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SEG
International
Bhd

(145998-U)

(Incorporated in Malaysia under the Companies Act, 1965)

STATEMENT TO SHAREHOLDERS

IN RELATION TO THE

**PROPOSED RENEWAL OF AUTHORITY FOR THE PURCHASE BY
SEG INTERNATIONAL BHD OF ITS OWN ORDINARY SHARES
("SHARE BUY-BACK STATEMENT")**

The above proposal will be tabled as Special Business at the Company’s Twenty-Eighth Annual General Meeting (“AGM”). The Notice of the 28th AGM together with the Form of Proxy are enclosed in the 2013 Annual Report of the Company.

The Form of Proxy should be completed and returned in accordance with the instructions therein as soon as possible and should reach the Registered Office at 6th Floor, SEGi University, No. 9, Jalan Teknologi, Taman Sains Selangor, Kota Damansara, PJU 5, 47810 Petaling Jaya, Selangor Darul Ehsan not less than forty-eight (48) hours before the time of the AGM. The lodging of the Form of Proxy will not preclude you from attending the meeting and voting in person should you subsequently wish to do so.

Date and time of the AGM : Wednesday, 18 June 2014 at 10.30 a.m.

Venue of AGM : Level 2, Right Wing, SEGi University
No. 9, Jalan Teknologi, Taman Sains Selangor
Kota Damansara, PJU 5, 47810 Petaling Jaya, Selangor

This Share Buy-Back Statement is dated 27 May 2014



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1. INTRODUCTION

At the 27th AGM of the Company held on 12 June 2013, the Board of Directors of SEG International Bhd (“SEGi” or “the Company”) obtained the approval from the Company’s shareholders for the renewal of authorisation for the Company to purchase up to ten percent (10%) of its issued and paid-up share capital of the Company (“the Mandate”). The Mandate shall expire at the conclusion of the forthcoming AGM unless the authority is renewed.

On 2 April 2014, the Company announced that it proposes to seek a renewal of the Mandate from its shareholders for the Company to purchase its own shares on Bursa Securities of such number of shares of RM0.25 each in the Company representing up to ten percent (10%) of its issued and paid-up share capital of the Company (“Proposed Share Buy-Back”).

This Share Buy-Back Statement serves to provide you with the relevant information on the Proposed Share Buy-Back, to set out the Board’s recommendation thereon and to seek your approval for the resolution pertaining to the Proposed Share Buy-Back to be tabled at the forthcoming AGM as Special Business. The Notice of AGM together with the Form of Proxy are enclosed in the 2013 Annual Report.

2. THE PROPOSED SHARE BUY-BACK

2.1 The Proposed Share Buy-Back

The Board of Directors proposes to seek a renewal of the authorisation from its shareholders for the Company to purchase its shares up to ten percent (10%) of the issued and paid-up share capital of SEGi at any point in time through its stockbroker(s) on the Bursa Securities. As at 20 May 2014, the total issued and paid-up share capital is RM167,361,547 comprising 669,446,188 ordinary shares of RM0.25 each, inclusive of 26,044,600 SEGi shares bought by the Company and kept as treasury shares, while 78,932,954 of five (5)-year 2010/2015 warrants, each warrant carrying a right to subscribe for one (1) SEGi share at an exercise price of RM0.50 (“Warrants”), are outstanding.

The maximum number of ordinary shares of RM0.25 each which may be purchased and/or held by the Company will be ten percent (10%) of the issued and paid-up share capital of SEGi. As at 20 May 2014 and based on the assumption that all the Warrants are converted into new SEGi shares, the Proposed Share Buy-Back will enable the Company to purchase up to a maximum of 74,837,914 SEGi shares (including 26,044,600 SEGi shares already purchased and held as treasury shares), representing 10% of the proforma enlarged issued and paid-up ordinary share capital.

The authority from the shareholders, if renewed, shall be effective upon the passing of the Ordinary Resolution for the Proposed Share Buy-Back at the 28th AGM, and will remain in effect until the conclusion of the next AGM of the Company, or until the expiry of the period within which the next AGM is required by law to be held, unless earlier revoked or varied by an ordinary resolution passed by the shareholders of the Company in general meeting, whichever occurs first.

In accordance with Section 67A of the Companies Act, 1965 (“the Act”), the Directors will deal with the purchased SEGi shares in the following manner:

- (i) cancel the shares so purchased ;or
- (ii) retain the shares so purchased as treasury shares and resell on the Bursa Securities if the opportunity arises for the Company to realise its gains from resale on the market or they may be distributed to shareholders of the Company as share dividends to reward the shareholders of the Company; or
- (iii) retain part of the shares so purchased as treasury shares and cancel the remainder.

While the shares purchased are held as treasury shares, the rights attached to them as voting, dividends and participation in rights, allotments and/or other distributions are suspended, and the shares purchased shall not be taken into account in calculating the number or percentage of shares or of a class of shares in the Company for any purpose including substantial shareholding, takeovers, notices, the requisitioning of meetings, the quorum for a meeting and the result of a vote on a resolution at a meeting of the shareholders.

Pursuant to Paragraph 12.17 of the Main Market Listing Requirements of Bursa Securities (“Main Market Listing Requirements”), the Company shall only purchase its own ordinary shares at a price which is not more than fifteen percent (15%) above the weighted average market price for the shares for the five (5) market days immediately before the purchase(s).

Pursuant to the Paragraph 12.18 of the Main Market Listing Requirements, the Company may only resell the shares purchased held as treasury shares at:

- (a) a price which is not less than the weighted average market price of the Company shares for the five (5) market days immediately before the resale; or
- (b) a discounted price of not more than 5% to the weighted average market price for the Company shares for the 5 market days immediately before the resale provided that:
 - (i) the resale takes place not earlier than 30 days from the date of purchase; and
 - (ii) the resale price is not less than the cost of purchase of the shares being resold.

2.2 Source of Funds

Pursuant to the Main Market Listing Requirements, the Proposed Share Buy-Back must be made wholly out of retained profits and/or the share premium account of the Company. Based on the latest audited financial statements as at 31 December 2013, the retained profits and share premium account of the Company were RM3,331,000 and RM46,569,000 respectively. However, based on the latest management financial statements as at 31 March 2014, the retained profits and share premium account of the Company were RM6,111,000 and RM46,807,000 respectively. The Proposed Share Buy-Back, if implemented, will be funded by internally generated funds and/or external borrowings, the proportion of which depends on the quantum of purchase consideration, availability of internally generated funds and other relevant cost factors.

In the event that the Company purchases and holds its own shares using external borrowing, the Board will ensure that the Company has sufficient funds to repay the external borrowings and that the repayment is not expected to have a material impact on the cash flow of the Company.

2.3 Public Shareholding Spread

As at 20 May 2014, the public shareholding spread was 28.36%. The public shareholding spread of the Company is expected to be reduced to 20.40% assuming the Company implements the Proposed Share Buy-Back in full i.e up to 10% of the issued and paid-up share capital of the Company with none of the outstanding Warrants being exercised, and the shares purchased are from the public.

The Board is mindful of the requirement that any purchase of the SEGi shares by the Company must not result in the public shareholding spread of the Company falling below 25% of its issued and paid-up share capital.

2.4 Implication of the Malaysian Code on Take-Overs and Mergers, 2010 (“the Code”)

The Proposed Share Buy-Back may result in any director(s), substantial shareholder(s) and/or parties acting in concert triggering a mandatory general offer obligation. In the event the Proposed Share Buy-Back results in any director(s), substantial shareholder(s) and/or parties acting in concert with him/them triggering a mandatory offer obligation under the Code, the affected director(s) or substantial shareholder(s) will be obliged to make a mandatory offer for the remaining SEGi shares not held by him/them. The Board is mindful of the provision under Practice Note 9 of the Code.

2.5 Potential Advantages and Disadvantages of the Proposed Share Buy-Back

2.5.1 Potential Advantages

The potential advantages of the Proposed Share Buy-Back are as follows:

- (i) The Mandate would enable the Company to utilise its financial resources more efficiently especially where there are no immediate use. If the SEGi shares purchased are subsequently cancelled, this may strengthen the consolidated earnings per share (“EPS”) of the Group as indicated below.
- (ii) The Mandate will also provide the Company with opportunities for potential gains if the purchased SEGi shares which are retained as treasury shares are resold at prices higher than their cost of purchase.
- (iii) In any event, the treasury share may also be distributed as share dividends to shareholders as a reward.
- (iv) The Proposed Share Buy-Back may also stabilise the supply and demand of SEGi shares traded on Bursa Securities and reduce the volatility of its share prices. The stability of SEGi share price is important to maintain investors’ confidence and may also assist in facilitating future fund raising via the equity market.

2.5.2 Potential Disadvantages

The potential disadvantages of the Proposed Share Buy-Back are as follows:

- (i) The Proposed Share Buy-Back will reduce the financial resources of the Company. This may result in the Company foregoing other investment opportunities that may emerge in the future or, at least, deprive the Company’s interest income that can be derived from funds utilised for the Proposed Share Buy-Back.
- (ii) As the Proposed Share Buy-Back can only be made out of the retained profits and/or the share premium account of the Company, it may reduce the reserves available for distribution to the shareholders of the Company in the immediate future. However, the reserves of the Company may be recovered and increased upon the selling of the purchased shares held as treasury shares.
- (iii) In addition, the Proposed Share Buy-Back may reduce the consolidated net assets of the Company if all the SEGi shares purchased are subsequently cancelled and the purchase price of its own shares is higher than the consolidated net assets of the Company at the time of purchase.

Nevertheless, the Proposed Share Buy-Back is not expected to have any potential material disadvantage to the Company and its shareholders, as it will be implemented only after careful consideration of the financial resources of the Group and its resultant impact. The Board will be mindful of the interests of the Company, the Group and the shareholders in implementing the Proposed Share Buy-Back.

2.6 Purchase and resale of SEGi shares in the last financial year

During the financial year ended 31 December 2013, the Company bought back 2,000 of its own ordinary shares of RM0.25 each at the total consideration of RM3,244. These shares are presently held as treasury shares.

None of the shares purchased has been resold or cancelled during the financial year. The details of the shares purchased during the year are set out in the Corporate Government Statement contained in the 2013 Annual Report.

3. RATIONALE FOR THE PROPOSED SHARE BUY-BACK

The Proposed Share Buy-Back will enable the Company to utilise its surplus financial resources which is not immediately required for other uses to purchase its own shares from the market. It may stabilise the supply and demand of its shares traded on Bursa Securities, thereby supporting its fundamental value.

The Proposed Share Buy-Back, whether to be held as treasury shares or subsequently cancelled, will effectively reduce the number of shares carrying voting and participation rights. Therefore, the shareholders of the Company may enjoy an increase in the value of their investment in SEGi due to the increase in its EPS.

The purchased shares can be held as treasury shares and resold on Bursa Securities at a higher price with the intention of realising potential gain without affecting the total issued and paid-up share capital of the Company. Should any treasury shares be distributed as share dividends, this would serve to reward the shareholders of the Company.

4. FINANCIAL EFFECTS

On the assumption that the Proposed Share Buy-Back is carried out in full, the effects of the Proposed Share Buy-Back on the share capital, net assets, working capital, earnings and shareholdings of Directors and substantial shareholders of SEGi are set out below:-

4.1 Share Capital

The effects of any purchase of the Company's own SEGi shares will depend on whether the SEGi shares so purchased are cancelled or retained as treasury shares.

The Proposed Share Buy-Back will not have any effect on the issued and paid-up ordinary share capital if all the SEGi shares purchased are to be retained as treasury shares, re-sold or distributed to our shareholders.

The Proposed Share Buy-Back will however, result in the reduction of the issued and paid-up share capital if the SEGi Shares so purchased are cancelled. The proforma effects of the Proposed Share Buy-Back based on the issued and paid up share capital as at 20 May 2014 and assuming the SEGi shares so purchased are cancelled are set out below:

Scenario I : Assuming that none of the Warrants are exercised

Scenario II : Assuming that all outstanding Warrants are exercised and converted into SEGi shares

	Scenario I	Scenario II
	No. of shares	No. of shares
Existing issued and paid-up share capital as at 20 May 2014	669,446,188	669,446,188
Additional shares to be issued pursuant to the exercise of Warrants	-	78,932,954
Enlarged issued and paid-up share capital	<u>669,446,188</u>	<u>748,379,142</u>
Treasury shares as at 20 May 2014	(26,044,600)	(26,044,600)
If maximum number of shares are purchased pursuant to the Proposed Share Buy-Back	(40,900,019)	(48,793,314)
Issued and paid-up share capital as diminished, if the treasury shares are cancelled	602,501,569	673,541,228

4.2 Net Assets ("NA")

The NA of the Group may increase or decrease depending on the purchase prices of the shares, the effective cost of funding and the treatment of the shares purchased.

The Proposed Share Buy-Back will reduce the NA per share if all the purchased shares are cancelled and the purchase price exceeds the NA per share at the time of purchase. On the contrary, the NA per share will increase when the purchase price is less than the NA per share at the time of purchase.

If the purchased shares are treated as treasury shares and subsequently resold on the Bursa Securities, the NA of the Group will increase if the Company realises a gain from the resale, and vice-versa. If the treasury shares are distributed as share dividends, the NA of the Group will decrease by the cost of the treasury shares.

4.3 Working Capital

The Proposed Share Buy-Back would reduce funds available for working capital purposes of the Company, the quantum of which would depend on the purchase price, the actual number of shares purchased and any associated costs incurred in making the purchase.

However, if the purchased shares are treated as treasury shares and subsequently resold on the Bursa Securities, the working capital of the Group will increase should the Company realise a gain from the resale. Again, the quantum of the increase in the working capital will depend on the actual selling price of the treasury shares and the number of treasury shares resold.

4.4 Earnings

The effects of the Proposed Share Buy-Back on the earnings of the Group would depend on the purchase price, the number of shares purchased and the effective funding cost to the Group to finance the shares purchased or any loss in interest income to the Group. The effective reduction in the issued and paid-up share capital of the Company pursuant to the Proposed Share Buy-Back will, generally, all else being equal, have a positive impact on the EPS of the Group.

In the event that the shares purchased are treated as treasury shares, the extent of the effect on the EPS of the Company will depend on the number and price(s) of treasury shares resold.

4.5 Dividend

The Proposed Share Buy-Back is not expected to have any effect on the policy for the Board in recommending dividends for the year ending 31 December 2014. The decision to declare and pay dividends in the future would depend on, amongst others, the profitability and cash flow position of the Company.

5.0 DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' SHAREHOLDINGS

The proforma effects on the shareholding of the Directors and substantial shareholders based on the Registers of Directors and Substantial Shareholders of the Company as at 20 May 2014, assuming that the Proposed Share Buy-Back is carried out in full and the shares purchased are not from the following Directors and substantial shareholders, are as follows:

Scenario I : Assuming that none of the Warrants are exercised

	Before the Proposed Share Buy-Back				After the Proposed Share Buy-Back			
	Direct		Indirect		Direct		Indirect	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Directors								
Tan Sri Clement Hii Chii Kok	207,955,116	32.32	^{##} 268,079,604	41.67	207,955,116	34.52	^{##} 268,079,604	44.49
Nicholas Rupert Heylett Bloy	-	-	^{##} 476,034,720	73.99	-	-	^{##} 476,034,720	79.01
Hew Moi Lan	464,800	0.07	-	-	464,800	0.08	-	-
Dato' Amos Siew Boon Yeong	2,200,000	0.34	-	-	2,200,000	0.37	-	-
Tan Sri Dato' Seri Megat Najmuddin bin Dato' Seri Dr Haji Megat Khas	11,662	0.00	-	-	11,662	0.00	-	-
Dato' Sri Chee Hong Leong	-	-	-	-	-	-	-	-
Tan Chow Yin	-	-	-	-	-	-	-	-
Goh Leng Chua	-	-	-	-	-	-	-	-
Substantial shareholders								
Tan Sri Clement Hii Chii Kok	207,955,116	32.32	^{##} 268,079,604	41.67	207,955,116	34.52	^{##} 268,079,604	44.49
Pinnacle Heritage Solutions Sdn Bhd	268,079,604	41.67	[*] 207,955,116	32.32	268,079,604	44.49	[*] 207,955,116	34.52
SmartUni 1 Ltd	-	-	^{##} 476,034,720	73.99	-	-	^{##} 476,034,720	79.01
Navis Asia Fund VI G.P., Ltd	-	-	^{##} 476,034,720	73.99	-	-	^{##} 476,034,720	79.01
Navis Capital Partners Limited	-	-	^{##} 476,034,720	73.99	-	-	^{##} 476,034,720	79.01
Richard Elletson Foyston	-	-	^{##} 476,034,720	73.99	-	-	^{##} 476,034,720	79.01
Nicholas Rupert Heylett Bloy	-	-	^{##} 476,034,720	73.99	-	-	^{##} 476,034,720	79.01
Rodney Chadwick Muse	-	-	^{##} 476,034,720	73.99	-	-	^{##} 476,034,720	79.01
HAL Investments (Asia) Ltd	-	-	^{##} 476,034,720	73.99	-	-	^{##} 476,034,720	79.01
HAL Holding N.V.	-	-	^{##} 476,034,720	73.99	-	-	^{##} 476,034,720	79.01
HAL Trust	-	-	^{##} 476,034,720	73.99	-	-	^{##} 476,034,720	79.01

Scenario II : Assuming that all outstanding Warrants are exercised into SEGi shares

	Before the Proposed Share Buy-Back				Proforma I: Assuming full exercise of all outstanding Warrants				After Proforma I and Proposed Share Buy-Back			
	Direct		Indirect		Direct		Indirect		Direct		Indirect	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Directors												
Tan Sri Clement Hii Chii Kok	207,955,116	32.32	^{##} 268,079,604	41.67	280,442,516	38.82	^{##} 268,079,604	37.11	280,442,516	41.64	^{##} 268,079,604	39.80
Nicholas Rupert Heylett Bloy	-	-	^{##} 476,034,720	73.99	-	-	^{##} 548,522,120	75.94	-	-	^{##} 548,522,120	81.44
Hew Moi Lan	464,800	0.07	-	-	464,800	0.06	-	-	464,800	0.07	-	-
Dato' Amos Siew Boon Yeong	2,200,000	0.34	-	-	2,200,000	0.30	-	-	2,200,000	0.33	-	-
Tan Sri Dato' Seri Megat Najmuddin bin Dato' Seri Dr Haji Megat Khas	11,662	0.00	-	-	11,662	0.00	-	-	11,662	0.00	-	-
Dato' Sri Chee Hong Leong	-	-	-	-	-	-	-	-	-	-	-	-
Tan Chow Yin	-	-	-	-	-	-	-	-	-	-	-	-
Goh Leng Chua	-	-	-	-	-	-	-	-	-	-	-	-
Substantial shareholders												
Tan Sri Clement Hii Chii Kok	207,955,116	32.32	^{##} 268,079,604	41.67	280,442,516	38.82	^{##} 268,079,604	37.11	280,442,516	41.64	^{##} 268,079,604	39.80
Pinnacle Heritage Solutions Sdn Bhd	268,079,604	41.67	[*] 207,955,116	32.32	268,079,604	37.11	[*] 280,442,516	38.82	268,079,604	39.80	[*] 280,442,516	41.64
SmartUni 1 Ltd	-	-	^{##} 476,034,720	73.99	-	-	^{##} 548,522,120	75.94	-	-	^{##} 548,522,120	81.44
Navis Asia Fund VI G.P., Ltd	-	-	^{##} 476,034,720	73.99	-	-	^{##} 548,522,120	75.94	-	-	^{##} 548,522,120	81.44
Navis Capital Partners Limited	-	-	^{##} 476,034,720	73.99	-	-	^{##} 548,522,120	75.94	-	-	^{##} 548,522,120	81.44
Richard Elletson Foyston	-	-	^{##} 476,034,720	73.99	-	-	^{##} 548,522,120	75.94	-	-	^{##} 548,522,120	81.44
Nicholas Rupert Heylett Bloy	-	-	^{##} 476,034,720	73.99	-	-	^{##} 548,522,120	75.94	-	-	^{##} 548,522,120	81.44
Rodney Chadwick Muse	-	-	^{##} 476,034,720	73.99	-	-	^{##} 548,522,120	75.94	-	-	^{##} 548,522,120	81.44
HAL Investments (Asia) Ltd	-	-	^{##} 476,034,720	73.99	-	-	^{##} 548,522,120	75.94	-	-	^{##} 548,522,120	81.44
HAL Holding N.V.	-	-	^{##} 476,034,720	73.99	-	-	^{##} 548,522,120	75.94	-	-	^{##} 548,522,120	81.44
HAL Trust	-	-	^{##} 476,034,720	73.99	-	-	^{##} 548,522,120	75.94	-	-	^{##} 548,522,120	81.44

Notes:

^{##} Deemed interest pursuant to Section 6A of the Companies Act, 1965 by virtue of the Director/Company is deemed to have an interest in Pinnacle Heritage Solutions Sdn Bhd.

^{*} Deemed interest pursuant to Section 6A of the Companies Act, 1965 by virtue of the Company is deemed to have an interest in Tan Sri Clement Hii Chii Kok's shareholding.

6. APPROVALS REQUIRED

The Proposed Share Buy-Back is subject to and conditional upon the approval of the shareholders of the Company at the forthcoming AGM.

7. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS

Save for the proportionate increase in the percentage shareholdings of the Directors and substantial shareholders of SEGi as a result of the decrease in the issued and paid-up share capital after the Proposed Share Buy-Back, none of the Directors and/or substantial shareholders and/or person(s) connected to them, has any interest, direct or indirect, in the Proposed Share Buy-Back.

8. DIRECTORS' RECOMMENDATION

Your Directors, having considered all aspects of the Proposed Share Buy-Back, are of the opinion that the Proposed Share Buy-Back is in the best interests of the Company. Accordingly, your Directors recommend that you vote in favour of the ordinary resolution in relation to the Proposed Share Buy-Back to be tabled at the forthcoming AGM.

EXTRACT OF THE NOTICE OF THE TWENTY-EIGHTH ANNUAL GENERAL MEETING

ORDINARY RESOLUTION 6

Proposed Renewal of Authority for the Purchase by SEG International Berhad (“SEGi”) of its Own Shares (“Proposed Share Buy-Back”)

“THAT, subject to the provisions of the Companies Act, 1965 (“the Act”) (as may be amended, modified or re-enacted from time to time), the Memorandum and Articles of Association of the Company, the Main Market Listing Requirements of Bursa Securities and any other relevant authorities, the Company be and is hereby authorised to purchase on the market of the Bursa Securities and/or hold such number of ordinary shares of RM0.25 each in SEGi (“SEGi Shares”) as may be determined by the Directors from time to time through Bursa Securities upon such terms and conditions as the Directors may deem fit in the interest of the Company, provided that:

- i. the total aggregate number of shares purchased or to be purchased pursuant to this resolution does not exceed ten percent (10%) of the total issued and paid-up share capital of the Company for the time being;
- ii. an amount not exceeding the Company’s latest audited retained profit of RM3,331,000 and share premium account of RM46,569,000 as at 31 December 2013, and based on the latest management financial statements as at 31 March 2014, the retained profit and share premium account of the Company of RM6,111,000 and RM46,807,000 respectively, be allocated by the Company for the Proposed Share Buy-Back; and
- iii. the Directors shall have the absolute discretion to decide whether such shares purchased are to be cancelled and/or retained as treasury shares and distributed as dividends or resold on the market of the Bursa Securities or subsequently cancelled;

AND THAT the authority conferred by this resolution shall commence immediately upon the passing of this resolution and shall continue to be in force until:-

- i. the conclusion of the next AGM of the Company, at which time it will lapse, unless renewed by an ordinary resolution passed by the shareholders of the Company in a general meeting;
- ii. the expiry of the period within which the next AGM of the Company is required to be held pursuant to Section 143(1) of the Act (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or
- iii. revoked or varied by an ordinary resolution passed by the shareholders of the Company in a general meeting;

whichever is the earlier;

AND THAT the Directors be and are hereby authorised to act and to take all such steps to give full effect to the Proposed Share Buy-Back and do all such acts and things as they may deem necessary or expedient in the best interests of the Company.”