

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

Shareholders of Salcon Berhad should rely on their own evaluation to assess the merits and risks of the Proposed Bonus Issue of Shares and the Proposed Free Warrants Issue (as defined herein). If you are in any doubt as to the course of action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or any other professional adviser immediately.

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SALCON BERHAD

(Company No.: 593796-T)
(Incorporated in Malaysia)

CIRCULAR TO SHAREHOLDERS IN RELATION TO THE

- (I) PROPOSED BONUS ISSUE OF UP TO 169,423,613 NEW ORDINARY SHARES IN SALCON BERHAD (“SHARES”) (“BONUS SHARES”) ON THE BASIS OF 1 BONUS SHARE FOR EVERY 4 EXISTING SHARES HELD ON AN ENTITLEMENT DATE TO BE DETERMINED LATER (“ENTITLEMENT DATE”) (“PROPOSED BONUS ISSUE OF SHARES”)**
- (II) PROPOSED ISSUE OF UP TO 338,847,226 FREE WARRANTS IN SALCON BERHAD (“WARRANTS”) ON THE BASIS OF 1 WARRANT FOR EVERY 2 EXISTING SHARES HELD ON THE SAME ENTITLEMENT DATE AS THE PROPOSED BONUS ISSUE OF SHARES (“PROPOSED FREE WARRANTS ISSUE”)**

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

Principal Adviser



Hong Leong Investment Bank Berhad (10209-W)

(A Participating Organisation of Bursa Malaysia Securities Berhad)
(A Trading Participant of Bursa Malaysia Derivatives Berhad)

The notice convening the Extraordinary General Meeting (“**EGM**”) of Salcon Berhad (“**Salcon**”) to be held at Victorian Ballroom, Level 1, Holiday Villa Hotel & Conference Centre, 9 Jalan SS12/1, 47500 Subang Jaya, Selangor Darul Ehsan on Wednesday, 27 June 2018 at 11.30 a.m. or immediately upon the conclusion or adjournment of the Fifteenth Annual General Meeting of Salcon which will be held at the same venue on the same day at 10.30 a.m., whichever is later, or at any adjournment of the EGM, together with the proxy form, are enclosed in this Circular.

As a shareholder, you can appoint a proxy or proxies to attend and vote on your behalf. You must complete and deposit the proxy form at the registered office of the Salcon at 15th Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan not less than 48 hours before the time set for the EGM or at any adjournment thereof. You are not precluded from attending and voting in person at the EGM should you subsequently wish to do so.

Last date and time for lodging the proxy form : Monday, 25 June 2018 at 11.30 a.m.
Date and time of the EGM : Wednesday, 27 June 2018 at 11.30 a.m. or immediately upon the conclusion or adjournment of the Fifteenth Annual General Meeting of Salcon which will be held at the same venue on the same day at 10.30 a.m., whichever is later, or at any adjournment of the EGM

This Circular is dated 7 June 2018

DEFINITIONS

Except where the context otherwise requires, the following definitions will apply throughout this Circular:

“Act”	: Companies Act, 2016
“Board”	: Board of Directors of Salcon
“Bonus Shares”	: Up to 169,423,613 new Shares to be issued pursuant to the Proposed Bonus Issue of Shares
“Bursa Securities”	: Bursa Malaysia Securities Berhad
“Deed Poll”	: The document constituting the Warrants to be executed by our Company
“Dividend”	: First and final single tier dividend of 1 sen per Share in respect of the FYE 31 December 2017, which will be paid on 19 July 2018 to depositors whose names appear on the Record of Depositors on 5 July 2018, subject to the approval of our shareholders at the Fifteenth Annual General Meeting to be held on 27 June 2018
“EGM”	: Extraordinary general meeting
“Entitled Shareholders”	: Shareholders whose names appear on Salcon’s Record of Depositors on the Entitlement Date
“Entitlement Date”	: A date to be determined by our Board and announced later in which the names of our shareholders must appear on Salcon’s Record of Depositors as at 5.00 p.m. in order to be entitled to the Bonus Shares and/or Warrants pursuant to the Proposals
“EPS”	: Earnings per Share
“FYE”	: Financial year ended/ending, as the case may be
“Group”	: Salcon and its subsidiaries
“HLIB”	: Hong Leong Investment Bank Berhad
“Listing Requirements”	: Main Market Listing Requirements of Bursa Securities, as amended from time to time
“LPD”	: 24 May 2018, being the latest practicable date before the printing and despatch of this Circular
“Maximum Scenario”	: Assuming all the existing 4,555,062 treasury shares held by our Company are resold prior to the Entitlement Date
“Minimum Scenario”	: Assuming all the existing 4,555,062 treasury shares held by our Company are not resold prior to the Entitlement Date
“NA”	: Net assets

DEFINITIONS (Cont'd)

“Proposals”	:	Proposed Bonus Issue of Shares and Proposed Free Warrants Issue, respectively
“Proposed Bonus Issue of Shares”	:	Proposed bonus issue of up to 169,423,613 new ordinary shares in Salcon on the basis of 1 Bonus Share for every 4 existing Shares held on the Entitlement Date
“Proposed Free Warrants Issue”	:	Proposed issue of up to 338,847,226 free Warrants on the basis of 1 Warrant for every 2 existing Shares held on the same Entitlement Date as the Proposed Bonus Issue of Shares
“RM” and “sen”	:	Ringgit Malaysia and sen, respectively
“Salcon” or the “Company”	:	Salcon Berhad
“Shares”	:	Ordinary shares in Salcon
“VWAMP”	:	Volume-weighted average market price
“Warrants”	:	Up to 338,847,226 free Warrants to be issued pursuant to the Proposed Free Warrants Issue

All references to “our Company” and “the Company” in this Circular are to Salcon. References to “our Group” and “the Group” are to our Company and our subsidiaries, collectively. References to “we”, “us”, “our” and “ourselves” are to our Company and save where the context otherwise requires, will include our subsidiaries.

All references to “you” in this Circular are addressing the shareholders of Salcon who are entitled to attend and vote at our forthcoming EGM.

Words denoting the singular will, where applicable, include the plural and vice versa. Words denoting the masculine gender will, where applicable, include the feminine and/or neuter genders, and vice versa. Any reference to persons will include a corporation, unless otherwise specified.

Any reference in this Circular to any legislation is a reference to that legislation as for the time being amended or re-enacted. Any reference to a time of a day in this Circular will be a reference to Malaysian time, unless otherwise specified.

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SALCON BERHAD

(Company No.: 593796-T)
(Incorporated in Malaysia)

Registered Office:

15th Floor, Menara Summit
Persiaran Kewajipan, USJ 1
47600 UEP Subang Jaya
Selangor Darul Ehsan
Malaysia

7 June 2018

BOARD OF DIRECTORS

Dato' Seri (Dr.) Goh Eng Toon (*Chairman, Non-Independent Non-Executive Director*)

Tan Sri Dato' Tee Tiam Lee (*Executive Deputy Chairman*)

Dato' Leong Kok Wah (*Executive Director*)

Dato' Choong Moh Kheng (*Independent Non-Executive Director*)

Mr. Chan Seng Fatt (*Independent Non-Executive Director*)

To: The Shareholders of Salcon

Dear Sir/Madam,

- (I) PROPOSED BONUS ISSUE OF SHARES**
- (II) PROPOSED FREE WARRANTS ISSUE**

1. INTRODUCTION

On 16 April 2018, HLIB announced on behalf of our Board that we proposed to undertake the following proposals:

- (i) bonus issue of up to 169,423,613 Bonus Shares on the basis of 1 Bonus Share for every 4 existing Shares held on the Entitlement Date; and
- (ii) issuance of up to 338,847,226 Warrants on the basis of 1 Warrant for every 2 existing Shares held on the same Entitlement Date as the Proposed Bonus Issue of Shares.

On 23 May 2018, HLIB announced, on behalf of our Board, that Bursa Securities had, vide its letter dated 23 May 2018, resolved to approve our applications for the following:

- (i) the admission of the Warrants to the Official List of Bursa Securities;
- (ii) the listing of and quotation for the Warrants and the new Shares to be issued upon the exercise of the Warrants on the Main Market of Bursa Securities; and
- (iii) the listing of and quotation for the Bonus Shares on the Main Market of Bursa Securities,

subject to the conditions as disclosed in Section 6 of this Circular.

The purpose of this Circular is to provide you with information on the Proposals, to set out our Board's recommendation and to seek your approval for the resolutions pertaining to the Proposals to be tabled at our forthcoming EGM. The Notice of EGM together with the proxy form are enclosed in this Circular.

YOU ARE ADVISED TO READ AND CONSIDER THE CONTENTS OF THIS CIRCULAR TOGETHER WITH THE APPENDIX CAREFULLY BEFORE VOTING BY WAY OF POLL ON THE RESOLUTIONS PERTAINING TO THE PROPOSALS TO BE TABLED AT OUR FORTHCOMING EGM.

2. DETAILS OF THE PROPOSALS

The Proposed Bonus Issue of Shares will be implemented concurrently with the Proposed Free Warrants Issue. For avoidance of doubt, the Bonus Shares are not entitled to the Warrants. The Proposals are not intended to be implemented in stages over a period of time.

2.1 Details of the Proposed Bonus Issue of Shares

2.1.1 Basis and number of Bonus Shares to be issued

The Proposed Bonus Issue of Shares will entail the issuance of up to 169,423,613 Bonus Shares on the basis of 1 Bonus Share for every 4 existing Shares held by our Entitled Shareholders.

The Entitlement Date will be determined and announced at a later date after the receipt of all relevant approvals for the Proposals.

As at the LPD, our Company's share capital is RM338,847,226 comprising 677,694,452 Shares, of which 4,555,062 Shares are held as treasury shares by our Company. The number of Bonus Shares to be issued under the Proposed Bonus Issue of Shares was arrived at after taking into consideration the total number of issued shares (including treasury shares) of our Company as at the LPD.

For the avoidance of doubt, the Bonus Shares will not be entitled to the Dividend as the Entitlement Date for the Bonus Shares is intended to be determined by our Board after the entitlement date for the Dividend.

Fractional entitlements to the Bonus Shares arising from the Proposed Bonus Issue of Shares, if any, shall be disregarded and dealt with in such manner as our Board shall in its absolute discretion deem fit or expedient and in the best interest of our Company.

2.1.2 Capitalisation of reserves

The Proposed Bonus Issue of Shares will be implemented by capitalising up to RM84.7 million from our Company's share premium account at RM0.50 per Bonus Share, being the reference to the par value of the Shares of RM0.50 each prior to the commencement of the Act on 31 January 2017.

Based on our Company's latest audited financial statements for the FYE 31 December 2017, the proposed capitalisation from the share premium account for the Proposed Bonus Issue of Shares is illustrated below:

Company level	⁽¹⁾Share premium
	RM'000
Audited as at 31 December 2017	85,618
Less:	
Amount to be capitalised for the Proposed Bonus Issue of Shares	(84,712)
Balance after the Proposed Bonus Issue of Shares	<u><u>⁽²⁾906</u></u>

Note:

- (1) During the FYE 31 December 2017, our Company has transferred about RM85.62 million of our share premium to our share capital. Under the no par value regime of the Act, which came into effect on 31 January 2017, the concept of share premium will no longer be applicable and any amount standing to the credit of our Company's share premium balance has been consolidated as part of our share capital.

However, Section 618(3)(c) of the Act read together with Practice Note No. 1/2017 issued by Companies Commission of Malaysia provides that we may use the amount standing to the credit of our Company's share premium account to fully pay up the Bonus Shares within a period of 24 months from 31 January 2017.

- (2) Balance in the share premium account after the Proposed Bonus Issue of Shares will be consolidated as part of our Company's share capital.

The Proposed Bonus Issue of Shares will be undertaken under the previous framework (par value regime) where the pricing condition pursuant to Paragraph 6.30(1A) of the Listing Requirements is not applicable.

Our Board confirms that our Company has adequate reserves available to be capitalised for the Proposed Bonus Issue of Shares and the reserves to be capitalised for the Proposed Bonus Issue of Shares are unimpaired by losses on a consolidated basis based on our latest audited consolidated financial statements for the FYE 31 December 2017.

2.1.3 Ranking of the Bonus Shares

The Bonus Shares shall, upon allotment and issue, rank equally in all respects with the existing Shares, save and except that the Bonus Shares shall not be entitled to any dividends, rights, allotments and/or other distributions which may be declared, made or paid to our shareholders, the entitlement date of which is prior to the date of allotment and issuance of the Bonus Shares.

2.1.4 Listing of and quotation for the Bonus Shares

The approval of Bursa Securities has been obtained vide its letter dated 23 May 2018 for the listing of and quotation for the Bonus Shares on the Main Market of Bursa Securities, subject to the conditions as stated in Section 6 of this Circular.

2.2 Details of the Proposed Free Warrants Issue

2.2.1 Basis and number of Warrants to be issued

We propose to undertake the Proposed Free Warrants Issue on the basis of 1 Warrant for every 2 existing Shares held by our Entitled Shareholders on the same Entitlement Date as the Proposed Bonus Issue of Shares. Assuming that all the treasury shares are resold prior to the implementation of the Proposals, the Proposed Free Warrants Issue will entail the issuance of up to 338,847,226 free Warrants.

The actual number of Warrants to be issued pursuant to the Proposed Free Warrants Issue will be determined based on the total number of issued Shares (less the number of treasury shares held by our Company, if any) on the Entitlement Date.

Fractional entitlements to the Warrants arising from the Proposed Free Warrants Issue, if any, shall be disregarded and dealt with in such manner as our Board shall in its discretion deem fit or expedient, and in the best interest of our Company.

The Warrants will be issued in registered form and constituted by a Deed Poll. The indicative salient terms of the Warrants are set out in Section 2.2.6 of this Circular.

2.2.2 Basis of determining the issue price and exercise price of the Warrants

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

The exercise price of the Warrants has been fixed at RM0.30 by our Board after taking into consideration the following:

- (i) the historical price movement of the Shares;
- (ii) the theoretical ex-bonus price of RM0.3069 per Share, calculated based on the 5-day VWAMP of the Shares up to and including 13 April 2018, being the last trading day prior to the announcement of the Proposals of RM0.3836 per Share;
- (iii) the potential future earnings of our Group; and
- (iv) the Warrants being exercisable at any time within a 7-year period from the issue date of the Warrants.

The exercise price of the Warrants at RM0.30 represents a discount of 2.24% to the theoretical ex-bonus price of RM0.3069 per Share, calculated based on the 5-day VWAMP of the Shares up to and including 13 April 2018, being the last trading day prior to the announcement of the Proposals of RM0.3836 per Share.

2.2.3 Ranking of the Warrants and the new Shares to be issued pursuant to the exercise of the Warrants

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

The new Shares to be issued pursuant to the exercise of the Warrants shall, upon allotment and issue, rank equally in all respects with the existing Shares in issue, save and except that such new Shares shall not be entitled to any dividends, rights, allotments and/or distributions that may be declared, made or paid for which the entitlement date is prior to the date of allotment of the new Shares to be issued pursuant to the exercise of the Warrants.

2.2.4 Listing of and quotation for the Warrants

The approval of Bursa Securities has been obtained vide its letter dated 23 May 2018 for the admission of the Warrants to the Official List of Bursa Securities, the listing of and quotation for the Warrants and the new Shares to be issued upon the exercise of the Warrants on the Main Market of Bursa Securities, subject to the conditions as stated in Section 6 of this Circular.

2.2.5 Utilisation of proceeds

The Proposed Free Warrants Issue will not raise any immediate funds as the Warrants will be issued at no cost to our Entitled Shareholders.

The exact quantum of proceeds to be raised from the exercise of the Warrants is dependent on the actual number of Warrants exercised during the tenure of the Warrants. As such, the exact time frame for the utilisation of proceeds cannot be determined at this juncture.

For illustration purposes, assuming the full exercise of the Warrants at the exercise price of RM0.30 per Warrant, the proceeds to be raised by our Company pursuant to the Proposed Free Warrants Issue are as follows:

	<u>Minimum Scenario</u>	<u>Maximum Scenario</u>
No. of new Shares to be issued pursuant to the exercise of the Warrants ('000)	336,570	338,847
Gross proceeds (RM'000)	100,971	101,654

As and when the Warrants are exercised, such proceeds shall be utilised for:

- (a) future capital expenditure, which has yet to be identified by our Company; and/or
- (b) working capital requirements of our Group, which may include payment of trade and other payables, employee costs, marketing and administrative expenses.

The breakdown of the proceeds to be utilised for capital expenditure and working capital are subject to our Group's operating requirements at the time of utilisation and therefore cannot be determined at this juncture.

2.2.6 Indicative salient terms of the Warrants

The indicative salient terms of the Warrants are set out below:

- Issue Size : Up to 338,847,226 Warrants.
- Form : The Warrants will be issued in registered form and constituted by the Deed Poll.
- Exercise Period : The period commencing on, and inclusive of, the date of issue and ending at 5.00 p.m. on the Expiry Date. Any Warrants not exercised during the exercise period will thereafter lapse and cease to be valid.
- Exercise Price : The amount payable in respect of each new Ordinary Share to which a Warrant Holder is entitled to subscribe for on exercise of the Exercise Rights involving such new Ordinary Shares, being Ringgit Malaysia Thirty Sen (RM0.30) only, or such price as adjusted under the provisions of the Deed Poll.
- Exercise Rights : Each Warrant entitles the holder to subscribe for 1 new Share at the relevant Exercise Price at any time during the Exercise Period, subject to adjustments in accordance with the provisions of the Deed Poll.
- Expiry Date : The day falling immediately before the 7th anniversary of the date of issue of the Warrants, provided that if such day falls on a day which is not a Market Day, then it shall be the Market Day immediately preceding the said non-Market Day.
- Mode of Exercise : The Warrant holder is required to lodge an exercise form with our Company's registrar, duly completed and signed together with payment of the relevant Exercise Price via banker's draft or cashier's order or money order or postal order drawn on a bank or post office operating in Malaysia.
- Board Lot : For the purpose of trading on Bursa Securities, 1 board lot of Warrants shall comprise 100 Warrants, or such other denomination as determined by Bursa Securities.

Adjustment in the exercise price and/or number of Warrants : The relevant Exercise Price and number of unexercised Warrants shall from time to time be adjusted by the Directors in consultation with the Adviser and certified by the Auditors in the event of certain alterations to the share capital of our Company during the tenure of the Warrants, in accordance with the provisions of the Deed Poll.

Rights of Warrant holders : The Warrant holders shall not be entitled to any voting rights or to participate in any form of distribution other than on winding up, compromise or arrangement of our Company as set out in the Deed Poll, and/or offer of further securities in our Company until and unless such Warrant holders exercise their Warrants into new Shares.

Rights of Warrant holders in the events of winding-up, compromise or arrangement of the Company : Where a resolution has been passed for a members' voluntary winding-up of our Company, or where there is a compromise or arrangement, whether or not for the purpose of or in connection with a scheme for the reconstruction of our Company or the amalgamation of our Company with 1 or more companies, then:

(i) for the purpose of such winding up, compromise or arrangement (other than a consolidation, amalgamation or merger in which our Company is the continuing corporation) to which the Warrant holders, or some persons designated by them for such purpose by a special resolution, are to be a party, the terms of such winding up, compromise or scheme of arrangement shall be binding on all the Warrant holders; and

(ii) in any other case, every Warrant holder shall be entitled upon and subject to the conditions at any time within 6 weeks after the passing of such resolution for a members' voluntary winding up of our Company or the granting of the court order approving the compromise or arrangement (as the case may be), by irrevocable surrender of his Warrants together with payment of the relevant Exercise Price, 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 represented by such Warrants to the extent specified in the exercise notice and be entitled to receive out of the assets of our Company which would be available in liquidation if he had on such date been the holder of the new Shares to which he would have become entitled pursuant to such exercise; and the liquidator of our Company shall give effect to such election accordingly.

Subject to the above, if our Company is wound up, all Exercise Rights which have not been exercised within 6 weeks of the passing of such resolution shall lapse and cease to be valid for any purpose.

Modifications : Any modification to this Deed Poll (including, the form and content of the Warrant Certificate) may be effected in accordance with the Deed Poll, executed by our Company and expressed to be supplemental to this Deed Poll and subject to the requirements of this Deed Poll being complied with. Any such modification shall however be subject to the approval of the Warrant Holders, Bursa Securities and/or any other relevant authorities where required.

A memorandum of every such supplemental deed shall be endorsed on this Deed Poll.

Transferability : The Warrants will only be transferable in accordance with the provisions of the Deed Poll subject always to the provisions of the Securities Industry (Central Depositories) Act 1991 and the Rules of Bursa Malaysia Depository Sdn Bhd.

Governing law : The Warrants and the Deed Poll shall be governed by and construed in accordance with the laws and regulations of Malaysia.

3. RATIONALE FOR THE PROPOSALS

3.1 Proposed Bonus Issue of Shares

After due consideration, our Board is of the view that the Proposed Bonus Issue of Shares is an appropriate avenue for rewarding our shareholders, as it will:

- (i) reward our existing shareholders by enabling them to have greater participation in the equity of our Company in terms of the number of Shares held, whilst maintaining their percentage shareholdings in our Company; and
- (ii) enhance the marketability and trading liquidity of the Shares on Bursa Securities by way of a larger capital base.

3.2 Proposed Free Warrants Issue

Our Board is of the view that the Proposed Free Warrants Issue is an appropriate avenue for rewarding our shareholders after taking into consideration the following factors, as it will:

- (i) reward our shareholders for their continuous support by providing an opportunity for them to participate in the convertible securities of our Company without incurring any cost upfront;
- (ii) provide our shareholders with an opportunity to further increase their equity participation in our Company by exercising the Warrants at a predetermined price during the tenure of the Warrants. Our shareholders who are entitled to the Warrants may also benefit from any potential capital appreciation in the Warrants or the Shares, as and when the Warrants are exercised; and
- (iii) enable us to raise future proceeds for working capital requirements of our Group, as and when the Warrants are exercised without incurring interest cost, as compared to bank borrowings.

4. OUTLOOK AND PROSPECTS

4.1 Overview and outlook of the Malaysian economy

In 2017, the Malaysian economy recorded a robust growth of 5.9% (2016: 4.2%), supported by faster expansion in both private and public sectors spending. A key highlight for the year was the rebound in gross exports growth as global demand strengthened. This was due mainly to higher demand from major trading partners following the upswing in the global technology cycle, investment expansion in the advanced economies and the turnaround in commodity prices. Altogether, the global technology upturn translated into robust demand for electronics and electrical (E&E) products while the stronger regional demand and the revival in investment activity in the advanced economies lifted exports of non-E&E products. Commodity exports also turned around in 2017, supported largely by the recovery in major commodity prices.

While real GDP growth was boosted by the external sector, domestic demand continued to anchor growth. In particular, private consumption growth strengthened to 7.0% in 2017 (2016: 6.0%), supported mainly by continued wage and employment growth, with additional impetus from Government measures. Public consumption grew by 5.4% (2016: 0.9%) due to higher spending on supplies and services by the Federal Government amid sustained growth of emoluments. Gross fixed capital formation (GFCF) grew at a faster pace of 6.2% (2016: 2.7%), driven by improvements in both public and private investments. Public investment recovered to grow at 0.1% (2016: -0.5%), supported by continued spending by the General Government and public corporations. Private investment growth accelerated to 9.3% (2016: 4.3%), as firms benefited from the conducive external and domestic operating environment.

On the supply side, most sectors registered higher growth in 2017. The performance of the two largest sectors, services and manufacturing, benefited from marked improvements in domestic and external conditions, growing at 6.2% and 6.0%, respectively (2016: 5.6% and 4.4%). The construction sector recorded a moderate growth of 6.7% (2016: 7.4%), while growth in agriculture production rebounded to 7.2% (2016: -5.1%). Growth in the mining sector, however, moderated to 1.1% (2016: 2.2%), reflecting the voluntary crude oil supply adjustments by PETRONAS, in line with the Organisation of the Petroleum Exporting Countries (OPEC) agreement to limit oil production until end-2018.

Overall, the fundamentals of the Malaysian economy continued to strengthen. Structural policies carried out over the decades have resulted in a highly open and diversified economy with multiple sources of growth. Improving labour market conditions amid faster wage growth continued to support household spending. Healthy financial institutions and sufficient domestic liquidity also ensured orderly financial intermediation. Furthermore, Malaysia's external position remained strong and well-protected from a sharper depreciation, supported by sufficient international reserves and manageable levels of external debt.

(Source: Bank Negara Malaysia Annual Report 2017)

4.2 Overview and outlook of our Group's operating sectors in Malaysia

The principal activities of our Group include engineering & construction, property development, technology services and others. Engineering & construction division comprises investment, design, construction, commissioning, operation & maintenance of water and wastewater treatment plants, Non-Revenue Water ("**NRW**") management & controls and ancillary facilities. Our Board believes that the current and future performance of our Group would be influenced by outlook of the water services sector and property development sector.

4.2.1 Water services sector

Water and sewerage segment grew 6% during the fourth quarter of 2017 (Q4 2016: 6.3%) attributed to higher demand from residential segment.

(Source: Quarterly Update on the Malaysian Economy – 4th Quarter 2017, Ministry of Finance)

As population is projected to increase from 31 million in 2015 to 42 million by 2050 and changing lifestyle that is more affluent than the past and economic growth, the demands for water is also projected to increase in tandem. The National Water Resources Study of 2012 projected an increased total water demand for water supply from 5,277 million cubic metre ("**mcm**") in 2010 to 9,291 mcm in 2050, a 76% increase over the next 40 years. The challenges on this sector includes increasing pressures to balance the need to develop new water resources with reduction in the NRW and per capita consumption in time to meet the demands as well as ensuring a consistently high service levels for an increasingly urbanised population. For Peninsular Malaysia, the National Water Services Commission has set up a long-term NRW target over ten years commencing from 2011 for each operator towards achieving the national target of 25% by year 2020.

(Source: Strategies to enhance water demand management in Malaysia, Academy of Sciences Malaysia 2016)

Under the Malaysia Budget 2018, the government has allocated RM1.4 billion to tackle NRW issues under the National NRW Management and Reduction Programme.

(Source: Malaysia Budget 2018)

The Government remains committed to expanding coverage and improving the quality of the water services industry nationwide. With the implementation of a holistic NRW reduction programme, NRW will be reduced from 36.6% in 2013 to 25% during the Eleventh Malaysian Plan 2016-2020 ("**Eleventh Plan**"). The reduction of 11% in NRW will result in an additional revenue of up to RM410 million annually. One of the initiatives is to develop comprehensive district metering zones, which also include meter and pipe replacement programmes, and pressure control management. Enforcement on illegal tapping will also be given priority. Regulations to require contractors to only use trained workers in pipe works will be enforced.

The Malaysian government will ensure water supply sustainability, especially in stressed areas, by constructing new treatment plants or upgrading existing ones. Focus will be given to states which have water supply reserve margins of less than 10% such as Kedah, Selangor and Negeri Sembilan. With the completion of the Langat 2 Water Treatment Plant ("**WTP**"), the water supply reserve margin for Selangor will reach 14%. Similarly, the upgrading of Kulim High Tech WTP and Batu Kitang WTP will increase reserve margins for the Kulim High Tech Industrial Park in Kedah to 10% and for Kuching in Sarawak to 13%.

In the Eleventh Plan, 3,000 small and inefficient sewage treatment plants will be rationalised through the construction of regional and centralised plants with larger capacities and more efficient technologies. These plants will be considered for areas that have sufficient demand. In areas where such plants are not feasible, existing treatment plants will be upgraded with new mechanical and electrical components to ensure effluent levels are compliant with standards. This rationalisation is expected to reduce the cost of electricity bills and manpower by 50%. Alternative financing methods based on privatisation concepts will be further promoted as a new source of capital.

(Source: Eleventh Malaysian Plan 2016-2020)

4.2.2 Property development sector

The property market performance has yet to make a comeback. As at first half ("**H1**") 2017, there were 153,729 transactions recorded worth RM67.82 billion indicating a decline of 6.0% in volume but value increase by a marginal 5.0%. Although market activity recorded negative growth, the rate of contraction had reduced indicating that the market is gradually adjusting to the changing market landscape.

The loan approvals for purchase of non-residential recorded a contraction of 8.5%, lower than 28.3% recorded in the H1 2016. Based on the decline in the loans approved for non-residential purchase, the market activity in the commercial sub-sector dropped by 11.0% but value went up by 5.9%.

Residential sub-sector continued to dominate the market, with 61.8% contribution in volume and 48.4% in value. All sub-sectors recorded softer market volume ranging from -12.8% to -0.9%. In terms of value, all sub-sectors recorded growth except for industrial sub-sector, down by 4.2%. Development land saw its total shot up by nearly 30.0% due to several major land dealings namely those in Bandar Malaysia and TRX area, which was dated in 2016 and 2015 respectively but concluded in 2017.

For commercial property, there were 10,375 transactions worth RM11.99 billion recorded down by 11.0% in volume but value increased by 5.9% due to several major transactions recorded in the year involving shopping complex, purpose-built office and hotels. Market activity in most states recorded double-digits declines. Major states performance was equally lacklustre: Wilayah Persekutuan Kuala Lumpur (-9.7%), Selangor (-8.8%), Johor (-10.2%) and Pulau Pinang (-10.0%). Combined, these four states contributed 58.4% of the national commercial property transactions, led by Selangor with 23.9% market share.

Shop sub-sector recorded 5,829 transactions worth RM4.6 billion, dominating 56.2% of the commercial property transactions and 38.3% of the total value. Market performance was soft with a decline of 10.5% in volume and 2.5% in value. Johor and Selangor contributed higher market volume to the national total, each with 18.4% and 16.8% market share. By type, two to two and a-half storey shops captured 53.1% of the shop's market share. The unsold shop situation saw an improvement at the onset of improving business conditions. The shop overhang recorded 4,017 units worth RM2.61 billion, contracted by 20.8% in volume and 8.0% in value. Similarly, the unsold units under construction and units not constructed contracted to 6,815 units and 233 units, down by 1.1% and 67.4% respectively.

Given the resiliency of the economy and the optimistic 2017 economic growth, the property market performance will gradually adjust and follow suit in due time.

(Source: Property Market Report 2017 by the National Property Information Centre, Valuation & Property Services Department, Ministry of Finance Malaysia)

4.3 Prospects of our Group

Our Company is an investment holding company while our Group is primarily a water and wastewater engineering company offering value-added services in design, construction and commissioning, operation and maintenance of water and wastewater treatment plants and ancillary facilities as well as property development. Our Group's business activities are categorised into 4 strategic business units as follows:

- (i) Engineering and construction;
- (ii) Property development;
- (iii) Technology services; and
- (iv) Others (being transportation and solar power services).

Our engineering & construction division, responsible for the design and building of water and wastewater treatment plants is expected to be the mainstay of our Group's profitability in the coming years. For the FYE 31 December 2017, the engineering and construction division contributed 41% of our total revenue. The following are the existing major projects under our engineering and construction division:

- (i) Langat 2 Water Treatment Plant project which has achieved physical progress of approximately 90.6% as at the financial year 2017 and it is expected to be completed in 2018;
- (ii) Langat Centralised Sewage Treatment Plant project which has achieved physical progress of approximately 59% as at the financial year 2017 and it is expected to be completed in 2020; and
- (iii) Kuala Terengganu Utara Water Supply Scheme (**KTU**) and Network Pumping Stations in Langat Catchment - Conversion of 10 sewage treatment plants into network pumping stations, both of which are in good progress.

In the FYE 31 December 2017 and up to the LPD, we managed to secure contracts worth a total of RM88.4 million, details of which are as follows:

Description	Contract value to our Group (RM'million)	Commencement date	Target completion date
Secured during FYE 31 December 2017:			
(i) Pengurusan Air Selangor Sdn Bhd in relation to the state of Selangor's pipe replacement programme i.e. Package 8 (RM17.2 million), Package 6 (RM13.2 million) and Package 11A (RM13.3 million)	43.7	October 2017 - November 2017	1 st quarter 2019
(ii) Water supply upgrading works contract secured through our 25%-owned joint venture entity from Haiphong Water Joint Stock Company (the water authority of Haiphong City, Vietnam), worth 426.2 billion Vietnam Dong ("VND") or approximately RM74.6 million ⁽¹⁾ .	18.6	January 2018	1 st quarter 2020
Secured during FYE 31 December 2018 up to the LPD:			
(i) Jurutera Perunding Tegap Sdn Bhd for works related to the construction and upgrading of sewage infrastructure in Banting, Selangor	7.1	January 2018	1 st quarter 2020
(ii) China State Construction Engineering (M) Sdn Bhd for sewage infrastructure works for 2 blocks of 53 and 55-storey serviced apartment at Mukim Batu, Kuala Lumpur	19.0	(2)_	(2)_
Total	88.4		

Notes:

- (1) Based on the middle rate of VND100:RM0.0175 at 5.00 p.m. as at the LPD, as published by Bank Negara Malaysia.
- (2) The commencement date for this project has yet to be confirmed. The project is expected to be completed in 20 months.

As at 31 March 2018, our Group's total order book under our engineering & construction division stood at RM1.3 billion comprising water and wastewater projects. Our current outstanding order book under this division stood at RM552.7 million as at 31 March 2018, while the value of the jobs tendered by us but not secured stood at RM1.6 billion as at the LPD. Our current outstanding order book of RM552.7 million is expected to contribute to our Group's overall revenue for the next 3 years.

As for our property development division, whilst uncertainties and risks exist in the current soft Malaysian property market, there will still be demand for well-located and affordable properties and the Group will review its development strategies to ensure an attractive offering which will appeal to buyers in the current market conditions.

Our property development division posted its maiden revenue of RM100.7 million for FYE 31 December 2017 with the successful completion of the small office home office development project in Selayang in November 2017 (“rés280 Project”). We look forward to sustain revenue and profit contribution via the rés280 Project from the remaining units to be sold for the year ahead. Besides that, our collaboration with Eco World International Bhd in our 20% owned associate company, Eco World-Salcon Y1 Pty Ltd for the development of the freehold commercial land located at Melbourne, Australia (“Yarra One Project”) has an estimated gross development value of AUD253.6 million. Our Group expects to recognise its share of profits upon completion of the Yarra One Project in year 2020. As at the LPD, no construction work has begun on the Yarra One Project as we are still in the midst of demolishing the existing building. We expect to commence the construction of Yarra One Project in 4th quarter of 2018.

Barring any unforeseen circumstances, our Board is cautiously optimistic that the prospects of our Group will remain favourable in light of the outlook of our Group’s operating sectors.

(Source: Management of Salcon)

5. EFFECTS OF THE PROPOSALS

5.1 Issued share capital

The pro forma effects of the Proposals on our issued share capital are as follows:

	Minimum Scenario		Maximum Scenario	
	No. of Shares	Share capital (RM)	No. of Shares	Share capital (RM)
Issued share capital as at the LPD ⁽¹⁾	677,694,452	338,847,226	677,694,452	338,847,226
To be issued pursuant to the Proposed Bonus Issue of Shares	169,423,613	84,711,807	169,423,613	84,711,807
Transfer of the remaining balance of RM0.9 million from the share premium account	-	906,193	-	906,193
	847,118,065	424,465,226	847,118,065	424,465,226
To be issued assuming full exercise of the Warrants	336,569,695	⁽²⁾ 100,970,909	338,847,226	⁽²⁾ 101,654,168
Enlarged issued share capital	1,183,687,760	525,436,135	1,185,965,291	526,119,394

Notes:

(1) Including treasury shares.

(2) Assuming all our Entitled Shareholders exercise their Warrants at the exercise price of RM0.30.

5.2 Substantial shareholders' shareholdings

The pro forma effects of the Proposals on the shareholdings of our Company's substantial shareholders as at the LPD are as follows:

Minimum Scenario

Substantial shareholders	As at the LPD			After the Proposals		
	Direct	Indirect	^ (%)	Direct	Indirect	^ (%)
	No. of Shares ('000)	No. of Shares ('000)	* (%)	No. of Shares ('000)	No. of Shares ('000)	^ (%)
Naga Muhibah Sdn Bhd ("Naga Muhibah")	70,416	-	10.46	88,020	-	10.46
Tan Sri Dato' Tee Tiam Lee	40,751	(1)47,632	6.05	50,939	(1)59,540	6.05
Dato' Seri (Dr.) Goh Eng Toon	2,428	(2)70,416	0.36	3,035	(2)88,020	0.36
Datin Goh Phaik Lynn	-	(3)74,532	-	-	(3)93,165	-
Dato' Leong Kok Wah	3,800	(4)70,732	0.56	4,750	(4)88,415	0.56
Tee Xun Hao	165	(1)47,632	0.02	206	(1)59,540	0.02
Infra Tropika Sdn Bhd	47,632	-	7.08	59,540	-	7.08

After the Proposals and assuming full exercise of the Warrants

Substantial shareholders	After the Proposals and assuming full exercise of the Warrants		
	Direct	Indirect	# (%)
	No. of Shares ('000)	No. of Shares ('000)	# (%)
Naga Muhibah	123,227	-	10.46
Tan Sri Dato' Tee Tiam Lee	71,315	(1)83,356	6.05
Dato' Seri (Dr.) Goh Eng Toon	4,249	(2)123,227	0.36
Datin Goh Phaik Lynn	-	(3)130,432	-
Dato' Leong Kok Wah	6,650	(4)123,782	0.56
Tee Xun Hao	288	(1)83,356	0.02
Infra Tropika Sdn Bhd	83,356	-	7.08

Notes:

- * Based on 673,139,390 Shares in issue as at the LPD after deducting 4,555,062 Shares held as treasury shares.
- ^ Based on the enlarged share capital of 841,424,238 Shares in our Company after the Proposals, excluding 5,693,828 treasury shares.
- # Based on the enlarged share capital of 1,177,993,933 Shares in our Company after the Proposals and assuming the full exercise of the Warrants, excluding 5,693,828 treasury shares.
- (1) Deemed interested through shares held in Infra Tropika Sdn Bhd pursuant to Section 8 of the Act.
- (2) Deemed interested through his shareholding in Naga Muhibah and the shareholding of his child (Datin Goh Phaik Lynn) in Naga Muhibah pursuant to Section 8 of the Act.
- (3) Deemed interested through her shareholding in Naga Muhibah, the shareholdings of her children (Leong Yi Ping and Leong Yi Ming), and the shareholding of her spouse (Dato' Leong Kok Wah) pursuant to Section 8 of the Act.
- (4) Deemed interested through the shareholding of his spouse (Datin Goh Phaik Lynn) in Naga Muhibah and the shareholdings of his children (Leong Yi Ping and Leong Yi Ming) pursuant to Section 8 of the Act.

Maximum Scenario

Substantial shareholders	As at the LPD			Assuming all the treasury shares held are resold			
	Direct		Indirect	Direct		Indirect	
	No. of Shares ('000)	*(%)		No. of Shares ('000)	^(%)		No. of Shares ('000)
Naga Muhibah	70,416	10.46	-	70,416	10.39	-	-
Tan Sri Dato' Tee Tiam Lee	40,751	6.05	(1)47,632	40,751	6.01	(1)47,632	7.03
Dato' Seri (Dr.) Goh Eng Toon	2,428	0.36	(2)70,416	2,428	0.36	(2)70,416	10.39
Datin Goh Phaik Lynn	-	-	(3)74,532	-	-	(3)74,532	11.00
Dato' Leong Kok Wah	3,800	0.56	(4)70,732	3,800	0.56	(4)70,732	10.44
Tee Xun Hao	165	0.02	(1)47,632	165	0.02	(1)47,632	7.03
Infra Tropika Sdn Bhd	47,632	7.08	-	47,632	7.03	-	-

Substantial shareholders	After assuming all the treasury shares held are resold and after the Proposals				After the Proposals and assuming full exercise of the Warrants			
	Direct		Indirect		Direct		Indirect	
	No. of Shares ('000)	# (%)	No. of Shares ('000)	# (%)	No. of Shares ('000)	@ (%)	No. of Shares ('000)	@ (%)
Naga Muhibah	88,020	10.39	-	-	123,227	10.39	-	-
Tan Sri Dato' Tee Tiam Lee	50,939	6.01	(1)59,540	7.03	71,315	6.01	(1)83,356	7.03
Dato' Seri (Dr.) Goh Eng Toon	3,035	0.36	(2)88,020	10.39	4,249	0.36	(2)123,227	10.39
Datin Goh Phaik Lynn	-	-	(3)93,165	11.00	-	-	(3)130,432	11.00
Dato' Leong Kok Wah	4,750	0.56	(4)88,415	10.44	6,650	0.56	(4)123,782	10.44
Tee Xun Hao	206	0.02	(1)59,540	7.03	288	0.02	(1)83,356	7.03
Infra Tropika Sdn Bhd	59,540	7.03	-	-	83,356	7.03	-	-

Notes:

- * Based on 673,139,390 Shares in issue as at the LPD after deducting 4,555,062 Shares held as treasury shares.
- ^ Based on 677,694,452 Shares in issue assuming all the treasury shares held are resold.
- # Based on the enlarged share capital of 847,118,065 Shares in our Company after the Proposals.
- @ Based on the enlarged share capital of 1,185,965,291 Shares in our Company assuming full exercise of the Warrants.
- (1) Deemed interested through shares held in Infra Tropika Sdn Bhd pursuant to Section 8 of the Act.
- (2) Deemed interested through his shareholding in Naga Muhibah and the shareholding of his child (Datin Goh Phaik Lynn) in Naga Muhibah pursuant to Section 8 of the Act.
- (3) Deemed interested through her shareholding in Naga Muhibah, the shareholdings of her children (Leong Yi Ping and Leong Yi Ming), and the shareholding of her spouse (Dato' Leong Kok Wah) pursuant to Section 8 of the Act.
- (4) Deemed interested through the shareholding of his spouse (Datin Goh Phaik Lynn) in Naga Muhibah and the shareholdings of his children (Leong Yi Ping and Leong Yi Ming) pursuant to Section 8 of the Act.

5.3

NA and gearing

The pro forma effects of the Proposals on the NA and gearing of our Group based on the latest audited consolidated financial statements of our Company for the FYE 31 December 2017 are set out below:

Minimum Scenario

	(Pro forma I)	(Pro forma II)	(Pro forma III)
	Audited as at 31 December 2017	After the adjustment for subsequent events	After Pro forma I and the Proposals
	(RM'000)	(RM'000)	(RM'000)
Share capital	(1)424,465	424,465	(3)424,465
Translation reserve	12,865	12,865	12,865
Treasury shares	(1,943)	(2)(2,152)	(2,152)
Retained earnings	22,770	(2)16,039	(4)15,789
NA	458,157	451,217	450,967
No. of Shares in issue (excluding treasury shares)('000)	673,694	673,139	841,424
NA per Share (RM)	0.68	0.67	0.54
Total borrowings (RM'000)	66,628	66,628	66,628
Gearing (times)	0.15	0.15	0.15
			(5)525,436
			12,865
			(2,152)
			15,789
			551,938
			1,177,994
			0.47
			66,628
			0.12

Notes:

- (1) Included in share capital is share premium amounting to RM85.6 million that is available to be utilised in accordance with Section 618(3) of the Act on or before 30 January 2019 (24 months from commencement of Section 74 of the Act).
- (2) After adjusting for the following subsequent events up to the LPD:
 - (a) A total of 555,000 Shares were repurchased by our Company for a total cash consideration of approximately RM0.2 million from 1 January 2018 up to the LPD; and
 - (b) Dividend of 1 sen per Share in respect of the FYE 31 December 2017 amounting to approximately RM6.7 million, which will be paid on 19 July 2018.
- (3) Approximately RM84.7 million is capitalised from our Company's share premium account to pay up the Bonus Share in accordance with Section 618(3) of the Act.
- (4) After deducting estimated expenses of RM250,000 pursuant to the Proposals.
- (5) Assuming full exercise of the Warrants at the exercise price of RM0.30 per Warrant.

Maximum Scenario

	(Pro forma I) After the adjustment for subsequent events	(Pro forma II) After Pro forma I and assuming all the treasury shares held are resold ⁽³⁾	(Pro forma III) After Pro forma II and the Proposals	(Pro forma IV) After Pro forma III and assuming full exercise of the Warrants
Audited as at 31 December 2017	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Share capital	(1)424,465	424,465	(4)424,465	(6)526,119
Translation reserve	12,865	12,865	12,865	12,865
Treasury shares	(1,943)	(2)(2,152)	-	-
Retained earnings	22,770	(2)16,039	(6)15,789	15,789
NA	458,157	451,217	453,369	554,773
No. of Shares in issue (excluding treasury shares) ('000)	673,694	673,139	677,694	1,185,965
NA per Share (RM)	0.68	0.67	0.67	0.47
Total borrowings (RM'000)	66,628	66,628	66,628	66,628
Gearing (times)	0.15	0.15	0.15	0.12

Notes:

- (1) Included in share capital is share premium amounting to RM85.6 million that is available to be utilised in accordance with Section 618(3) of the Act on or before 30 January 2019 (24 months from commencement of Section 74 of the Act).
- (2) After adjusting for the following subsequent events up to the LPD:
 - (a) A total of 555,000 Shares were repurchased by our Company for a total cash consideration of approximately RM0.2 million from 1 January 2018 up to the LPD; and
 - (b) Dividend of 1 sen per Share in respect of the FYE 31 December 2017 amounting to approximately RM6.7 million, which will be paid on 19 July 2018.
- (3) Assuming all the 4,555,062 treasury shares are resold in the open market with no gain or loss prior to the Entitlement Date.
- (4) Approximately RM84.7 million is capitalised from our Company's share premium account to pay up the Bonus Share in accordance with Section 618(3) of the Act.
- (5) After deducting estimated expenses of RM250,000 pursuant to the Proposals.
- (6) Assuming full exercise of the Warrants at the exercise price of RM0.30 per Warrant.

5.4 Earnings and EPS

The Proposals are not expected to have any material effect on the earnings of our Group. However, there will be a corresponding dilution in the EPS of our Group as a result of the increase in the number of Shares in issue upon completion of the Proposed Bonus Issue of Shares and the increase in the number of Shares in issue as and when the Warrants pursuant to the Proposed Free Warrants Issue are exercised.

The potential effects of the exercise of the Warrants on the future earnings and EPS of our Group will depend upon, among others, the number of Warrants exercised at any point in time and the returns generated by our Group from the utilisation of proceeds raised from the exercise of the Warrants.

5.5 Convertible securities

As at the LPD, we do not have any outstanding convertible securities.

6. APPROVALS REQUIRED / OBTAINED

The Proposals are conditional upon approvals being obtained from the following:

- (i) our shareholders at our forthcoming EGM; and
- (ii) the approval of Bursa Securities for:
 - (a) the listing of and quotation for the Bonus Shares on the Main Market of Bursa Securities;
 - (b) the admission of the Warrants to the Official List of Bursa Securities;
 - (c) the listing of and quotation for the Warrants and the new Shares to be issued upon the exercise of the Warrants on the Main Market of Bursa Securities;

which was obtained via its letter dated 23 May 2018 subject to the following conditions:

<u>Conditions imposed</u>	<u>Status of compliance</u>
(i) Our Company and HLIB must fully comply with the relevant provisions under the Listing Requirements pertaining to the implementation of the Proposed Bonus Issue of Shares and Proposed Free Warrants Issue;	Noted.
(ii) Our Company and HLIB to inform Bursa Securities upon completion of the Proposed Bonus Issue of Shares and Proposed Free Warrants Issue;	To be complied.
(iii) Our Company to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities' approval once the Proposed Bonus Issue of Shares and Proposed Free Warrants Issue is completed;	To be complied.
(iv) Our Company and HLIB are required to make the relevant announcements for the Proposed Bonus Issue of Shares pursuant to Paragraph 6.35(2)(a) & (b) and 6.35(4) of the Listing Requirements; and	To be complied.
(v) Our Company to furnish Bursa Securities on a quarterly basis a summary of the total number of Shares listed pursuant to the exercise of the Warrants as at the end of each quarter together with a detailed computation of listing fees payable.	To be complied.

The Proposed Bonus Issue of Shares and the Proposed Free Warrants Issue are not inter-conditional with each other.

The Proposals are not conditional upon any other corporate exercises undertaken or to be undertaken by our Company.

7. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED WITH THEM

None of our directors and/or major shareholders of our Company and/or persons connected with them have any direct or indirect interest in the Proposals other than their respective entitlements to the Bonus Shares and Warrants as shareholders of our Company, to which all other Entitled Shareholders are similarly entitled to on a pro rata basis.

8. DIRECTORS' STATEMENT

Our Board, having considered and deliberated on all aspects of the Proposals, including the rationale for and the effects of the Proposals, is of the opinion that the Proposals are in the best interest of our Company.

As such, our Board recommends that you vote in favour of the ordinary resolutions pertaining to the Proposals to be tabled at our forthcoming EGM.

9. HISTORICAL SHARE PRICES

The monthly highest and lowest transacted market prices of our Shares for the past 12 months from June 2017 to May 2018 are as follows:

	<u>High (RM)</u>	<u>Low (RM)</u>
<u>2017</u>		
June	0.625	0.500
July	0.560	0.515
August	0.515	0.415
September	0.450	0.390
October	0.445	0.405
November	0.535	0.420
December	0.475	0.420
<u>2018</u>		
January	0.520	0.445
February	0.475	0.425
March	0.450	0.375
April	0.450	0.350
May	0.475	0.385

The last transacted market price of our Shares immediately before the announcement of the Proposals on 16 April 2018 0.415

The last transacted market price of our Shares as at the LPD 0.425

(Source: Bloomberg)

10. CORPORATE EXERCISES ANNOUNCED BUT PENDING COMPLETION

Save for the Proposed Bonus Issue of Shares and the Proposed Free Warrants Issue, there are no other corporate exercises which have been announced by our Company but have yet to be completed as at the LPD.

11. ESTIMATED TIME FRAME FOR COMPLETION

Barring any unforeseen circumstances, the Proposals are expected to be completed by the 3rd quarter of 2018.

The tentative timetable for the implementation of the Proposals is set out below:

Events	Date
EGM	27 June 2018
Announcement of the Entitlement Date	3 rd quarter of 2018
Completion of the Proposals	3 rd quarter of 2018

12. EGM

Our forthcoming EGM, the notice of which is enclosed in this Circular, will be held at Victorian Ballroom, Level 1, Holiday Villa Hotel & Conference Centre, 9 Jalan SS12/1, 47500 Subang Jaya, Selangor Darul Ehsan on Wednesday, 27 June 2018 at 11.30 a.m. or immediately upon the conclusion or adjournment of our Fifteenth Annual General Meeting which will be held at the same venue on the same day at 10.30 a.m., whichever is later, or at any adjournment of the EGM to consider and, if thought fit, pass with or without modification the ordinary resolutions to give effect to the Proposals.

If you are unable to attend and vote in person at our forthcoming EGM, please complete the proxy form, which is attached in this Circular, in accordance with the instructions contained therein and forward it to the registered office of our Company at 15th Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan not less than 48 hours before the time stipulated for holding our forthcoming EGM or at any adjournment thereof. The lodging of the proxy form does not preclude you from attending and voting in person at our forthcoming EGM should you subsequently wish to do so.

13. FURTHER INFORMATION

You are requested to refer to the attached Appendix I set out in this Circular for further information.

Yours faithfully
For and on behalf of the Board of
SALCON BERHAD

TAN SRI DATO' TEE TIAM LEE
Executive Deputy Chairman

FURTHER INFORMATION

1. DIRECTORS' RESPONSIBILITY STATEMENT

Our Board has seen and approved this Circular and they collectively and individually accept full responsibility for the accuracy of the information contained in this Circular and confirm that, after making all reasonable enquiries and to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement in this Circular false or misleading.

2. CONSENT AND CONFLICT OF INTEREST

HLIB, being the Adviser to Salcon in respect of the Proposals, has given and has not subsequently withdrawn its written consent to the inclusion of its name and all references to them in the form and context in which they appear in this Circular.

HLIB has given its written confirmation that there is no situation of conflict of interest that exists or is likely to exist in relation to its role as the Adviser to Salcon in respect of the Proposals.

3. MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES**3.1 Material commitments**

As at the LPD, our Board is not aware of any material commitments which, upon becoming enforceable, may have a material impact on our Group's profits or NA.

3.2 Contingent liabilities

Save as disclosed below, as at the LPD, our Board is not aware of any contingent liabilities which, upon becoming enforceable, may have a material impact on our Group's profits or NA:

	<u>RM'000</u>
Bank guarantees given to financial institutions in respect of facilities granted to associates	13,800
Bank guarantees given to third parties relating to performance, tender and advance payment bonds	31,216
Total	<u>45,016</u>

4. MATERIAL LITIGATION

As at the LPD, our Group is not engaged in any material litigation, claims or arbitration, either as plaintiff or defendant, and our Board is not aware of any proceedings pending or threatened against our Group or of any facts likely to give rise to any proceedings which may materially and adversely affect the business or financial position of our Group.

FURTHER INFORMATION (Cont'd)

5. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at our registered office at 15th Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan during normal business hours from Monday to Friday (except public holidays) from the date of this Circular up to and including the date of the forthcoming EGM:

- (i) the Constitution of our Company;
- (ii) the audited consolidated financial statements of our Company for the past 2 FYEs 31 December 2016 and 2017 and the latest unaudited consolidated financial statements of Salcon for the 3-month financial period ended 31 March 2018;
- (iii) the draft Deed Poll; and
- (iv) the letter of consent referred to in Section 2 of this Appendix I.



SALCON BERHAD
(Company No.: 593796-T)
(Incorporated in Malaysia)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an Extraordinary General Meeting of Salcon Berhad (“**Salcon**” or the “**Company**”) will be held at Victorian Ballroom, Level 1, Holiday Villa Hotel & Conference Centre, 9 Jalan SS12/1, 47500 Subang Jaya, Selangor Darul Ehsan on Wednesday, 27 June 2018 at 11.30 a.m. or immediately upon the conclusion or adjournment of the Fifteenth Annual General Meeting of Salcon which will be held at the same venue on the same day at 10.30 a.m., whichever is later, or at any adjournment thereof, for the purpose of considering and if thought fit, passing the following resolutions, with or without any modifications:

ORDINARY RESOLUTION 1

PROPOSED BONUS ISSUE OF UP TO 169,423,613 NEW ORDINARY SHARES IN SALCON (“SHARES”) (“BONUS SHARES”) ON THE BASIS OF 1 BONUS SHARE FOR EVERY 4 EXISTING SHARES HELD ON AN ENTITLEMENT DATE TO BE DETERMINED LATER (“ENTITLEMENT DATE”) (“PROPOSED BONUS ISSUE OF SHARES”)

“**THAT** subject to the approvals of all relevant regulatory authorities being obtained, approval be and is hereby given to the Board of Directors of Salcon (“**Board**”) to capitalise an amount up to RM84,711,806.50 out of the Company’s share premium account, and to apply the same for the purposes of issuing up to 169,423,613 Bonus Shares in the share capital of the Company, credited as fully paid to the entitled shareholders whose names appear on the record of depositors of the Company as at 5.00 p.m. on the Entitlement Date to be determined by the Board and announced later, on the basis of 1 Bonus Share for every 4 existing Shares held;

THAT fractional entitlements to the Bonus Shares arising from the Proposed Bonus Issue of Shares, if any, shall be disregarded and dealt in such manner as the Board shall in its absolute discretion deem fit or expedient and in the best interest of the Company;

THAT the Bonus Shares shall, upon allotment and issue, rank equally in all respects with the existing Shares, save and except that the Bonus Shares shall not be entitled to any dividends, rights, allotments and/or other distributions which may be declared, made or paid, the entitlement date of which is prior to the date of allotment and issuance of the Bonus Shares;

AND THAT the Board be and is hereby authorised to sign and execute all documents to give effect to the Proposed Bonus Issue of Shares with full powers to assent to any conditions, modifications, variations and/or amendments in any manner as may be required by the relevant authorities and to deal with all matters relating thereto and to take all such steps and do all acts and things in any manner as they may deem necessary or expedient to implement, finalise and give full effect to the Proposed Bonus Issue of Shares.”

ORDINARY RESOLUTION 2

PROPOSED ISSUE OF UP TO 338,847,226 FREE WARRANTS IN SALCON (“WARRANTS”) ON THE BASIS OF 1 WARRANT FOR EVERY 2 EXISTING SHARES HELD ON THE SAME ENTITLEMENT DATE AS THE PROPOSED BONUS ISSUE OF SHARES (“PROPOSED FREE WARRANTS ISSUE”)

“**THAT**, subject to the approvals of all relevant authorities being obtained for the Proposed Free Warrants Issue, approval be and is given to the Board to allot and issue up to 338,847,226 Warrants to the shareholders of the Company whose names appear on the record of depositors of the Company as at 5.00 p.m. on the same Entitlement Date as the Proposed Bonus Issue of Shares on the basis of 1 Warrant for every 2 existing Shares held;

THAT approval be and is hereby given to the Board to create and issue the Warrants based on the indicative principal terms of the Warrants as set out in the circular to the shareholders of the Company dated 7 June 2018 and in accordance with the provisions of a deed poll to be executed by the Company (“**Deed Poll**”) and where required, to adjust the exercise price and/or the number of Warrants to be issued (including, without limitation, any additional Warrants as may be required or permitted to be issued) in consequence of the adjustments pursuant to the provisions of the Deed Poll;

THAT fractional entitlements to the Warrants arising from the Proposed Free Warrants Issue, if any, shall be disregarded and dealt in such manner as the Board shall in its absolute discretion deem fit or expedient and in the best interest of the Company;

THAT approval be and is hereby given to the Board to issue and allot such number of new Shares credited as fully paid-up arising from the exercise of the Warrants (as well as any additional Warrants issued pursuant to the adjustments made during the Deed Poll) during the exercise period of the Warrants in accordance with the provisions of the Deed Poll;

THAT the new Shares to be issued arising from the exercise of the Warrants shall upon allotment and issuance, rank equally in all respects with the existing Shares in issue, save and except that such new Shares shall not be entitled to any dividends, rights, allotments and/or other forms of distributions that may be declared, made or paid for which the entitlement date is prior to the date of allotment and issuance of such new Shares;

THAT the Board be and is hereby authorised to enter into and execute the Deed Poll constituting the Warrants and to do all acts, deeds and things as they may deem fit or expedient in order to implement, finalise and give effect to the aforesaid Deed Poll;

AND THAT the Board be and is hereby authorised to do all acts and things as they may consider necessary or expedient in the best interest of the Company including fixing the exercise price of the Warrants with full powers to assent to any condition, modification, variation and/ or amendments as may be required, or imposed by the relevant authorities, and to take all steps and to enter into all such agreement, arrangement, undertaking, indemnity, transfer, assignment and guarantee with any party or persons and to carry out any other matters as may be required to implement, finalise and give full effect to the Proposed Free Warrants Issue.”

BY ORDER OF THE BOARD

Wong Wai Foong (MAICSA 7001358)

Joanne Toh Joo Ann (LS 0008574)

Company Secretaries

Kuala Lumpur

7 June 2018

Notes:

- 1. A member entitled to attend and vote at the meeting is entitled to appoint not more than two (2) proxies to attend and vote at the meeting except where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, in which event it may appoint not more than two (2) proxies in respect of each Securities Account it holds in ordinary shares of the Company standing to the credit of the said Securities Account.*
- 2. For an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one (1) securities account (“omnibus account”), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.*
- 3. Where a member or the authorised nominee appoints two (2) proxies, or where an exempt authorised nominee appoints two (2) or more proxies, the appointments shall be invalid unless the proportion of shareholdings to be represented by each proxy is specified in the instrument appointing the proxies. A proxy may but need not be a member of the Company and there shall be no restriction as to the qualification of the proxy or proxies.*
- 4. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or if the appointer is a corporation, either under the corporation’s seal or under the hand of an officer or attorney duly authorised.*
- 5. The instrument appointing a proxy must be deposited at the Registered Office at 15th Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan not less than forty-eight (48) hours before the time set for the meeting or any adjournment thereof.*
- 6. Only members whose names appear in the Record of Depositors as at 20 June 2018 will be entitled to attend, speak and vote at the meeting or appoint proxy(ies) to attend, speak and vote on their behalf.*

I/We
(FULL NAME IN BLOCK LETTERS)

NRIC No./Company No. of
.....
(FULL ADDRESS)

being a member/members of **SALCON BERHAD** (Company No.: 593796-T) hereby appoint.....

.....NRIC No. of
(FULL NAME IN BLOCK LETTERS)

..... or failing whom,
(FULL ADDRESS) (FULL NAME IN BLOCK LETTERS)

NRIC No. of
(FULL ADDRESS)

or failing him/her, the Chairman of the Meeting as my/our proxy to vote for me/us and on my/our behalf, at the Extraordinary General Meeting of the Company to be held at Victorian Ballroom, Level 1, Holiday Villa Hotel & Conference Centre, 9 Jalan SS12/1, 47500 Subang Jaya, Selangor Darul Ehsan on Wednesday, 27 June 2018 at 11.30 a.m. or immediately upon the conclusion or adjournment of the Fifteenth Annual General Meeting of the Company which will be held at the same venue on the same day at 10.30 a.m., whichever is later, or at any adjournment thereof.

Resolutions	*For	*Against
Ordinary Resolution 1 : Proposed Bonus Issue of Shares		
Ordinary Resolution 2 : Proposed Free Warrants Issue		

(*Please indicate with 'X' in the space provided above how you wish your vote to be cast. If no instruction as to voting is given, the proxy will vote or abstain from voting at his/her discretion.)

Dated this day of 2018

Signature or Common Seal of Shareholder(s)
Contact number:

CDS Account No:
Number of shares held:
If more than 1 proxy, please specify number of shares represented by each proxy
Name of Proxy 1:
Number of shares:
Name of Proxy 2:
Number of shares:

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint not more than two (2) proxies to attend and vote at the meeting except where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, in which event it may appoint not more than two (2) proxies in respect of each Securities Account it holds in ordinary shares of the Company standing to the credit of the said Securities Account.
2. For an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one (1) securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.
3. Where a member or the authorised nominee appoints two (2) proxies, or where an exempt authorised nominee appoints two (2) or more proxies, the appointments shall be invalid unless the proportion of shareholdings to be represented by each proxy is specified in the instrument appointing the proxies. A proxy may but need not be a member of the Company and there shall be no restriction as to the qualification of the proxy or proxies.
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Then fold here

AFFIX
STAMP

SALCON BERHAD (593796-T)
15th Floor, Menara Summit
Persiaran Kewajipan, USJ 1
47600 UEP Subang Jaya
Selangor Darul Ehsan
Malaysia

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