

SALCON BERHAD (“SALCON” or the “COMPANY”)

- **Proposed placement of new ordinary shares of RM0.50 each (“Placement Shares”), representing up to 10% of the issued and paid-up share capital of Salcon**

1. INTRODUCTION

On behalf of the Board of Directors of Salcon (“**Board**”), AFFIN Investment Bank Berhad (“**AFFIN Investment**”) wishes to announce that the Company proposes to undertake a private placement of new ordinary shares of RM0.50 each in Salcon (“**Placement Shares**”) not exceeding ten percent (10%) of the issued and paid-up share capital of Salcon to investors to be identified at an issue price to be determined (“**Proposed Placement**”).

2. PROPOSED PLACEMENT

2.1 Details of the Proposed Placement

During the Company’s Annual General Meeting (“**AGM**”) held on 23 June 2011, the Board has been authorized to issue shares in the Company of up to 10% of the issued and paid-up share capital of the Company pursuant to Section 132D of the Companies Act, 1965 (“**Existing S132D Mandate**”). The Existing S132D Mandate shall continue to be in force until the conclusion of the next AGM of the Company, which is expected to be after the completion of the Proposed Placement.

In this regard, the Board shall exercise the Existing S132D Mandate to allot and issue the Placement Shares to investors to be identified.

Based on the issued and paid-up share capital of the Company as at 18 November 2011 of RM237,153,902 comprising 474,307,804 ordinary shares of RM0.50 each in Salcon (“**Salcon Shares**”), the Proposed Placement would entail the issuance of up to 47,430,780 Placement Shares (“**Minimum Scenario**”).

For illustrative purposes, based on the maximum scenario, the Proposed Placement would entail the issuance of up to 59,161,231 Placement Shares, which is arrived at based on the issued and paid-up share capital of the Company as at 18 November 2011 of RM237,153,902 comprising 474,307,804 Salcon Shares together with the following assumptions:

- (i) the issuance of up to 12,391,800 new Salcon Shares arising from the full exercise of all the (outstanding) options under the employees’ share option scheme (“**ESOS**”) of Salcon and its subsidiaries (“**Salcon Group**” or “**Group**”) (“**ESOS Options**”) that have been granted as at 18 November 2011 (“**Exercisable ESOS Options**”); and
- (ii) the issuance of up to 104,912,701 new Salcon Shares arising from the full exercise of the existing warrants of the Company issued on 18 May 2007 which are constituted by a deed poll dated 12 April 2007 and due to expire on 17 May 2014 (“**Warrants**”),

prior to the implementation of the Proposed Placement (“**Maximum Scenario**”).

The actual number of Placement Shares to be issued pursuant to the Proposed Placement would depend on the issued and paid-up share capital of the Company at the point of implementation.

2.2 Allocation of the Placement Shares

The Placement Shares are intended to be placed out to third party investor(s) to be identified at a later stage, where such placee(s) shall be persons who qualify under Schedules 6 and 7 of the Capital Markets and Services Act 2007.

In accordance with Section 6.04(c) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“**Bursa Securities**”) (“**Listing Requirements**”), the Placement Shares will not be placed out to the following parties:

- (i) the interested directors, interested major shareholders, interested chief executive or interested person connected with a director, major shareholder or chief executive; and
- (ii) nominee corporations, unless the names of the ultimate beneficiaries are disclosed.

The Company may/may not implement the Proposed Placement in tranches depending on the prevailing market conditions and the timing of the identification of the investor(s).

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

The issue price of the Placement Shares shall be determined and announced by the Board at a later date after the receipt of all requisite approvals for the Proposed Placement (“**Price Fixing Date**”). The issue price of the Placement Shares shall be determined in accordance with Paragraph 6.04(a) of the Listing Requirements provided that the issue price of the Placement Shares shall not in any event be less than the par value of the Salcon Shares of RM0.50 each.

For illustrative purposes, assuming the indicative issue price is RM0.52 per Placement Share, the indicative issue price represents a discount of approximately RM0.038 or 6.81% to the five (5)-day volume weighted average market price (“**VWAP**”) of Salcon Shares up to and including 23 November 2011, being the latest practicable date prior to this announcement, of RM0.558 per Salcon Share.

2.4 Ranking of the Placement Shares

The Placement Shares shall, upon allotment and issue, rank *pari passu* in all respects with the existing issued and fully paid-up Salcon Shares, save and except that the holders of the Placement Shares shall not be entitled to any dividends, rights, allotments and/or any other distributions, that may be declared, made or paid prior to the date of the allotment of the Placement Shares.

2.5 Listing and quotation of the Placement Shares

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

2.6 Utilisation of proceeds

The actual amount of gross proceeds to be raised from the Proposed Placement is dependent on the actual issue price and the actual number of Placement Shares to be issued pursuant to the Proposed Placement.

For illustrative purposes, assuming the Placement Shares are issued at an indicative issue price of RM0.52 per Placement Share, the Proposed Placement is expected to raise gross proceeds of up to approximately RM30.764 million, which is proposed to be utilised in the following manner:

	Minimum Scenario RM'000	Maximum Scenario RM'000	Estimated time frame for utilisation
Repayment of existing borrowings ¹	24,464	26,500	Within 24 months
Working capital for Salcon Group ²	-	4,064	Within 12 months
Estimated expenses for the Proposed Placement ³	200	200	Within 3 months
Total	24,664	30,764	

Notes:

- The Company intends to utilise part of the proceeds for the repayment of the five (5)-years term loan which was earlier obtained to finance the acquisition/investment in water & waste water treatment related infrastructure in China.*
- The Company intends to utilise part of the proceeds to meet the Company's (and its subsidiary companies') working capital requirements which include, but not limited to, repair and maintenance of its assets, labour costs and other administrative costs.*

The breakdown of proceeds to be utilised for each component of working capital has not been determined at this juncture. Moreover, the actual utilisation by each component of working capital may differ subject to the operating requirements at the time of utilisation.

- The estimated expenses relating to the Proposed Placement of RM200,000 comprise, amongst others, the professional fees and fees payable to the relevant authorities. Any surplus or shortfall of funds for the payment of expenses for the Proposed Placement will be utilised for the working capital or be made good from the working capital respectively.*

In the event of a variation in the actual gross proceeds raised due to the difference in the issue price and/or final number of Placement Shares to be issued, the Company will vary the utilisation amount for working capital purposes, accordingly.

3. RATIONALE FOR THE PROPOSED PLACEMENT

The Proposed Placement will enable the Group to further strengthen its balance sheet and reduce the gearing of the Group thereby providing flexibility for fund raising as and when the opportunity arises.

After due consideration of the various methods of fund raising, the Board is of the opinion that the Proposed Placement is the most appropriate avenue of raising funds based on the following rationale:

- enables the Group to raise additional working capital funds without incurring financing cost, compared to conventional bank borrowings;
- provides the most expeditious way of raising funds from the capital market as opposed to a pro-rata issuance of securities such as a rights issue; and

(iii) to increase the size and strength of the Company's shareholders' funds.

4. EFFECTS OF THE PROPOSED PLACEMENT

For illustration purposes, the effects of the Proposed Placement have been illustrated based on the following scenarios:

Minimum Scenario : Assuming none of the Exercisable ESOS Options and outstanding Warrants of Salcon have been exercised into new Salcon Shares prior to the implementation of the Proposed Placement

Maximum Scenario : Assuming all of the Exercisable ESOS Options and outstanding Warrants of Salcon have been exercised into new Salcon Shares prior to the implementation of the Proposed Placement

4.1 Share capital

For illustrative purposes, the proforma effects of the Proposed Placement on the issued and paid-up share capital of Salcon as at 18 November 2011 are set out below.

	Par value	Minimum Scenario		Maximum Scenario	
		No. of shares	RM	No. of shares	RM
Existing as at 18 November 2011	0.50	474,307,804	237,153,902	474,307,804	237,153,902
To be issued pursuant to the:					
- Full exercise of the Exercisable ESOS Option	0.50	-	-	12,391,800	6,195,900
- Full exercise of outstanding Warrants	0.50	-	-	104,912,701	52,456,351
		474,307,804	237,153,902	591,612,305	295,806,153
To be issued pursuant to the Proposed Placement	0.50	47,430,780	23,715,390	59,161,231	29,580,616
Enlarged issued and paid-up share capital	0.50	521,738,584	260,869,292	650,773,536	325,386,769

4.2 Net assets ("NA") and gearing

For illustrative purposes, the proforma effects of the Proposed Placement on the audited consolidated NA and gearing of Salcon based on the latest audited financial statements as at 31 December 2010 are set out below:

Minimum Scenario

	Audited as at 31 December 2010 RM'000	(I) After the actual exercise of ESOS Options up to 18 November 2011 RM'000	After (I) and Proposed Placement ¹ RM'000
Share capital	236,774	237,154	260,869
Share premium reserve	36,445	36,627	37,576
Warrant reserve	22,150	22,150	22,150
Translation reserve	(8,658)	(8,658)	(8,658)
Revaluation reserve	150	150	150
Share option reserve	778	649	649
Retained earnings	21,833	21,833	21,633 ²
Shareholders' equity	309,472	309,905	334,369
Non-controlling interests	84,546	84,546	84,546
Total Equity	394,018	394,451	418,915
No. of shares in issue ('000)	473,548	474,308	521,739
NA per share (RM)	0.65	0.65	0.64
Total interest bearing borrowings	236,187	236,187	211,723
Gearing (times)	0.76	0.76	0.63

Notes:

1. Based on the indicative issue price of RM0.52 per Placement Share
2. After deducting the estimated expenses of approximately RM200,000 which is set off against the retained earnings

Maximum Scenario

	Audited as at 31 December 2010	(I) After the actual exercise of ESOS Options up to 18 November 2011	(II) After (I) and full exercise of Exercisable ESOS Options and outstanding Warrants ¹	After (II) and Proposed Placement ²
	RM'000	RM'000	RM'000	RM'000
Share capital	236,774	237,154	295,806	325,387
Share premium reserve	36,445	36,627	87,143	88,326
Warrant reserve	22,150	22,150	-	-
Translation reserve	(8,658)	(8,658)	(8,658)	(8,658)
Revaluation reserve	150	150	150	150
Share option reserve	778	649	-	-
Retained earnings	21,833	21,833	21,833	21,633 ³
Shareholders' equity	309,472	309,905	396,274	426,838
Non-controlling interests	84,546	84,546	84,546	84,546
Total Equity	394,018	394,451	480,820	511,384
No. of shares in issue ('000)	473,548	474,308	591,612	650,774
NA per share (RM)	0.65	0.65	0.67	0.66
Total interest bearing borrowings	236,187	236,187	236,187	209,687
Gearing (times)	0.76	0.76	0.60	0.49

Notes:

1. Assuming all the Exercisable ESOS Options have been exercised at their respective exercise prices (being RM0.57 and/or RM0.52 per share) and the outstanding Warrants have been exercised at RM0.75 per share
2. Based on the indicative issue price of RM0.52 per Placement Share
3. After deducting the estimated expenses of approximately RM200,000 which is set off against the retained earnings

4.3 Earnings

The Proposed Placement is not expected to have any material effect on the consolidated earnings of Salcon for the financial year ending 31 December 2011. However, the Proposed Placement is expected to contribute positively to the future earnings of Salcon through the utilisation of proceeds in the manner as set out in Section 2.6 above.

The earnings per share of the Group is expected to be correspondingly diluted as a result of the increase in the number of Salcon Shares in issue after the Proposed Placement.

4.4 Shareholdings of substantial shareholders

The proforma effects of the Proposed Placement on the shareholdings of the substantial shareholders of the Company based on the Register of Substantial Shareholders as at 18 November 2011 are set out below:

Minimum Scenario

	As at 18 November 2011				After Proposed Placement [^]			
	Direct		Indirect		Direct		Indirect	
	No. of shares	%	No. of shares	%	No. of shares	%	No. of shares	%
Naga Muhibah Sdn Bhd	66,709,600	14.06	-	-	66,709,600	12.79	-	-
Infra Tropika Sdn Bhd	29,397,400	6.20	-	-	29,397,400	5.63	-	-
Tan Sri Dato' Tee Tiam Lee ¹	26,796,400	5.65	29,397,400	6.20	26,796,400	5.14	29,397,400	5.63
Dato' Seri (Dr.) Goh Eng Toon ²	-	-	66,709,600	14.06	-	-	66,709,600	12.79
Datin Seri Kee Seok Ai ³	-	-	66,709,600	14.06	-	-	66,709,600	12.79
Datin Goh Phaik Lynn ⁴	-	-	67,609,600	14.25	-	-	67,609,600	12.96
Dato' Leong Kok Wah ⁵	700,000	0.15	66,909,600	14.11	700,000	0.13	66,909,600	12.82
Tee Xun Hao ¹	-	-	29,397,400	6.20	-	-	29,397,400	5.63
Placee(s)	-	-	-	-	47,430,780	9.09	-	-

Notes:

[^] Assuming all the Placement Shares are issued to non-related third party investors

1. Deemed interested through the shares held in Infra Tropika Sdn Bhd pursuant to Section 6A of the Companies Act, 1965 (“Act”)
2. Deemed interested through the shares held in Naga Muhibah Sdn Bhd, shares held by his spouse (Datin Seri Kee Seok Ai) in Naga Muhibah Sdn Bhd and shares held by his child (Datin Goh Phaik Lynn) in Naga Muhibah Sdn Bhd pursuant to Section 6A of the Act
3. Deemed interested through the shares held in Naga Muhibah Sdn Bhd, shares held by her spouse (Dato' Seri (Dr.) Goh Eng Toon) in Naga Muhibah Sdn Bhd and shares held by her child (Datin Goh Phaik Lynn) in Naga Muhibah Sdn Bhd pursuant to Section 6A of the Act
4. Deemed interested through the shares held in Naga Muhibah Sdn Bhd, shares held by her spouse (Dato' Leong Kok Wah) and shares held by her children pursuant to Section 6A of the Act
5. Deemed interested through the shares held by his spouse (Datin Goh Phaik Lynn) in Naga Muhibah Sdn Bhd and shares held by his children pursuant to Section 6A of the Act

Maximum Scenario

	As at 18 November 2011				(I) After full exercise of all Exercisable ESOS Options and outstanding Warrants				After (I) and Proposed Placement^			
	Direct		Indirect		Direct		Indirect		Direct		Indirect	
	No. of shares	%	No. of shares	%	No. of shares	%	No. of Shares	%	No. of shares	%	No. of shares	%
Naga Muhibah Sdn Bhd	66,709,600	14.06	-	-	83,414,400 ⁶	14.10	-	-	83,414,400	12.82	-	-
Infra Tropika Sdn Bhd	29,397,400	6.20	-	-	36,768,050 ⁷	6.21	-	-	36,768,050	5.65	-	-
Tan Sri Dato' Tee Tiam Lee ¹	26,796,400	5.65	29,397,400	6.20	27,496,400 ⁸	4.65	36,768,050	6.21	27,496,400	4.23	36,768,050	5.65
Dato' Seri (Dr.) Goh Eng Toon ²	-	-	66,709,600	14.06	-	-	83,414,400	14.10	-	-	83,414,400	12.82
Datin Seri Kee Seok Ai ³	-	-	66,709,600	14.06	-	-	83,414,400	14.10	-	-	83,414,400	12.82
Datin Goh Phaik Lynn ⁴	-	-	67,609,600	14.25	-	-	88,614,400	14.98	-	-	88,614,400	13.62
Dato' Leong Kok Wah ⁵	700,000	0.15	66,909,600	14.11	5,000,000 ⁹	0.85	83,614,400	14.13	5,000,000	0.77	83,614,400	12.85
Tee Xun Hao ¹	-	-	29,397,400	6.20	-	-	36,768,050	6.21	-	-	36,768,050	5.65
Placee(s)	-	-	-	-	-	-	-	-	59,161,231	9.09	-	-

Notes:

^ Assuming all the Placement Shares are issued to non-related third party investors

1. Deemed interested through the shares held in Infra Tropika Sdn Bhd pursuant to Section 6A of the Act
2. Deemed interested through the shares held in Naga Muhibah Sdn Bhd, shares held by his spouse (Datin Seri Kee Seok Ai) in Naga Muhibah Sdn Bhd and shares held by his child (Datin Goh Phaik Lynn) in Naga Muhibah Sdn Bhd pursuant to Section 6A of the Act
3. Deemed interested through the shares held in Naga Muhibah Sdn Bhd, shares held by her spouse (Dato' Seri (Dr.) Goh Eng Toon) in Naga Muhibah Sdn Bhd and shares held by her child (Datin Goh Phaik Lynn) in Naga Muhibah Sdn Bhd pursuant to Section 6A of the Act
4. Deemed interested through the shares held in Naga Muhibah Sdn Bhd, shares held by her spouse (Dato' Leong Kok Wah) and shares held by her children pursuant to Section 6A of the Act
5. Deemed interested through the shares held by his spouse (Datin Goh Phaik Lynn) in Naga Muhibah Sdn Bhd and shares held by his children pursuant to Section 6A of the Act
6. Assuming all of 16,704,800 Warrants held by Naga Muhibah Sdn Bhd have been exercised
7. Assuming all of 7,370,650 Warrants held by Infra Tropika Sdn Bhd have been exercised
8. Assuming all of the 700,000 Exercisable ESOS Options granted to Tan Sri Dato' Tee Tiam Lee have been exercised
9. Assuming all of the 700,000 Exercisable ESOS Options granted to Dato' Leong Kok Wah and 3,600,000 Warrants held by Dato' Leong Kok Wah have been exercised

4.5 Convertible securities

Save for the existing Exercisable ESOS Option and Warrants, Salcon does not have any other convertible securities.

The Proposed Placement will not give rise to any adjustments to the existing Exercisable ESOS Option and Warrants pursuant to the ESOS bye-laws and the deed poll constituting the Warrants dated 12 April 2007 respectively.

5. APPROVALS REQUIRED AND OBTAINED

The Proposed Placement is subject to the following approvals being obtained:

- (i) Bursa Securities for the listing of and quotation for the Placement Shares to be issued pursuant to the Proposed Placement on the Main Market of Bursa Securities; and
- (ii) any other relevant authorities, if required.

Approval has been obtained from the shareholders of Salcon at the last AGM convened on 23 June 2011 authorising the Directors to allot and issue new Salcon Shares, at any time and upon such terms and conditions and for such purposes as the Director may, in their absolute discretion deem fit, provided that the aggregate number of Salcon Shares to be issued does not exceed 10% of the issued and paid up share capital of the Company for the time being pursuant to Section 132D of the Act.

Such authority shall continue to be in force until the conclusion of the next AGM of the Company, prior to which the Proposed Placement is expected to be completed. In the event that the Proposed Placement is not completed prior to the next AGM, the Company shall seek its shareholders' approval for the issuance of new Shares under the Section 132D at the next AGM to be convened.

The Proposed Placement is not conditional upon any other corporate proposals undertaken by Salcon.

6. TIMING OF SUBMISSION TO THE AUTHORITIES

The application to the relevant authorities is expected to be made within one (1) month from the date of this announcement.

7. ESTIMATE TIME FRAME FOR COMPLETION

Barring unforeseen circumstances and subject to obtaining all the required approvals, the Board expects the Proposed Placement to be completed by end December 2011.

8. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND PERSONS CONNECTED TO THEM

None of the Directors and major shareholders of Salcon or persons connected with them, has any interest, either directly or indirectly, in the Proposed Placement in view that the Placement Shares will be placed to third party investor(s) as detailed in Section 2.2 above.

9. DIRECTORS' STATEMENT

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

10. ADVISER AND PLACEMENT AGENT

AFFIN Investment has been appointed as the Adviser and the Placement Agent for the Proposed Placement.

This announcement is dated 24 November 2011.