

Announcement

Subject : PARAGON UNION BERHAD (“PUB” or “Company”)
- Proposed purchase by PUB of its own shares of up to ten percent (10%) of the issued and paid-up share capital of the Company (“Proposed Share Buy-Back”); and
- Proposed Establishment of A New Employees’ Share Option Scheme (“Proposed New ESOS”)

Date Announced : 20/04/2005

Reference No. : OD-050420-63211

Type : Announcement

Company Name : Paragon Union Berhad

Stock Name : Paragon

Content:

1. INTRODUCTION

On behalf of the Board of Directors of PUB (“Board”), Hwang-DBS Securities Berhad (“Hwang-DBS”) would like to announce that the Company is proposing to undertake the following:

- (a) Proposed purchase by PUB of its own shares of up to ten percent (10%) of its issued and paid-up share capital of the Company; and
- (b) Proposed establishment of a new Employees’ Share Option Scheme (“ESOS” or “Scheme”) for the benefits of eligible directors and employees of PUB and its subsidiaries (“PUB Group” or “Group”) (collectively referred to as “Eligible Persons”) when the existing ESOS expires on 16 May 2005.

2. THE PROPOSALS

2.1 Proposed Share Buy-Back

On 17 June 2003, PUB obtained approval from its shareholders to purchase up to 7,000,000 ordinary shares of RM1.00 each in PUB (“PUB Shares” or “Shares”) representing ten percent (10%) of the issued and paid-up ordinary share capital of the Company of RM70,000,000 comprising 70,000,000 PUB Shares through Bursa Malaysia Securities Berhad (“Bursa Securities”). Pursuant to that approval, the Company had purchased a total of 2,870,000 Shares, all of which are held as treasury shares. The authority conferred by the shareholders had lapsed at the conclusion of the tenth (10th) Annual General Meeting (“AGM”) of the Company on 21 June 2004.

PUB proposes to seek a new mandate from its shareholders to purchase and/or hold up to ten percent (10%) of the issued and paid-up share capital of the Company (including shares which have been purchased previously and retained as treasury shares) at the point of purchase. Based on the issued and paid-up share capital of the Company of RM70,000,000 comprising 70,000,000 PUB Shares as at 31 March

2005, a total of 4,130,000 PUB Shares may be purchased by the Company, upon passing of the resolution pertaining to the Proposed Share Buy-Back.

PUB proposes to allocate an amount not exceeding the retained profits of the Company for the Proposed Share Buy-Back. Based on the audited financial statements of the Company as at 31 December 2004, the retained profits of the Company amounted to RM3,652,945. The retained profits of the Company was RM3,639,954 based on its unaudited results as at 31 March 2005.

The Proposed Share Buy-Back will be effective from the date of the Extraordinary General Meeting ("EGM") at which the resolution on the Proposed Share Buy-Back is passed by the shareholders of the Company until:

(a) the conclusion of the next AGM of the Company, unless by ordinary resolution passed at the meeting, the authority is renewed, either unconditionally or subject to conditions; or

(b) the expiration of the period within which the next AGM is required by law to be held; or

(c) revoked or varied by ordinary resolution passed by the shareholders of the Company in general meeting,

whichever occurs first.

PUB may only purchase PUB Shares at a price which is not more than fifteen percent (15%) above the weighted average market price of PUB Shares for the five (5) market days immediately preceding the date of purchase(s).

Pursuant to the provisions of Section 67A of the Act, the Company may either retain the purchased PUB Shares as treasury shares or cancel the purchased PUB Shares or a combination of both. The purchased PUB Shares which are retained as treasury shares may either be distributed as share dividends or resold on Bursa Securities in accordance with the relevant Listing Requirements of Bursa Securities or subsequently cancelled.

In the case of a resale of treasury shares, if any, the Company may resell the treasury shares on Bursa Securities at a price which is:

(a) not less than the weighted average market price of PUB Shares for the five (5) market days immediately prior to the resale; or

(b) not less than five percent (5%) below the weighted average market price of PUB Shares for the five (5) market days immediately prior to the resale provided that:

- the resale takes place no earlier than 30 days from the date of purchase; and
- the resale price is not less than the cost of purchase of the shares being resold.

2.2 Proposed New ESOS

The Company proposes to offer to the Eligible Persons options to subscribe for PUB Shares under a new ESOS, subject to the terms and conditions of the By-Laws of the Scheme.

The salient terms and conditions of the By-Laws are as follows:

(i) Maximum number of Shares allowable under the Scheme

The total number of new PUB Shares, which may be available under the Scheme, shall not exceed in aggregate fifteen percent (15%), or any such amount or percentage as may be permitted by the relevant authorities, of the total issued and paid-up share capital of the Company at any one time during the existence of the Scheme.

(ii) Maximum allowable allotments and the basis of allotment

The maximum number of new PUB Shares that may be offered and allotted to an Eligible Person shall be determined at the discretion of the option committee after taking into consideration the performance, seniority and length of service of the Eligible Person and/or such other factors that the option committee may deem relevant, subject always to the following:

(a) the aggregate allocation to the eligible directors and senior management of the PUB Group, save for the companies which are dormant, shall not exceed fifty percent (50%) of the new PUB Shares available under the Scheme; and

(b) the allocation to any Eligible Person who, either singly or collectively, through persons connected to him, holds twenty percent (20%) or more of the issued and paid-up capital of the Company, shall not exceed ten percent (10%) of the new PUB Shares available under the Scheme.

(iii) Eligibility

Subject to the eligibility criteria as may be set by the option committee, an Eligible Person shall be eligible to participate in the Scheme.

Eligibility under the Scheme does not confer on an Eligible Person a claim or right to participate in or any rights whatsoever under the Scheme and an Eligible Person does not acquire or have any rights over or in connection with the options or the new Shares comprised unless an offer has been made by the option committee to the Eligible Person and the Eligible Person has accepted the offer in accordance with the terms of the offer and the Scheme.

(iv) Option price

The price at which an option holder is entitled to subscribe for each new PUB Share shall be determined by the option committee based on the five (5)-day weighted average market price of PUB Shares immediately preceding the date of offer of the option, with a discount of not more than ten percent (10%), or at the par value of the PUB Shares, whichever is higher.

(v) Ranking of the new PUB Shares

The new PUB Shares to be allotted and issued upon any exercise of any options granted shall upon allotment and issuance, rank *pari passu* in all respects with the existing PUB Shares provided always that the new PUB Shares so allotted and issued, will not be entitled to any dividends, rights, allotments and/or other distributions declared, the entitlement date

of which is prior to the date of allotment and issuance of the new PUB Shares. The new PUB Shares will be subject to the provisions of the Articles of Association of the Company.

(vi) Duration of the Scheme

The Proposed New ESOS shall be in force for a duration of five (5) years and may be extended for a further period of up to five (5) years.

3. RATIONALE

3.1 Proposed Share Buy-Back

The Proposed Share Buy-Back is likely to benefit PUB and its shareholders in the following manner:

- (a) All things being equal, the Proposed Share Buy-back shall enhance the earnings per Share ("EPS") of the Group. This is expected to have a positive impact on the market price of PUB Shares, which will benefit the shareholders of PUB.
- (b) The Company may be able to stabilise the supply and demand of its Shares in the open market and thereby supporting the fundamental values of PUB Shares.
- (c) If the purchased PUB Shares are retained as treasury shares, it will provide the Board with an option to sell the Shares at a higher price and therefore make an exceptional gain for the Company. Alternatively, the purchased PUB Shares which are retained as treasury shares can be distributed as share dividends to shareholders.

3.2 Proposed New ESOS

On 17 May 2000, PUB established an ESOS with a duration of five (5) years ("Existing ESOS"). As at 31 March 2005, a total of 2,546,000 options granted by the Company under the Existing ESOS are unexercised. The Existing ESOS will expire on 16 May 2005. The Company has no intention to extend the Existing ESOS as it is no longer attractive in view of the liberalisations of the Listing Requirements of Bursa Securities on ESOS.

The Proposed New ESOS will enable the Company to establish a new ESOS adopting the current flexibilities under the Listing Requirements on ESOS, for the benefits of the eligible employees as well as both executive and non-executive directors of the PUB Group with the objective of motivating, retaining and rewarding the eligible directors and employees of the Group. The granting of options to non-executive directors serves to recognise the contribution of non-executive directors, who are involved in the formulation of the Group's strategy through, amongst others, their participation in board deliberations and independent views in the decision making process, as well as ensuring that the Group maintains good corporate practices at all times.

4. FINANCIAL EFFECTS

The financial effects of the Proposed New ESOS are as follows:

(i) Share Capital

The effect of the Proposed Share Buy-Back on the issued and paid-up capital of the Company of PUB will depend on the intention of the Board with regard to the purchased PUB Shares. The Proposed Share Buy-Back will not have any effect on the issued and paid-up capital of the Company if the purchased PUB Shares are retained in full as treasury shares. However, in the event the purchased PUB Shares are cancelled, the issued and paid-up share capital of the Company will decrease by the number of Shares cancelled.

The Proposed New ESOS will not have an immediate effect on the existing issued and paid-up share capital of the Company. The issued and paid-up share capital of the Company will increase progressively depending on the number of new PUB Shares issued pursuant to the exercise of options granted.

For illustration purpose, assuming that the Proposed Share Buy-Back will be carried out in full and implemented prior to the Proposed New ESOS and all the options granted are exercised, the issued and paid-up share capital of the Company shall increase as set out in **Table 1**.

(ii) Net Tangible Assets (“NTA”)

The effect of the Proposed Share Buy-Back on the consolidated NTA per Share is dependent on the purchase price(s) of PUB Shares purchased. If the purchase price is less than the audited NTA per Share of the Group at the time of purchase, the consolidated NTA per Share will increase. Conversely, if the purchase price exceeds the audited consolidated NTA per Share at the time of the purchase, the consolidated NTA per Share will decrease.

The Proposed New ESOS will not have an immediate effect on the consolidated NTA per Share until such time when the options granted are exercised. Any potential effect on the consolidated NTA per Share in the future would depend on the number of new PUB Shares to be issued and the option price payable pursuant to the exercise of the options.

(iii) Earnings

The effects of the Proposed Share Buy-Back on the consolidated EPS of PUB would depend on the purchase price and the number of PUB Shares purchased. The effective reduction in the issued and paid-up share capital of the Company pursuant to the implementation of the Proposed Share Buy-back may generally, all else being equal, have a positive impact on the consolidated EPS of PUB.

The Proposed New ESOS will not have an immediate effect on the consolidated EPS until such time when the options granted are exercised. Any potential effect on the consolidated EPS of PUB in the future would depend on the number of new PUB Shares to be issued and the option price payable pursuant to the exercise of the options granted.

(iv) Substantial Shareholders’ Shareholdings

The Proposed New ESOS is not expected to have an immediate effect

on the substantial shareholders' shareholdings in PUB. Any potential effect of the Proposed New ESOS on the substantial shareholders' shareholdings would depend on the number of new PUB Shares issued pursuant to the exercise of options granted at the relevant point in time.

For illustration purpose, assuming that the Proposed Share Buy-Back will be carried out in full and implemented prior to the Proposed New ESOS and all the options granted are exercised, the proforma effect of the Proposals on the substantial shareholders' shareholdings in PUB based on the Register of Substantial Shareholders as at 31 March 2005, is set out in **Table 2**.

(v) Dividends

The Proposed Share Buy-Back may have an impact on the Company's dividend policy as it would reduce the cash available which may otherwise be used for dividend payments. On the other hand, the PUB Shares purchased may be distributed as dividends to the shareholders of the Company, if the Board so decides.

The Board does not expect the Proposed New ESOS to materially affect the dividend policy of the Company. Any future dividends to be declared by PUB would depend on, amongst others, the profitability, cashflow and funding requirements of the PUB Group.

5. APPROVALS REQUIRED

The Proposals are subject to the approvals of the following:

- (i) Bursa Securities for the listing of and quotation for the new PUB Shares to be issued upon the exercise of options granted under the Proposed New ESOS;
- (ii) the shareholders of PUB for the Proposals at an EGM to be convened; and
- (iii) any other relevant authorities / parties.

6. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTEREST

Save as disclosed below, none of the Directors and/or substantial shareholders of PUB and person(s) connected to them have any interest, direct or indirect, in the Proposals:

All the Directors of the Company, namely Tan Sri Dato' Kamaruzzaman Bin Shariff, Tan Onn Poh, Tan Hong Kien, Yap Kiang Siang, Michael Lim Hee Kiang, Teoh Tek Siong and Dato' Zainol Abidin bin Haji A. Hamid are deemed interested in the Proposed New ESOS by virtue of their eligibility to participate in the Proposed New ESOS. Although the Directors have deliberated and resolved to present the Proposed New ESOS to the relevant authorities and shareholders of the Company at an EGM to be convened, for their consideration and approval, they have abstained and will continue to abstain from all deliberations and voting at the Board meetings on the proposed allocation of options to themselves under the Proposed New ESOS.

All the Directors will also abstain from voting and ensure that all person(s) connected to them will abstain from voting, in respect of their respective direct and/or indirect shareholdings in PUB on the resolution pertaining to the Proposed New ESOS and their respective entitlements under the Proposed New ESOS to be tabled at an EGM to be convened.

The direct and/or indirect shareholdings of the Directors of PUB as at 31 March 2005 based on the Register of Directors' Shareholdings are tabulated in **Table 3**.

7. DIRECTORS' STATEMENT

The Board, after careful deliberation, is of the opinion that the Proposed Share Buy-Back is fair and reasonable and is in the best interest of PUB and its shareholders.

The Board has abstained from making any recommendation or opinion with regards to the Proposed New ESOS as all the Directors are deemed interested in the Proposed New ESOS.

8. ADVISER

Hwang-DBS has been appointed by PUB to act as adviser of the Company for the Proposals.

9. APPLICATION TO BURSA SECURITIES

An application to Bursa Securities seeking its approval for the listing of and quotation for the new PUB Shares to be issued upon the exercise of options granted under the Proposed New ESOS is expected to be made within two (2) months from the date of this announcement.

This announcement is dated 20 April 2005.