

## SALCON BERHAD (“SALCON” OR “THE COMPANY”)

### REDUCTION OF EQUITY INTEREST IN SALCON XINLIAN GROUP LIMITED (“SXGL”) (FORMERLY KNOWN AS SALCON WATER INTERNATIONAL LIMITED) A WHOLLY-OWNED SUBSIDIARY OF SALCON IN RESPECT OF THE PROPOSED SUBSCRIPTION (AS DEFINED HEREIN)

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#### 1. INTRODUCTION

Pursuant to Paragraph 10.08(1) of the Bursa Malaysia Securities Berhad (“Bursa Securities”) Main Market Listing Requirements (“Main LR”), the Board of Directors of Salcon, wishes to announce that on 8 February 2017, Salcon had entered into a Shareholders Agreement (“SA”) with Mr See Che Chi (“SCC”), Dato’ Mohamed Nizam Bin Abdul Razak (“Dato’ Nizam”) and SXGL (each “a Party” and collectively as “the Parties”) to give effect to the intentions of the Parties and to regulate their relationship as shareholders of SXGL.

Pursuant to the terms of the SA, the Parties agreed to increase the issued and paid-up share capital of SXGL from HKD10,000,000.00 to HKD19,600,000.00 for a total cash consideration of HKD9,600,000.00 [equivalent to RM5,493,955.20\*] (“Subscription Price”) by way of subscription of new shares in SXGL by SCC and Dato Nizam (“Proposed Subscription”) as follows:-

Shareholders of SXGL	Before the Proposed Subscription		No. of new ordinary shares to be subscribed in SXGL	Total Cash Consideration (HKD)	After the Proposed Subscription	
	No. of ordinary shares held	%			No. of ordinary shares held	%
Salcon	10,000,000	100.00	-	-	10,000,000	51.02
SCC	-	-	7,640,000	7,640,000.00	7,640,000	38.98
Dato’ Nizam	-	-	1,960,000	1,960,000.00	1,960,000	10.00
<b>Total</b>	<b>10,000,000</b>	<b>100.00</b>	<b>9,600,000</b> <b>(“Subscription Shares”)</b>	<b>9,600,000.00</b>	<b>19,600,000</b>	<b>100.00</b>

Following the Proposed Subscription, Salcon’s equity interest in SXGL will be reduced from 100% to 51.02% (“Dilution of Interest”) and SXGL remains as a subsidiary of Salcon.

#### 2. DETAILS OF THE PROPOSED SUBSCRIPTION

##### 2.1 Basis of arriving at and justification for the Subscription Price

The Subscription Price of HKD9,600,000.00 was for the subscription of 9,600,000 new shares at par value and arrived at on a willing-buyer willing-seller basis.

##### 2.2 Salient terms of SA

###### 2.2.1 Subscription Price

SCC and Dato’ Nizam shall subscribe for the Subscription Shares in cash at a price of HKD1.00 per Subscription Share payable on the date of allotment and issuance. The Subscription Shares shall be allotted and issued free of all encumbrances and rank *pari passu* in all respect with each other and the existing issued shares in SXGL.

Please refer to the Table as tabulated in Section 1 of this announcement for further details.

- 2.2.2 Save as otherwise permitted as per the SA, each shareholder is absolutely prohibited to, directly or indirectly, sell, transfer, assign, charge, grant options over, dispose of, mortgage, pledge or otherwise create any encumbrance over, or deal with or part with the legal and/or beneficial ownership of any of their respective shares in SXGL or any rights, benefits or interests attached thereto or enter into any agreement in respect of any votes attaching to the shares except the prior written consent of the other shareholders.
- 2.2.3 Each Party represents and warrants to and for the benefit of the other Parties, among others that, all actions, conditions and things required to be taken, fulfilled and done (including the obtaining of any necessary consents), in order (i) to enable it lawfully to enter into, exercise its rights and perform and comply with its obligations under the SA and (ii) to ensure that those obligations are valid, legally binding and enforceable, have been taken, fulfilled and done.
- 2.2.4 The SA may be terminated at any time upon a mutual agreement in writing of the Parties. Any such termination shall have the consequences specified in such agreement.
- 2.2.5 Without restricting any other rights available herein or at law, either party may, by notice in writing to the other party, terminate the SA in the following events:-
- (a) the other party commits a breach of any of its obligations as specified under the SA, and if capable of being remedied, fails to remedy such breach within thirty (30) days after such occurrence;
  - (b) the insolvency of SXGL, or the institution of winding up proceedings against SXGL;
  - (c) the dissolution or liquidation of SXGL;
  - (d) SXGL ceases or threatens to cease carrying on its business.

### **3. INFORMATION ON THE PARTIES INVOLVED**

#### **3.1 Financial Information on SXGL**

The following financial information was extracted from the audited financial statements of SXGL for the financial year ended 31 December 2015:-

<b>Financial year ended 31 December 2015</b>	<b>HKD</b>
<b>Net Profits/(Loss)</b>	(30,690)
<b>Net Assets/(Liability)</b>	(63,961)

#### **3.2 Dato Nizam**

Dato' Nizam, Malaysian, has no family relationship between the Directors and/or major shareholders of the Company and any of its subsidiaries ("Salcon Group").

#### **3.3 SCC**

SCC, Malaysian, has the following directorships and shareholdings in Salcon Group:

Directorship	Shareholdings	Company Name	Remarks
Director	6.0%	Circlic Interactive Tourism Sdn Bhd ("CITSB") (formerly known as Circlic Interactive Sdn Bhd)	65%-owned subsidiary of SXGL
Director	-	Beijing Xinlian Yitong Technology Co. Ltd. ("BXYT")	A wholly-owned subsidiary of SXGL
Director	-	Signcharge Sdn Bhd ("SCSB")	64.2%-owned subsidiary of SXGL
Director	-	SXGL	A wholly-owned subsidiary of Salcon
Director	-	Enrich Signature Sdn Bhd	A wholly-owned subsidiary of CITSB
Director	-	Baiduri Nyaman Sdn Bhd	A wholly-owned subsidiary of SXGL
Director	-	Anggerik Megajaya Sdn Bhd	A wholly-owned subsidiary of Salcon

#### 4. RATIONALE AND BENEFIT FOR THE PROPOSED SUBSCRIPTION

The Proposed Subscription by SCC and Dato' Nizam presents a good opportunity for Salcon to capitalise on their extensive experience in e-commerce.

#### 5. ESTIMATED TIME FRAME FOR COMPLETION

Barring any unforeseen circumstances, the Proposed Subscription is expected to be completed within one (1) month from the date of the SA.

#### 6. ASSUMPTION OF LIABILITIES

There are no liabilities to be assumed by SCC and Dato' Nizam arising from the Proposed Subscription.

#### 7. ORIGINAL COST OF INVESTMENT

The original cost and date of investment in SXGL are as follows:-

Date of Investment	Cost of Investment (RM)
20 April 2006	0.50
1 July 2015	686,425.65

#### 8. EXPECTED GAIN/LOSS ON DILUTION OF INTEREST PURSUANT TO THE PROPOSED SUBSCRIPTION

There was no expected gain on the Subscription Price of HKD9,600,000.00 as the shares were allotted at nominal value of HKD1.00 per share.

## 9. PROPOSED UTILISATION OF PROCEEDS FROM THE DILUTION OF INTEREST PURSUANT TO THE PROPOSED SUBSCRIPTION

The proceeds from the Proposed Subscription will be allocated for the working capital of SXGL and its subsidiaries' business operations. The breakdown of proceeds to be utilised for each component of working capital has yet to be determined at this juncture. Moreover, the amount to be utilised by each component of working capital may differ subject to the operating requirements at the time of utilisation.

## 10. EFFECTS OF THE PROPOSED SUBSCRIPTION

### 10.1 Share capital and substantial shareholders' shareholding

The Proposed Subscription does not have any effect on the share capital and substantial shareholders' shareholdings of the Company.

### 10.2 Earnings per share, net assets per share and gearing

The Proposed Subscription does not have any effect on the earning per share, net assets per share and gearing of Salcon Group for the financial year ending 31 December 2017.

## 11. PERCENTAGE RATIO

The highest percentage ratios applicable pursuant to Paragraph 10.02(g) and Practice Note 14 (Principle of Aggregation for Transactions) of the Main LR computed based on Salcon's latest audited consolidated financial statements for the financial year ended 31 December 2015 are as follows:-

No.	Transactions	Percentage Ratios
1.	Proposed Acquisition 100% of the entire issued and registered capital of BXYT and 13.1% of the issued and paid-up share capital of SCSB by SXGL from Signcharge Limited ("SCL") which was announced to Bursa Securities on 3 November 2016 and 3 February 2017. ("Proposed Acquisition 1")	0.90%
2.	Proposed acquisition of an additional 1,500,000 ordinary shares of RM1.00 each, in SCSB, representing 51.1% of the Issued and Paid-up Share Capital of SCSB by SXGL from SCC which was announced to Bursa Securities on 5 January 2017 and 20 January 2017. ("Proposed Acquisition 2")	0.10%
3.	Dilution of Interest pursuant to the Proposed Subscription	0.95%
	<b>TOTAL</b>	<b>1.95%</b>

## 12. DIRECTORS AND MAJOR SHAREHOLDERS' INTEREST

By virtue of the directorships and shareholding of SCC in Salcon Group as disclosed in Section 3.3 of this announcement, he is a related party in the Proposed Subscription.

Save as disclosed above, none of the directors and/or major shareholders of the Company, or persons connected with them have any interest, direct or indirect, in the Proposed Subscription.

## 13. TRANSACTIONS WITH THE RELATED PARTY FOR THE PRECEDING 12 MONTHS

Save as disclosed below, no transactions were entered into between Salcon Group and SCC and/or persons connected to him for the preceding 12 months:-

Date	Nature of Transaction	Transacted Amount
3 November 2016	Proposed Acquisition 1. SCL is a person connected to SCC.	HKD9,600,000.00 (equivalent to RM5,204,074.00 <sup>#</sup> )
5 January 2017	Proposed Acquisition 2.	RM600,000.00

## 14. AUDIT COMMITTEE'S STATEMENT

The Audit Committee, after having considered the Proposed Subscription, is of the opinion that the Proposed Subscription is:-

- (i) in the best interest of the Company;
- (ii) fair, reasonable, and on normal commercial terms; and
- (iii) not detrimental to the interest of the minority shareholders of the Company.

## 15. DIRECTORS' STATEMENT

The Board of Directors of Salcon, after having considered the Proposed Subscription, is of the opinion that the Proposed Subscription is:-

- (i) in the best interest of the Company;
- (ii) fair, reasonable, and on normal commercial terms; and
- (iii) not detrimental to the interest of the minority shareholders of the Company.

## 16. APPROVALS REQUIRED

The Proposed Subscription is not subject to the approval of the shareholders of the Company or any government authorities.

## **17. DOCUMENTS FOR INSPECTION**

The SA is available for inspection at the registered office of the Company at 15<sup>th</sup> Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 Subang Jaya, Selangor Darul Ehsan during normal office hours from Mondays to Fridays (except public holidays) for a period of three (3) months from the date of this announcement.

This announcement is dated 10 February 2017.

Notes:

\* Based on the exchange rate of HKD 100=RM57.2287 on 8 February 2017 as set out in the Bank Negara's website, subject to rounding.

# Based on the exchange rate of HKD 100=RM54.2091 on 31 October 2016 as set out in the Bank Negara's website, subject to rounding.