

## ANNOUNCEMENT

---

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

### PROPOSED PLACEMENT OF NEW ORDINARY SHARES OF RM0.50 EACH IN SALCON (“PLACEMENT SHARES”) REPRESENTING UP TO 10% OF THE ISSUED AND PAID-UP SHARE CAPITAL OF SALCON (“PROPOSED PLACEMENT”)

---

#### 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 the Proposed Placement to investors to be identified at an issue price to be determined later.

Further details of the Proposed Placement are set out in the ensuing sections of this announcement.

#### 2. DETAILS OF THE PROPOSED PLACEMENT

##### 2.1 Placement size

During the Company’s Annual General Meeting (“**AGM**”) held on 20 June 2013, the Board has been authorised to issue shares in the Company at any time of up to 10% of the issued and paid-up share capital of the Company pursuant to Section 132D of the Companies Act, 1965 (“**Act**”) (“**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 at a later stage.

The issued and paid-up share capital of the Company as at 19 July 2013 (being the latest practicable date prior to this announcement) (“**LPD**”) is RM269,617,242 comprising 539,234,484 ordinary shares of RM0.50 each in Salcon (“**Salcon Shares**” or “**Shares**”). Therefore, based on the number of issued and paid-up share capital as at the LPD, the Proposed Placement entails the issuance of up to 53,923,448 Salcon Shares (“**Minimum Scenario**”).

For illustrative purposes, based on the maximum scenario, the Proposed Placement would entail the issuance of up to 68,087,643 Placement Shares, which is arrived at based on the issued and paid-up share capital of the Company as at the LPD of RM269,617,242 comprising 539,234,484 Salcon Shares and the following assumptions:

- (i) the issuance of 36,729,250 new Salcon Shares arising from the full exercise of all the outstanding options under the employees’ share option scheme (“**ESOS**”) of Salcon (“**ESOS Options**”) that have been granted as at the LPD (“**Exercisable ESOS Options**”); and
- (ii) the issuance of 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 Paragraph 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 director(s), interested major shareholder(s), interested chief executive of Salcon or a holding company of Salcon or interested person connected with a director, major shareholder or chief executive of Salcon or a holding company of Salcon; and
- (ii) nominee corporations, unless the names of the ultimate beneficiaries are disclosed.

The Company will not be implementing the Proposed Placement in tranches.

## **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 RM0.57 per Placement Share, the indicative issue price represents a discount of approximately RM0.06 or 9.52% from the 5-day volume weighted average market price ("**VWAMP**") of Salcon Shares up to and including the LPD of RM0.63 per Salcon Share.

## **2.4 Ranking and listing of the Placement Shares**

The Placement Shares shall, upon allotment and issuance, 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 other form of distributions, where the entitlement date precedes the date of allotment and issuance of the said 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, based on the indicative issue price of RM0.57 per Placement Share, the Proposed Placement is expected to raise gross proceeds of up to approximately RM38,809,957 (based on a maximum issue size of 68,087,643 Placement Shares), which is proposed to be utilised in the following manner:

<u>Item</u>	<u>Note</u>	<u>Minimum Scenario</u>	<u>Maximum Scenario</u>	<u>Estimated timeframe for utilisation</u>
		<u>(RM'000)</u>	<u>(RM'000)</u>	
Working capital	(1)	15,318	19,355	12 months
Repayment of existing borrowings	(2)	15,318	19,355	9 months
Defrayment of estimated expenses for the Proposed Placement	(3)	100	100	3 months
<b>Total</b>		<b><u>30,736</u></b>	<b><u>38,810</u></b>	

Notes:

- (1) *The working capital will be used for the property development operations of Salcon and its subsidiaries ("Salcon Group" or "Group"). 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.*
- (2) *The Company intends to utilise part of the proceeds for the repayment of 2 of the Salcon Group's 5-year term loans obtained from a licensed financial institution which was earlier obtained to finance the Salcon Group's investment in water and waste water treatment related infrastructure in China. As at the LPD, the total amount outstanding is RM72.04 million. The amount to be repaid in the future will depend on the Salcon Group's actual outstanding amount then. Any excess will be utilised for working capital purposes.*
- (3) *The estimated expenses comprising, amongst others, 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 or made good for/from the working capital, as the case may be.*

In the event of a variation in the actual proceeds to be 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 Salcon Group to raise funds for working capital for the Group's property development operations and for the repayment of the Group's borrowings which in turn will reduce the Group's gearing and allow the Group to enjoy interest savings (as a result of the repayment of the Group's borrowings) in the most expeditious manner. 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:

- (i) the Proposed Placement enables Salcon to raise additional working capital without incurring financing cost, compared to conventional bank borrowings;
- (ii) the Proposed Placement 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) the Proposed Placement strengthens the Company's shareholders' funds.

#### 4. EFFECTS OF THE PROPOSED PLACEMENT

The proforma effects of the Proposed Placement has been illustrated based on the following scenarios:

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

##### 4.1 Issued and paid-up share capital

The proforma effects of the Proposed Placement on the issued and paid-up share capital of the Company are as follows:

	Par value (RM)	Minimum Scenario		Maximum Scenario	
		No. of Shares	Amount (RM)	No. of Shares	Amount (RM)
Issued and paid-up share capital of Salcon as at the LPD	0.50	539,234,484	269,617,242	539,234,484	269,617,242
To be issued pursuant to the:					
▪ Full exercise of the Exercisable ESOS Options	0.50	-	-	36,729,250	18,364,625
▪ Full exercise of outstanding Warrants	0.50	-	-	104,912,701	52,456,351
		<b>539,234,484</b>	<b>269,617,242</b>	<b>680,876,435</b>	<b>340,438,218</b>
No. of Shares to be issued pursuant to the Proposed Placement	0.50	53,923,448	26,961,724	68,087,643	34,043,822
Enlarged issued and paid-up share capital	0.50	<b>593,157,932</b>	<b>296,578,966</b>	<b>748,964,078</b>	<b>374,482,040</b>

## 4.2 Net Assets (“NA”), NA per Salcon Share and gearing

For illustrative purposes, the proforma effects of the Proposed Placement on the NA, NA per Salcon Share and gearing of the Salcon Group based on the latest audited consolidated financial statements of Salcon for the financial year ended 31 December 2012 on the assumption the Proposed Placement had been completed as at that date are as follows:

### Minimum Scenario

	Audited consolidated as at 31 December 2012	(I) After adjusting for the actual exercise of ESOS Options up to the LPD <sup>(1)</sup>	After (I) and the Proposed Placement <sup>(2)</sup>
	(RM'000)	(RM'000)	(RM'000)
Share capital	260,869	269,617	296,579
Share premium	36,627	39,432	43,207
Warrant reserve	22,150	22,150	22,150
Translation reserve	13,309	13,309	13,309
Share option reserve	3,909	1,321	1,321
Retained earnings	79,691	79,691	79,591 <sup>(3)</sup>
NA attributable to the owners of the Company	<b>416,555</b>	<b>425,520</b>	<b>456,157</b>
No. of Shares ('000)	521,738	539,234	593,157
NA per Share (RM)	0.80	0.79	0.77
Borrowings	343,660	343,660	328,342
Gearing (times)	0.83	0.81	0.72

#### Notes:

- <sup>(1)</sup> Subsequent to 31 December 2012, a total of 17,495,900 ESOS Options have been exercised at their respective exercise prices (being RM0.50, RM0.52 and/or RM0.57 per Share).
- <sup>(2)</sup> Assuming 53,923,448 new Salcon Shares are issued at an indicative issue price of RM0.57 per Placement Share. Further details of the proposed utilisation of proceeds are set out in Section 2.6 above.
- <sup>(3)</sup> After deducting the estimated expenses relating to the Proposed Placement of RM100,000.

## Maximum Scenario

		(I)	(II)	
	Audited consolidated as at 31 December 2012	After adjusting for the actual exercise of ESOS Options up to the LPD <sup>(1)</sup>	After (I) and full exercise of Exercisable ESOS Options and outstanding Warrants <sup>(2)</sup>	After (II) and the Proposed Placement <sup>(3)</sup>
	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Share capital	260,869	269,617	340,438	374,482
Share premium	36,627	39,432	90,117	94,883
Warrant reserve	22,150	22,150	-	-
Translation reserve	13,309	13,309	13,309	13,309
Share option reserve	3,909	1,321	-	-
Retained earnings	79,691	79,691	79,691	79,591 <sup>(4)</sup>
NA attributable to the owners of the Company	<b>416,555</b>	<b>425,520</b>	<b>523,555</b>	<b>562,265</b>
No. of Shares ('000)	521,738	539,234	680,876	748,964
NA per Share (RM)	0.80	0.79	0.77	0.75
Borrowings	343,660	343,660	343,660	324,305
Gearing (times)	0.83	0.81	0.66	0.58

### Notes:

- <sup>(1)</sup> Subsequent to 31 December 2012, a total of 17,495,900 ESOS Options have been exercised at their respective exercise prices (being RM0.50, RM0.52 and/or RM0.57 per Share).
- <sup>(2)</sup> Assuming all the Exercisable ESOS Options have been exercised at their respective exercise prices (being RM0.50, RM0.52 and/or RM0.57 per Share) and the outstanding Warrants have been exercised at RM0.75 per Share.
- <sup>(3)</sup> Assuming 68,087,643 new Salcon Shares are issued at an indicative issue price of RM0.57 per Placement Share. Further details of the proposed utilisation of proceeds are set out in Section 2.6 above.
- <sup>(4)</sup> After deducting the estimated expenses relating to the Proposed Placement of RM100,000.

### 4.3 Earnings and Earnings Per Share ("EPS")

The Proposed Placement is not expected to have any material effect on the consolidated earnings of Salcon for the financial year ending 31 December 2013 in view that the Proposed Placement is expected to be completed within the 3<sup>rd</sup> quarter of 2013.

Nonetheless, 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.

Furthermore, the Salcon Group is expected to enjoy interest savings of up to approximately RM1.10 million per annum (based on the Maximum Scenario) as part of the proceeds from the Proposed Placement will be utilised to repay the existing borrowings of the Group.

The EPS 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 completion of the Proposed Placement.

#### 4.4 Substantial shareholders' shareholdings

The proforma effects of the Proposed Placement on the shareholdings of the substantial shareholders of Salcon as at the LPD are as follows:

##### Minimum Scenario

Name	As at the LPD				After the completion of the Proposed Placement <sup>(1)</sup>			
	Direct		Indirect		Direct		Indirect	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Naga Muhibah Sdn Bhd	66,709,600	12.37	-	-	66,709,600	11.25	-	-
Infra Tropika Sdn Bhd	29,397,400	5.45	-	-	29,397,400	4.96	-	-
Tan Sri Dato' Tee Tiam Lee	29,696,400	5.51	29,397,400 <sup>(2)</sup>	5.45	29,696,400	5.01	29,397,400 <sup>(2)</sup>	4.96
Tee Xun Hao	-	-	29,397,400 <sup>(2)</sup>	5.45	-	-	29,397,400 <sup>(2)</sup>	4.96
Dato' Seri (Dr.) Goh Eng Toon	1,800,000	0.33	66,709,600 <sup>(3)</sup>	12.37	1,800,000	0.30	66,709,600 <sup>(3)</sup>	11.25
Datin Goh Phaik Lynn	-	-	70,609,600 <sup>(4)</sup>	13.09	-	-	70,609,600 <sup>(4)</sup>	11.90
Dato' Leong Kok Wah	3,600,000	0.67	67,009,600 <sup>(5)</sup>	12.43	3,600,000	0.61	67,009,600 <sup>(5)</sup>	11.30
Placee(s)	-	-	-	-	53,923,448	9.09	-	-

*Notes:*

<sup>(1)</sup> Assuming 53,923,448 new Salcon Shares are issued pursuant to the Proposed Placement to third party investors who do not include, inter alia, substantial shareholders of Salcon and/or persons connected to them. Accordingly, none of the Placement Shares is assumed to be placed out to any of the substantial shareholders or persons connected to them.

<sup>(2)</sup> Deemed interested through his shareholding in Infra Tropika Sdn Bhd pursuant to Section 6A of the Act.

<sup>(3)</sup> Deemed interested through his shareholding in Naga Muhibah Sdn Bhd and the shareholding of his child (Datin Goh Phaik Lynn) in Naga Muhibah Sdn Bhd pursuant to Section 6A of the Act.

<sup>(4)</sup> Deemed interested through her shareholding in Naga Muhibah Sdn Bhd and the shareholding of her spouse (Dato' Leong Kok Wah) and her children (Leong Yi Ping and Leong Yi Ming) in Salcon pursuant to Section 6A of the Act.

<sup>(5)</sup> Deemed interested through the shareholding of his spouse (Datin Goh Phaik Lynn) in Naga Muhibah Sdn Bhd, and the shares held by his children (Leong Yi Ping and Leong Yi Ming) in Salcon pursuant to Section 6A of the Act.

## Maximum Scenario

Name	As at the LPD				(l) After full exercise of all Exercisable ESOS Options and outstanding Warrants				After (l) and Proposed Placement <sup>(1)</sup>			
	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	12.37	-	-	83,414,400	12.25	-	-	83,414,400	11.14	-	-
Infra Tropika Sdn Bhd	29,397,400	5.45	-	-	36,768,050	5.40	-	-	36,768,050	4.91	-	-
Tan Sri Dato' Tee Tiam Lee	29,696,400	5.51	29,397,400 <sup>(2)</sup>	5.45	29,696,400	4.36	36,768,050 <sup>(2)</sup>	5.40	29,696,400	3.96	36,768,050 <sup>(2)</sup>	4.91
Tee Xun Hao	-	-	29,397,400 <sup>(2)</sup>	5.45	-	-	36,768,050 <sup>(2)</sup>	5.40	-	-	36,768,050 <sup>(2)</sup>	4.91
Dato' Seri (Dr.) Goh Eng Toon	1,800,000	0.33	66,709,600 <sup>(3)</sup>	12.37	2,300,000	0.34	83,414,400 <sup>(3)</sup>	12.25	2,300,000	0.31	83,414,400 <sup>(3)</sup>	11.14
Datin Goh Phaik Lynn	-	-	70,609,600 <sup>(4)</sup>	13.09	-	-	90,914,400 <sup>(4)</sup>	13.35	-	-	90,914,400 <sup>(4)</sup>	12.14
Dato' Leong Kok Wah	3,600,000	0.67	67,009,600 <sup>(5)</sup>	12.43	7,200,000	1.06	83,714,400 <sup>(5)</sup>	12.30	7,200,000	0.96	83,714,400 <sup>(5)</sup>	11.18
Placee(s)	-	-	-	-	-	-	-	-	68,087,643	9.09	-	-

### Notes:

<sup>(1)</sup> Assuming 68,087,643 new Salcon Shares are issued pursuant to the Proposed Placement to third party investors who do not include, inter alia, substantial shareholders of Salcon and/or persons connected to them. Accordingly, none of the Placement Shares is assumed to be placed out to any of the substantial shareholders or persons connected to them.

<sup>(2)</sup> Deemed interested through his shareholding in Infra Tropika Sdn Bhd pursuant to Section 6A of the Act.

<sup>(3)</sup> Deemed interested through his shareholding in Naga Muhibah Sdn Bhd and the shareholding of his child (Datin Goh Phaik Lynn) in Naga Muhibah Sdn Bhd pursuant to Section 6A of the Act.

<sup>(4)</sup> Deemed interested through her shareholding in Naga Muhibah Sdn Bhd and the shareholding of her spouse (Dato' Leong Kok Wah) and her children (Leong Yi Ping and Leong Yi Ming) in Salcon pursuant to Section 6A of the Act.

<sup>(5)</sup> Deemed interested through the shareholding of his spouse (Datin Goh Phaik Lynn) in Naga Muhibah Sdn Bhd, and the shares held by his children (Leong Yi Ping and Leong Yi Ming) in Salcon pursuant to Section 6A of the Act.

#### **4.5 Convertible Securities**

Save for the existing Exercisable ESOS Options and Warrants, Salcon does not have any other convertible securities in issue as at the date of this announcement.

The Proposed Placement will not give rise to any adjustments to the existing Exercisable ESOS Options 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 on the Main Market of Bursa Securities; and
- (ii) any other relevant regulatory authorities (if required).

As stated in Section 2.1 above, the Existing S132D Mandate shall be exercised for the purposes of the Proposed Placement. In view of this, the Proposed Placement does not require further approval from the shareholders of the Company.

The Proposed Placement is not conditional upon any other corporate proposals undertaken or to be undertaken by the Company.

#### **6. TIMING OF SUBMISSION TO THE AUTHORITIES**

The application to the relevant authorities is expected to be made within 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 within the 3<sup>rd</sup> quarter of 2013.

#### **8. INTERESTS OF DIRECTOR(S), MAJOR SHAREHOLDER(S) AND/OR PERSON(S) CONNECTED TO THEM**

None of the Directors, major shareholders of Salcon and/or persons connected to them have any interest, either direct or indirect, 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 Principal Adviser and Placement Agent for the Proposed Placement.

This announcement is dated 22 July 2013.