Malaysia as the country gradually recover from the sharp economic downturn resulted by the Covid-19 pandemic. Further, with the recently announced MyDigital initiative by the Government of Malaysia, which seeks to roll out domestic 5G connectivity, the Group expect to see a stronger demand for its offering of specialty poles such as high mast and telecommunication monopole, which are essential in the development of telecommunication infrastructure.

(Source: Management of Mestron)

5. FINANCIAL EFFECTS OF THE PROPOSED BONUS ISSUE OF WARRANTS

The effects of the Proposed Bonus Issue of Warrants are set out as follow:

Minimum Scenario : Assuming none of the remaining 41,100,000 Placement Shares was issued prior to the Entitlement Date

Maximum Scenario : Assuming all of the remaining 41,100,000 Placement Shares was issued prior to the Entitlement Date

5.1 Share capital

The pro forma effects of the Proposed Bonus Issue of Warrants on the issued share capital of Mestron are set out below:

	Minimum Scenario		Maximum Scenario	
	No. of Shares ('000)	RM	No. of Shares ('000)	RM
Issued share capital as at the LPD	906,900	76,264,417	906,900	76,264,417
<i>Issuance of the remaining 41,100,000 Placement Shares</i>	-	-	41,100	⁽²⁾ 10,480,500
	906,900	76,264,417	948,000	86,744,917
<i>New Shares to be issued from the full exercise of the Warrants</i>	453,450	⁽¹⁾ 90,690,000	474,000	⁽¹⁾ 94,800,000
Enlarged issued share capital	1,360,350	166,954,417	1,422,000	181,544,917

Note:

⁽¹⁾ Assuming 453,450,000 and 474,000,000 Warrants are exercised at the Indicative Exercise Price under the Minimum Scenario and Maximum Scenario respectively.

⁽²⁾ Assuming the remaining 41,100,000 Placement Shares was issued at RM0.255, which represent a discount of 9.9% to the 5DVWAMP of Mestron Shares up to and including the LPD of RM0.2830 per Share

5.2 Net assets ("NA") and gearing

The pro forma effects of the Proposed Bonus Issue of Warrants on the NA, NA per share and gearing of the Group are set out below:

Minimum Scenario

		I	II	
	As at 31 December 2019	⁽¹⁾ Adjusted for subsequent events	After (I) and the Proposed Bonus Issue of Warrants	After (II) and full exercise of the Warrants
	RM	RM	RM	RM
Share capital	55,496,089	76,264,417	76,264,417	⁽³⁾ 166,954,417
Merger deficit	(29,100,000)	(29,100,000)	(29,100,000)	(29,100,000)
Retained earnings	34,082,493	34,082,493	⁽²⁾ 33,932,493	33,932,493
	60,478,582	81,246,910	81,096,910	171,786,910
No. of Shares	790,000,000	906,900,000	906,900,000	1,360,350,000
NA per Share (RM)	0.08	0.09	0.09	0.13
Total borrowings	10,712,095	10,712,095	10,712,095	10,712,095
Gearing (times)	0.18	0.13	0.13	0.06

Maximum Scenario

		I	II	III	
	As at 31 December 2019	⁽¹⁾ Adjusted for subsequent events	Issuance of the remaining 41,100,000 Placement Shares	After (II) and the Proposed Bonus Issue of Warrants	After (III) and full exercise of the Warrants
	RM	RM	RM	RM	RM
Share capital	55,496,089	76,264,417	⁽⁵⁾ 86,744,917	86,744,917	⁽⁴⁾ 181,544,917
Merger deficit	(29,100,000)	(29,100,000)	(29,100,000)	(29,100,000)	(29,100,000)
Retained earnings	34,082,493	34,082,493	34,082,493	⁽²⁾ 33,932,493	33,932,493
	60,478,582	81,246,910	91,727,410	91,577,410	186,377,410
No. of Shares	790,000,000	906,900,000	948,000,000	948,000,000	1,422,000,000
NA per Share (RM)	0.08	0.09	0.10	0.10	0.13
Total borrowings	10,712,095	10,712,095	10,712,095	10,712,095	10,712,095
Gearing (times)	0.18	0.13	0.12	0.12	0.06

Notes:

⁽¹⁾ Adjusted for the following:

- (a) Issuance of 3,500,000 Mestron Shares at RM0.152 per Share;
- (b) Issuance of 89,000,000 Mestron Shares at RM0.179 per Share; and
- (c) Issuance of 24,400,000 Mestron Shares at RM0.195 per Share,

pursuant to the Private Placement.

⁽²⁾ After deducting the estimated expenses in relation to the Proposed Bonus Issue of Warrants of RM150,000.

- (3) Assuming 453,450,000 Warrants are exercised at the Indicative Exercise Price.
- (4) Assuming 474,000,000 Warrants are exercised at the Indicative Exercise Price.
- (5) Assuming the remaining 41,100,000 Placement Shares was issued at RM0.255, which represent a discount of 9.9% to the 5DVWAMP of Mestron Shares up to and including the LPD of RM0.2830 per Share

5.3 Earnings and earnings per Share ("EPS")

The Proposed Bonus Issue of Warrants will not have any impact on the earnings of the Group. However, the EPS of the Group is expected to be diluted as a result of the increase in the number of Shares arising from the exercise of Warrants.

5.4 Existing convertible securities

As at the LPD, the Company does not have any convertible securities.

5.5 Substantial shareholders' shareholdings

The Proposed Bonus Issue of Warrants will not have any immediate effect on the substantial shareholders' percentage of shareholding in the Company as the Warrants will be allotted on a pro-rated basis to all Entitled Shareholders. However, the number of Mestron Shares held by each substantial shareholder will increase proportionately assuming full exercise of the Warrants.

The pro forma effects of the Proposed Bonus Issue of Warrants on the shareholdings of the substantial shareholders of Mestron are set out below:

Minimum Scenario

Substantial shareholders	As at the LPD				Upon full exercise of the Warrants			
	Direct		Indirect		Direct		Indirect	
	No. of Shares	(1)%	No. of Shares	%	No. of Shares	(2)%	No. of Shares	%
Por Teong Eng	212,101,600	23.4	-	-	318,152,400	23.4	-	-
Loon Chin Seng	237,347,600	26.2	-	-	356,021,400	26.2	-	-

Maximum Scenario

Substantial shareholders	As at the LPD				Upon full exercise of the Warrants			
	Direct		Indirect		Direct		Indirect	
	No. of Shares	(3)%	No. of Shares	%	No. of Shares	(4)%	No. of Shares	%
Por Teong Eng	212,101,600	22.4	-	-	318,152,400	22.4	-	-
Loon Chin Seng	237,347,600	25.0	-	-	356,021,400	25.0	-	-

Notes:

- (1) Based on 906,900,000 issued Mestron Shares as at the LPD.
- (2) Based on 1,360,350,000 Mestron Shares upon full exercise of the Warrants under the Minimum Scenario.

- (3) Based on the enlarged total number of issued Mestron Shares of 948,000,000 under the Maximum Scenario.
- (4) Based on 1,422,000,000 Mestron Shares upon full exercise of the Warrants under the Maximum Scenario.

6. APPROVALS REQUIRED AND INTER-CONDITIONALITY

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

- (i) Bursa Securities for the following:
 - (a) Admission of up to 474,000,000 Warrants to the official List of Bursa Securities;
 - (b) The listing of and quotation of up to 474,000,000 Warrants on the ACE Market of Bursa Securities; and
 - (c) Listing of and quotation of up to 474,000,000 new Shares to be issued arising from the exercise of the Warrants on the ACE Market of Bursa Securities.
- (ii) The shareholders of Mestron at an extraordinary general meeting to be convened; and
- (iii) Any other relevant authority, if required.

The Proposed Bonus Issue of Warrants is not conditional upon any other proposals undertaken or to be undertaken by the Company.

7. INTEREST OF DIRECTORS, MAJOR SHAREHOLDERS, CHIEF EXECUTIVE AND/OR PERSONS CONNECTED WITH THEM

None of the Directors, major shareholders of the Company, chief executive and/or persons connected with them have any interest, direct and/or indirect, in the Proposed Bonus Issue of Warrants, other than their respective entitlements as shareholders of the Company under the Proposed Bonus Issue of Warrants, the rights of which are also available to all other existing shareholders of the Company as at the Entitlement Date.

8. DIRECTORS' STATEMENT

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

9. ADVISER

M&A Securities has been appointed by the Company to act as Principal Adviser for the Proposed Bonus Issue of Warrants.

10. ESTIMATED TIMEFRAME FOR COMPLETION

The Proposed Bonus Issue of Warrants is expected to be completed in the 2nd quarter of 2021.

11. APPLICATION TO THE RELEVANT AUTHORITIES

The application to the relevant authorities for the Proposed Bonus Issue of Warrants shall be made within 2 months from the date of this announcement.

This announcement is dated 6 April 2021.