

**SALCON BERHAD (“SALCON” OR “THE COMPANY”)
PROPOSED ACQUISITION OF 1,020,000 ORDINARY SHARES, REPRESENTING 51%
OF THE TOTAL ISSUED SHARES CAPITAL IN JR ENGINEERING AND MEDICAL
TECHNOLOGIES (M) SDN BHD BY NUSANTARA JASAKITA SDN BHD (A 90%-OWNED
SUBSIDIARY OF SALCON) FROM GANESAN A/L SUBRAMANIAM**

1. INTRODUCTION

Pursuant to Paragraph 10.06 of the Main Market Listing Requirements (“**MMLR**”) of Bursa Malaysia Securities Berhad (“**Bursa Securities**”), Salcon wishes to announce that Nusantara Jasakita Sdn Bhd, a 90%-owned subsidiary of Salcon (“**NJSB**” or “**Purchaser**”) has on 12 November 2020 entered into a Share Sale Agreement (“**SSA**”) with Ganesan A/L Subramaniam (“**Ganesan**” or “**Vendor**”) for the acquisition of 1,020,000 ordinary shares (“**Sale Shares**”), representing 51% of the total issued shares capital in JR Engineering and Medical Technologies (M) Sdn Bhd (“**JREMT**”) for a total cash consideration of RM28,560,000.00 only (“**Purchase Consideration**”) (“**Proposed Acquisition**”).

(NJSB and Ganesan are individually referred to as a “**Party**” and collectively as “**Parties**”).

NJSB, Ganesan, Hamen A/L Ganesan (“**Hamen**”) and JREMT will enter into a Shareholders Agreement (“**SHA**”) to regulate their relationship as shareholders of JREMT, and to govern the management, obligations, rights, commitments, affairs and/or dealings in relation to JREMT on the completion of the SSA.

2. INFORMATION ON NJSB

NJSB was incorporated in Malaysia on 9 September 2020 under the Companies Act, 2016 as a private limited company. The present issued share capital of NJSB is RM1,500.00 comprising 1,500 ordinary shares. The principal business activity of NJSB is investment holding.

The existing directors and shareholding structure of NJSB are as follows:-

No.	Directors		
(i)	Tan Sri Dato’ Tee Tiam Lee		
(ii)	Dato’ Leong Kok Wah		
(iii)	Law Woo Hock		
No.	Shareholders	No. of Ordinary Shares held	%
(a)	Salcon	1,350	90%
(b)	Blue Water Technology Sdn Bhd	150	10%
	Total	1,500	100%

3. INFORMATION ON JREMT

JREMT was incorporated in Malaysia on 11 June 2001 under the Companies Act, 1965 as a private limited company. The present issued share capital of JREMT is RM2,000,000 comprising 2,000,000 ordinary shares.

JREMT is principally engaged in the business of the trading and manufacturing latex, nitrile and medical high risk gloves, provision of chlorination services for gloves and turnkey advisory and consultancy services for the rubber glove industry (“**Business**”).

The existing directors of JREMT are as follows:-

Name of Directors

- i. Ganesan A/L Subramaniam
- ii. Hamen A/L Ganesan

The following financial information of JREMT extracted from the latest Management Account of JREMT as at 31 July 2020:-

	RM
Net Profits	2,465,770
Net Assets	6,668,886

Upon completion of the Proposed Acquisition, the shareholding structure of JREMT will be as follows:-

Shareholders	Before the Proposed Acquisition		After the Proposed Acquisition	
	No. of Shares	Percentage	No. of Shares	Percentage
NJSB	-	-	1,020,000	51%
Ganesan	1,999,999	99.99995%	979,999	48.99995%
Hamen	1	0.00005%	1	0.00005%
TOTAL	2,000,000	100%	2,000,000	100%

JREMT will become a 51%-owned subsidiary of NJSB.

4. DETAILS OF THE TRANSACTION

4.1 Basis of arriving at and justification for the Purchase Consideration

The Purchase Consideration was arrived at based on the following:-

- (i) Willing buyer and willing seller basis;
- (ii) Profit guarantee undertaken by the Vendor. The profit guarantee provided is realistic taking into consideration of the surge in demand of gloves globally and higher selling price due to COVID-19 pandemic. The right of recourse in the event the profit guarantee is not met by the Vendor is stated in item 4.3.3.1 herein; and
- (iii) Prospect of glove industry as stated in item 6 herein.

4.2 Source of Funding

The Proposed Acquisition will be funded as follows:

1. Proceeds from the private placement which was completed on 2 November 2020	RM22,500,000.00
2. Internally generated fund	RM6,060,000.00
Total	RM28,560,000.00

4.3 Salient terms of SSA

4.3.1. Payment of Purchase Consideration and Method of Payment

NJSB shall pay the Purchase Consideration to the Vendor in the following manner:-

- (a) an earnest deposit of RM450,000.00 ("**Earnest Deposit**") to be paid prior to the execution of the SSA;
- (b) a balance deposit of RM2,406,000.00 ("**Balance Deposit**") on the execution of the SSA, subject to the deposit of the share certificates for the Sale Shares and duly executed transfer forms for the Sale Shares relating thereto and to ensure transfer of the Sale Shares and the duly executed but undated SHA (collectively known as "**Stake Documents**"); and

(Earnest Deposit and Balance Deposit collectively known as "**Deposit**")
- (c) the balance of RM25,704,000.00 on the Completion Date. Completion Date means sixty (60) business days from the date of the SSA becomes unconditional unless further extended by mutual agreement of the Parties.

4.3.2. Condition(s) Precedent

- (a) Upon the execution of the SSA and the Confidentiality and Non-Disclosure Agreement ("**Confidentiality Agreement**"), NJSB will conduct a due diligence audit on JREMT and NJSB's obligation to purchase the Sale Shares will also be subject to NJSB and its authorised agents and representatives finalising a due diligence review and analysis of JREMT and the Business ("**Purchaser's Due Diligence Audit**"). The Confidentiality Agreement will be executed between NJSB, Vendor and JREMT concurrently with the execution of the SSA to regulate the disclosure of confidential information in connection with the Purchaser's Due Diligence Audit.

If NJSB is satisfied with the results and findings of the Purchaser's Due Diligence Audit, a due diligence confirmation will be issued ("**Due Diligence Confirmation**").

The sale and purchase of the Sale Shares is subject to the issuance of the Due Diligence Confirmation by NJSB being fulfilled within a period of sixty (60) business days commencing from the date of the SSA ("**Condition Period**") or at final extended period of not more than thirty (30) days from the expiration of the Condition Period as mutually agreed in writing by NJSB and the Vendor ("**Extended Condition Period**") to fulfil the Condition(s) Precedent.

If the Condition(s) Precedent is not fulfilled and not waived by NJSB by the expiration of the Condition Period or the Extended Condition Period, as the case may be, the SSA will be terminated and thereafter be of no effect whereupon none of the Parties will have any further rights against the other or the Vendor the obligation to sell the Sale Shares or the Purchaser's obligation to purchase the Sale Shares save for the rights and obligations of the Parties pursuant to any antecedent breach of the SSA.

- (b) The Purchaser shall notify the Vendor of the issuance of the Due Diligence Confirmation within seven (7) days of the expiry of the Condition Period or the Extended Condition Period (as may be applicable). If upon completion of the Purchaser's Due Diligence Audit within the Condition Period or the Extended Condition Period (as may be applicable) and the results and findings of such Purchaser's Due Diligence Audit is not satisfactory to the Purchaser, the Purchaser shall be entitled (but not obligated) as its discretion by notice in writing within seven (7) days of the expiry of the Condition Period or the Extended Condition Period (as may be applicable) to the Vendor to terminate the SSA and to return or cause to return the Stake Documents and the Vendor's documents to the Vendor.
- (c) In the event that the SSA is terminated due to non fulfilment of the Condition Precedent or if the Due Diligence Confirmation is not satisfactory to the Purchaser, then the Vendor shall be entitled to forfeit the Earnest Deposit sum absolutely and will refund the Balance Deposit, free of interest to the Purchaser provided that all the Stake Documents and the Vendor's document have been duly returned to the Vendor in accordance with the terms of the SSA and the Confidentiality Agreement, as the case may be.

- (d) The SSA will become unconditional upon the issuance of the Due Diligence Confirmation. Any Condition(s) Precedent agreed to be waived by NJSB will be deemed as a satisfaction or fulfilment of that Condition(s) Precedent.

4.3.3. Profit Guarantee and Employment

4.3.3.1 In consideration of the Purchaser agreeing to purchase the Sale Shares, the Vendor covenants and undertakes that:-

- (a) the profit after tax of JREMT ("**PAT**") for the financial year 1 January to 31 December for years ending 2021, 2022 and 2023 shall be not less than RM10,000,000.00 to be calculated based on the audited accounts of JREMT published no later than 31 March of the relevant year ("**Profit Guarantee**").
- (b) in the event the PAT is not achieved, the Vendor will pay the shortfall ("**Profit Guarantee Shortfall**"), rounded up or down to the nearest RM100,000.00 to the Purchaser upon demand by the Purchaser but in any event no later than 30 June of the year following the end of the relevant financial year calculated in the following manner PROVIDED ALWAYS that all such payment of Profit Guarantee Shortfall may be taken from the Vendor's portion of dividends declared by JREMT for the relevant year if so assigned by the Vendor (if any):-

(RM10,000,000.00) minus actual PAT x 51%.

4.3.3.2 Ganesan shall continue as Managing Director of JREMT for a duration of three (3) years from the Completion Date, based on the same terms and conditions of his current employment with an option to extend his tenure for a further three (3) years based on the terms and conditions to be mutually agreed between the Parties and he shall be in charge of the day to day management and operation of the Business of JREMT.

4.3.4. Completion

The completion of the sale and purchase of the Sale Shares is subject to and conditional upon the fulfilment and/or procurement of the Condition(s) Precedent within the Condition Period or the Extended Condition Period, as the case may be.

4.3.5. Termination of SSA

4.3.5.1 Termination by the Vendor

In the event all the Condition(s) Precedent are fulfilled before or on the Completion Date:

- (a) there is a breach of any warranties, representation or statement which is made by the Purchaser in or pursuant to the terms of the SSA; or
- (b) there is a breach of any material terms or conditions of the SSA or a failure to perform or observe any material undertaking, obligation or agreement in the SSA by the Purchaser; or
- (c) a petition for winding up is presented against the Purchaser; or
- (d) an order is made or a member's resolution is passed for the winding up of the Purchaser; or
- (e) an administrator, a receiver and/or manager is appointed by the court or pursuant to any statute or regulation or by any creditor pursuant to a debenture or any other security document in favour of such creditor over the undertaking, assets and properties of the Purchaser or any part of its assets and properties; or
- (f) there is any material adverse change in the business, operations, results of operations, financial condition, prospects, properties, assets or liabilities of the Purchaser;

then provided where the default is, in the opinion of the Vendor, capable of being remedied, is not remedied within thirty (30) days from the date the Vendor gives written notice to the Purchaser and to the satisfaction of the Vendor, the Vendor may terminate the SSA with immediate effect by giving written notice to the Purchaser before or on the Completion Date and after service of such notice, the Vendor shall be entitled to terminate the SSA by notice in writing to the Purchaser whereupon the Deposit paid shall be forfeited by the Vendor as agreed liquidated damages and all other sums paid by the Purchaser to the Vendor shall be refunded to the Purchaser and Wong Lu Peen & Tunku Alina Advocates & Solicitors ("**Stakeholder**") shall return the Stake Documents to the Vendor (save for the SHA which will be destroyed) and thereafter, no Party will have any further obligation to buy or sell the Sale Shares.

4.3.5.2 Termination by the Purchaser

In the event all the Condition(s) Precedent is fulfilled before or on the Completion Date:

- (a) there is a breach of any Vendor's warranties, representations or statements which are made by the Vendor in the SSA; or
- (b) there is a breach of any material terms or conditions of the SSA or a failure to perform or observe any material undertaking, obligation or agreement in the SSA by the Vendor; or
- (c) a petition for winding up is presented against JREMT or a petition for winding up or bankruptcy, as the case may be, is presented against the Vendor; or
- (d) an order is made or a member's resolution is passed for the winding up of JREMT or an order is made for the bankruptcy of the Vendor; or
- (e) an administrator, a receiver and/or manager is appointed by the court or pursuant to any statute or regulation or by any creditor pursuant to a debenture or any other security document in favour of such creditor over the undertaking, assets and properties of JREMT or the Vendor or any part of their assets and properties; or
- (f) any license required for the operation of the business of JREMT will have been suspended or revoked; or
- (g) there is any material adverse change in the business, operations, results of operations, financial condition, prospects, properties, assets or liabilities of JREMT; or
- (i) the Vendor refuses to sell the Sale Shares or complete the sale of the Sale Shares,

then provided where the default is, in the opinion of the Purchaser capable of being remedied, is not remedied within thirty (30) days from the date the Purchaser gives written notice to the Vendor and to the satisfaction of the Purchaser, the Purchaser may terminate the SSA with immediate effect by giving written notice to the Vendor before or on the Completion Date and after service of such notice, the Vendor will refund to the Purchaser all sums paid by the Purchaser towards the Purchase Consideration free of interest and in addition pay a sum equivalent to the Deposit paid as agreed liquidated

damages and the Stakeholder shall return the Stake Documents to the Vendor (save for the SHA which will be destroyed) and thereafter, no Party will have any further obligation to buy or sell the Sale Shares. Such right of termination by the Purchaser will not in any way limit the Purchaser from pursuing its other rights and remedies at law as may be applicable including the right of specific performance.

4.3.5.3 Best Endeavours

Notwithstanding the rights of termination set out above, the Parties will, prior to termination of the SSA, use their best endeavours and take such actions as may be necessary and equitable to negotiate on such terms with the principle of good faith with fairness and without detriment to the interests of any of the Parties.

4.4. Assumption of liabilities

There are no liabilities, including contingent liabilities and guarantees to be assumed by Salcon Group arising from the Proposed Acquisition.

5. RATIONALE AND BENEFITS OF THE PROPOSED ACQUISITION

In line with Salcon's Board of Directors ("**Board**")'s strategy to strengthen the Group's growth and financial performance, the Group's rationale for the Proposed Acquisition are based on the following reasons:

a) Diversification and Reducing Reliance on the Group's Core Business

The Group is principally involved in water and wastewater engineering with focus on the investment, design, construction, commissioning, operation and maintenance of water and wastewater treatment plants and ancillary facilities across Asian region. This segment is the key driver and largest contributor of the Group's total consolidated revenue. Subsequently, the Group's revenue is derived from its other business areas such as property development, technology services, transportation and other businesses. The Group has been actively identifying other alternatives to improve its financial performance.

The Group's core business was impacted by a tough operating landscape and delays in execution of contracts due to COVID-19 outbreak. It was reported that Malaysia's construction industry suffered RM18.5 billion (S\$6.1 billion) in losses during the first three phases of the country's lockdown. The most significant impacts were caused by financial issues, project delivery and labour constraints.

Having considered the surge in market demand for gloves following the COVID-19 pandemic and the current resources, the Group has resolved to venture into the glove business in order to reduce the Group's dependency solely on its core business. The Proposed Acquisition will allow the Group to take advantage of the acute demand for gloves as a result of the structural change in usage of gloves, which will ensure a continued and strong demand in the market in the near to mid-term.

b) Immediate New Revenue Stream and Trained Labour workforce

Upon completion of the Proposed Acquisition, the Group will have immediate new revenue stream as well as a trained labour workforce. The Group anticipates that the Proposed Acquisition will be a major contributor to its revenue stream with regards to the Profit Guarantee by the Vendor as well as revenues from the proposed expansion of the production capacity.

c) Immediate Access to Global Market

The Proposed Acquisition will provide the Group with immediate access to the global market as JREMT has already in place the necessary approvals from the relevant authorities including the Food and Drug Administration (FDA) certification for the US market and the CE Marking Certification (CE) for the European region. This enables the Group access to existing customers whilst cutting down on lengthy product approval and registration processes.

Given the above, the Proposed Acquisition is expected to enable the Group to mitigate downside risks of the Group arising from the effects of COVID-19 pandemic to the local and global economy.

6. PROSPECTS

The acute global shortage of gloves has worsened as COVID-19 cases worldwide have shown no signs of slowing down. Many developed markets (with high glove usage per capita), such as the United States and United Kingdom have continued to record new highs in daily COVID-19 cases. The situation is expected to be worsen as more western countries head towards the wintering period in fourth-quarter (Q4) of 2020, which could lead to further spikes in COVID-19 cases. The shortage of gloves due to the coronavirus driven surge in demand is expected to carry over into the next year.

A recent Bloomberg commentary expects Malaysia to churn out in excess of 240 billion pieces of gloves in 2020, with demand already pushing production lines to maximum capacity up till mid-2021, compared to 182 billion glove pieces in 2019, thus resulting lead times for delivery of orders have climbed from 30 days to 150 days.

Moving forward, demand for rubber gloves is also expected to be driven by growth in the global industrial production activities, healthcare services and non-healthcare industries such as food and beverage and tourism.

With the demand exceeding supply currently, the Group will from time to time assess demand for gloves and the manufacturing capacity for its glove production lines. At this juncture, the Group intends to increase the production capacity of the existing plant by an additional 12 lines to a total of 16 production lines within 1 year for the expansion to manufacture gloves to boost JREMT's capacity, post-acquisition. This will be funded via internally generated funds and bank borrowings.

Premised on the above, the Proposed Acquisition allows the Group to capitalise on a booming segment with favourable long-term prospects while making the most out of the opportunities created by the COVID-19 pandemic. The Board is optimistic about the Group's future prospects.

7. RISK FACTORS

7.1 Business Diversification Risk

The Proposed Acquisition may expose the Group to risks inherent to the glove industry. These may include, amongst others, general economic downturn in the global and regional economies, competition from existing players, socio-political instability, changes in the legal and environmental framework within which this industry operates and changes in demand of rubber gloves. The global demand for gloves at this moment is dependent on factors such as availability and commercialisation of the vaccine in the market, the growth in the global and domestic healthcare industry, demand for gloves arising from other end-user markets such as manufacturing industry, growth in the global economy and demand for rubber gloves from emerging markets due to changes in healthcare requirements and increased awareness on the importance of hygienic practices throughout the industry.

Although the Group intends to limit these risks, no assurance can be given that any occurrence of these events will not have a material adverse effect on the Group's business and earnings in the future pursuant to the Proposed Acquisition.

7.2 Experience in the Glove Business

The Company is primarily involved in its core business, water and wastewater engineering with focus on the investment, design, construction, commissioning, operation and maintenance of water and wastewater treatment plants and ancillary facilities across Asian region. As such, the Group does not have any prior experience in the gloves business.

However, this risk is mitigated by the fact that Ganesan, JREMT's Managing Director who brings with him extensive industry experience, will continue to helm its operations, together with his management team of highly committed people, to take the business to the next level of success. JREMT's employees, customers, suppliers and key stakeholders will also be retained, towards business continuity and enabling positive synergies.

7.3 Competition Risk

The Group may face intense competition from new capacity expansion, new entrants venturing into this sector and the demand supply imbalances of the glove industry. Nevertheless, the Group believe a structural change in usage of gloves will ensure there will be continued and strong demand in the market in the near to mid-term.

The Group will continue to take proactive measures to remain competitive in this business by inter-alia, constantly keeping abreast with the latest market conditions and leveraging on the Group's internal expertise on business strategy.

However, there can be no assurance that the Group will be able to compete effectively with existing and new entrants in the gloves industry in the future which may materially affect the Group's financial performance.

7.4 COVID-19 Vaccine Development

The advance and progress of COVID-19 vaccine development poses a threat to the glove market. However, the availability and commercialisation of the vaccine is expected to be gradual as production, approvals and distribution of vaccine is time consuming.

Additionally, the Group believes that this risk is mitigated by:

- Outbreak of new pandemic diseases and challenges
- Progressive emphasis on stringent health regulations across regions
- Increased awareness towards personal hygiene
- Growth in medical and surgical procedures

8. EFFECTS OF THE PROPOSED ACQUISITION

8.1 Share capital and substantial shareholders' shareholding

The Proposed Acquisition does not have any effect on the share capital and substantial shareholders' shareholdings of the Company.

8.2 Earnings per share, net assets per share and gearing

The Proposed Acquisition will not have any significant effect on the earnings per share, net assets and gearing of Salcon Group for the financial year ending 31 December 2020.

9. APPROVALS REQUIRED

The Proposed Acquisition is not subject to the approval of the shareholders of the Company or any government authorities.

10. ESTIMATED TIME FRAME FOR COMPLETION

Barring any unforeseen circumstances, the Proposed Acquisition is expected to be completed within 2 months from the date of SSA.

11. PERCENTAGE RATIO

The highest percentage ratios applicable pursuant to Paragraphs 10.02(g) of the MMLR computed based on Salcon's latest audited consolidated financial statements for the financial year ended 31 December 2019 is 6.67%.

12. INTEREST OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED TO THEM

None of the Director and/or major shareholders of Salcon or persons connected to them, have any interest, direct or indirect, in the Proposed Acquisition.

13. DIRECTORS' STATEMENT

The Board of Directors of Salcon, after having considered the Proposed Acquisition, is of the opinion that the Proposed Acquisition is in the best interest of the Company.

14. DOCUMENTS FOR INSPECTION

The SSA and the Confidentiality Agreement are available for inspection at the registered office of the Company at 15th Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan during normal office hours from Mondays to Fridays (except public holidays) for a period of three (3) months from the date of this announcement.

This announcement is dated 12 November 2020.