

**SALCON BERHAD (“SALCON” OR “THE COMPANY”)
MATERIAL LITIGATION PURSUANT TO PARAGRAPH 9.04(f) OF THE BURSA MALAYSIA SECURITIES
BERHAD MAIN MARKET LISTING REQUIREMENTS**

Pursuant to Paragraph 9.04(f) of the Bursa Malaysia Securities Berhad Main Market Listing Requirements, the Board of Directors of Salcon wishes to announce the following litigation involving Salcon Engineering Berhad (“SEB”), a wholly-owned subsidiary of the Company:-

***Terra Environment Management Sdn Bhd (formerly known as UG Management Services Sdn Bhd)
 (“the Plaintiff”) vs SEB (“the Defendant”)***

1. Background Information

On 27 August 2009, the Defendant awarded the Plaintiff the High Power Water Jetting (HPWJ) Cleaning and CCTV Inspection work to be carried out in various sewer pipes located in the District of Kota Kinabalu, Sabah (“Agreement 1”).

On 20 May 2011, the Defendant awarded the Plaintiff the Non-Dig Repair Works to be carried out in various sewer pipes located in the District of Kota Kinabalu, Sabah (“Agreement 2”).

(Collectively known as “the Agreements”)

2. Details of the Claims

On 2 November 2015, the Plaintiff filed a writ and statement of claim inter alia stating and claiming as follows:-

- (a) it has completed its works under the Agreements and claims that it has been underpaid for the work done;
- (b) the Plaintiff claims:-
 - (i) a sum of RM2,314,711.82 only;
 - (ii) interest on the said sum of RM2,314,711.82 only at the statutory rate from 18 September 2013 until the date of full payment;
 - (iii) damages, to be assessed by the High Court in Sabah and Sarawak at Kota Kinabalu;
 - (iv) costs; and
 - (v) such further or other relief as the High Court in Sabah and Sarawak at Kota Kinabalu deems fit.

The Defendant had on 14 December 2015 filed their statement of defence and counterclaim inter alia stating and claiming as follows:-

- (a) the Plaintiff was successfully awarded by the Defendant Agreement 1 after they quoted their base unit price as well as certain items on a lump sum basis;

- (b) there had never been any mutual agreement between the parties expressly in writing to vary the rates to be charged or to vary the job scope which was part of the Plaintiff's expertise when they have provided their quotation to the Defendant;
- (c) the Defendant even made ex-gratia payment out of goodwill and additional lump sum payment under the Agreements respectively for the works without prejudice to the original quotation wherein the Plaintiff accepted as full and final settlement and out of goodwill by the Defendant;
- (d) the Defendant denies of the amounts claimed by the Plaintiff in its statement of claim as there was never an agreement expressly in writing to vary the scope of works or the rates, the Defendant has already made ex-gratia payment out of goodwill and additional lump sum payment which the Plaintiff have accepted, the Plaintiff had made duplicitous claims for certain areas of the work where the Defendant has already made payment and so forth;
- (e) the Defendant has in fact overpaid the Plaintiff;
- (f) the Defendant in their counterclaim claims:-
 - (i) the amount of RM509,882.91 only;
 - (ii) interest on the amount of RM509,882.91 only at the statutory rate from 17 October 2014 until date of full payment;
 - (iii) costs;
 - (iv) such other relief as the High Court in Sabah and Sarawak at Kota Kinabalu deems fit.

The Plaintiff had on 11 January 2016 filed a reply and defence to counterclaim. The Plaintiff denies the counterclaims made by the Defendant.

The case was tried on the 5th to 9th and 22nd June 2017.

The Defendant had on 19 December 2017 received a judgement dated 8 December 2017 from the High Court in Sabah and Sarawak at Kota Kinabalu ("Judgement") for the following decisions which was decided against SEB:-

- (i) that the Defendant pay to the Plaintiff the sum of RM150,673.59 only under Agreement 1 and the sum of RM58,140.74 only under Agreement 2 further to the Defendant's own Final Accounts;
- (ii) that the Defendant pay to the Plaintiff the sum of RM2,191,827.62 only for the items in dispute;
- (iii) that the Defendant pay to the Plaintiff interest on the various sums to be paid by the Defendant to the Plaintiff at the statutory rate of 5% per annum from 1 January 2014 to the date of full payment;
- (iv) that the Defendant pay to the Plaintiff costs of RM75,000.00 for the Plaintiff's claim and costs of RM25,000.00 for the Defendant's counterclaim.

3. Estimated potential liability, financial and operational impact to the Group

A total of RM3.0 million will be provided for in the audited financial statements for the financial year ending 31 December 2017 in respect of above litigation.

However, in the event that the above litigation is successful in its claims against the Plaintiff, there would be a contributory positive financial impact to the earnings per share and net assets per share of the Company for the financial year ending 31 December 2018.

There is no operational impact to the Company and the Group.

4. Steps taken or proposed to be taken by the listed issuer in respect of the litigation.

Based on the advice of our SEB's solicitors, SEB will proceed to appeal to the Court of Appeal and file an application for stay of execution pending appeal in respect of the Judgement.

This announcement is dated 20 December 2017.