ANNOUNCEMENT
(For immediate release)

SALCON BERHAD (“SALCON” or “COMPANY”)

I. PROPOSED ACQUISITION OF LANDS IN DAERAH OF JOHOR BAHRU, JOHOR DARUL TA’ZIM BY NUSANTARA MEGAJUTA SDN BHD, A 50.01% SUBSIDIARY OF SALCON FROM TOTAL MERIT SDN BHD; AND

II. PROPOSED DIVERSIFICATION OF THE PRINCIPAL ACTIVITIES OF SALCON AND ITS SUBSIDIARIES TO INCLUDE PROPERTY DEVELOPMENT

1. INTRODUCTION

Further to the announcements made on 8 November 2012 and 7 December 2012 and on behalf of the Board of Directors of Salcon (“Board”), AFFIN Investment Bank Berhad (“AFFIN Investment”) wishes to announce that:

(a) Nusantara Megajuta Sdn Bhd (“Purchaser”), a 50.01% subsidiary of Salcon had on 7 January 2013 entered into a conditional sale and purchase agreement (“SPA”) with Total Merit Sdn Bhd (“Total Merit” or “Vendor”) to acquire two (2) parcels of land which has a total land area of approximately 51,476 square meters held under HS(D) 482930, No. P.T.B. 22841 (“Land 1”) and HS(D) 482931, No. P.T.B. 22842 (“Land 2”) all located in the Daerah Johor Bahru, Bandar Johor Bahru, Negeri Johor Darul Ta’zim (collectively referred to as the “Lands”) for a cash consideration of RM99,699,104.16 (“Purchase Consideration”) (“Proposed Acquisition”); and

(b) Salcon and its subsidiaries (“Salcon Group” or “Group”) will diversify the principal activities of the Group to include property development (“Proposed Diversification”).

(\textit{the Proposed Acquisition and the Proposed Diversification shall collectively be referred to as the “Proposals”})

Further details of the Proposals are set out in the ensuing sections of this announcement.
2. DETAILS OF THE PROPOSED ACQUISITION

2.1. Background

On behalf of the Board, AFFIN Investment had on 8 November 2012 announced that Total Merit had on even date accepted an offer made by the Purchaser (“Letter of Offer”) to purchase the Lands at the Purchase Consideration. The offer is subject to, amongst others, the execution of a definitive agreement within thirty (30) days from the date of acceptance of the Letter of Offer.

Further, on behalf of the Board, AFFIN Investment had on 7 December 2012 announced that the parties have mutually agreed to extend the timeline to execute the SPA by another thirty (30) days from the date of expiration of the timeline for execution of the same pursuant to the Letter of Offer.

The Vendor will be beneficially entitled to the Lands by virtue of the Development Agreement entered into on 15 August 2007 whereby the Vendor has agreed to build and deliver the Consideration Premises (as defined in the Development Agreement, which comprises a complex to be located at Plot 7, Jalan Kebun Teh, Johor Bahru, Johor Darul Ta’zim and a workshop and residence at Taman Impian Emas, Skudai, Johor Darul Ta’zim) in return for which the rights to develop, inter-alia, the Lands will be granted to the Vendor. Under the Development Agreement, vacant possession of the Lands can only be delivered once the Vendor has delivered the Consideration Premises.

2.2. Information on the Lands

The Lands comprises two (2) adjoining parcels of commercial land located at the junction of Jalan Kebun Teh and Jalan Abad and along Jalan Kebun Teh, Johor Bahru, Johor Darul Ta’zim with a leasehold tenure of 99 years expiring on 7 June 2109. The Lands are currently not encumbered.

The Lands are located to the west of on-going mixed developments known as Kebun Teh Commercial Centre (a commercial development comprising 53 units of 2½-storey shop office) and Zennith Suite Service Apartment (a 28-storey apartment block with 303 units). Other pertinent landmarks within the vicinity of the Lands includes the KSL City, New York Hotel, Grand Paragon Hotel, Plaza DNP, The Embassy Hotel & Serviced Apartment, Menara Zurich, Menara Kastam Johor, Wisma Perkeso, Puteri Specialist Centre, Stadium Larkin and Larkin Transport Bus & Taxi Terminal Complex.
At present, the Lands are occupied and erected with numerous buildings and structures which will be demolished and removed after the delivery of vacant possession.

Presently there is no net book value recorded by Total Merit in its financial statements for the Lands as pursuant to the Development Agreement, the Vendor will have to build and deliver the Consideration Premises in exchange for the Lands, which is still under construction as at this juncture. Details pertaining to the valuation of the Lands are set out in Section 2.3 below.

2.3. **Basis and justification of arriving at the Purchase Consideration**

The Purchase Consideration for the Land was arrived at on a “willing buyer-willing seller” basis based on RM180.00 per square foot for a total 553,883.912 square feet, after taking into consideration the following:

(a) the market valuation on the Lands carried out by Messrs. C.H. Williams Talhar & Wong (“Valuer”), an independent firm of registered valuers, appointed by the Company. The Valuer had vide their valuation report dated 28 November 2012 (“Valuation Report”) assessed the market value of the Lands to be RM105,300,000 based on the material date of valuation of 28 November 2012 using the comparison method of valuation only as the Valuer opined that it is the only appropriate method of valuation that can be used to value the Lands as the Lands are commercial lands without detailed planning approval or approved building plans for any proposed developments.

   The comparison method analyses recent transactions and asking prices of similar properties in and around the locality of the Lands for comparison purposes with adjustments made for, amongst others, differences in location, visibility, size, tenure and title restrictions, if any and other relevant characteristics to arrive at the market value.

(b) the potential development and prospects of the Lands set out in Section 6.4 below.

The Purchase Consideration represents a discount of RM5,600,896 or approximately 5.32% from the current market value of the Lands as appraised by the Valuer of RM105,300,000.

Thereby, the Purchase Consideration is justified after taking into consideration, amongst others, the aforesaid discount of 5.32% from the current market value, the development potential of the Lands and the rationale for the Proposed Acquisition.

2.4. **Mode of satisfaction for the Purchase Consideration and the source of funding for the Proposed Acquisition**

The Purchase Consideration will be satisfied entirely in cash in the manner as set out in Section 2.5 below and will be funded through a combination of internally generated funds and/or bank borrowings (where the quantum has not been ascertained at this juncture).
2.5. **Salient terms of the SPA**

The salient terms of the SPA are as follows:

(i) The Vendor shall sell and the Purchaser agrees to purchase the Lands, free from any encumbrances together with the obligation by the Vendor for delivery of vacant possession within the time period expiring 12 months from the date of the SPA (“**Delivery Period**”) subject to the conditions of title whether express or implied contained in the document of title to the Lands with the existing “as is where is” condition of the Lands and upon the terms and subject to the conditions contained in the SPA;

(ii) The Purchase Consideration is payable in the following manner:

(a) a deposit of RM9,969,910.41 (equivalent to 10% of the Purchase Consideration) to be paid to the Vendor on or before the execution of the SPA comprising the following:

   (i) an earnest deposit of RM1,993,982.08 (equivalent to 2% of the Purchase Consideration) (“**Earnest Deposit**”); and

   (ii) a balance deposit of RM7,975,928.33 (equivalent to 8% of the Purchase Consideration) (“**Balance Deposit**”).

The Earnest Deposit together with the Balance Deposit shall be treated as a deposit and form part payment of the Purchase Consideration (the Earnest Deposit and the Balance Deposit shall be hereinafter collectively be referred to as the “**Deposit**”);

(b) the balance of RM89,729,193.75 (“**Balance Purchase Price**”) shall be paid in the following manner:

   (i) sum of RM15,729,193.75 (“**First Balance Sum**”) only payable to the Vendor within 14 days from either:

      (aa) the date of receipt of the relevant memorandum of transfers and documents as provided for in the SPA; or

      (bb) the Unconditional Date (as defined in item 2.5(iii) below), whichever shall be the latest (“**First Balance Sum Date**”);
the balance thereof is payable by way of the issuance of bank guarantees by the Purchaser’s financier amounting to RM74,000,000 (which is to be encashed within a period of after three (3) business days of delivery of vacant possession of the Lands and which shall be valid until a date expiring three (3) months from the date of Delivery Period) or before the expiry of the time period either:

(a) up to four (4) months from the date of receipt by the Purchaser’s solicitors of the relevant memorandum of transfers and documents as provided for in the SPA;

or

(b) expiring two (2) months from the Unconditional Date (as defined in item 2.5(iii) below); or

(c) four (4) months from the date of the SPA;

whichever is the latest (“Completion Period”).

The Balance Purchase Price shall be deemed to have been paid on the issuance of the bank guarantees by the Purchaser’s financier;

(c) The Purchaser shall be entitled to an extension of thirty (30) days from the expiration of the First Balance Sum Date and/or the Completion Period to pay the First Balance Sum and/or cause the issuance of the bank guarantees and upon such extension the Purchaser shall pay late payment interest of 8% per annum on the respective First Balance Sum or the sums guaranteed in the respective bank guarantees due calculated on a daily basis from the expiration of the respective First Balance Sum Date and/or the Completion Period till the date of actual issuance of the bank guarantees;

(iii) The purchase of the Lands is subject to the approval of the shareholders of the Purchaser (“Condition Precedent”). The Purchaser will apply for the requisite shareholders’ approval within two (2) months from the date of the SPA (“Cut-Off Period”) subject to the right of the Purchaser to an extension of a further one (1) month (“Extended Cut-Off Date”) free of interest provided that at such time the Transfer Method Confirmation (as defined in the SPA) has occurred, otherwise the Purchaser shall pay the interest at the rate of 8% per annum on the Balance Purchase Price due to the Vendor, calculated on a day to day basis from the expiry of the Cut-Off Date or from the Transfer Method Confirmation date until the Purchaser’s shareholders’ approval has been obtained and such payment shall be made on delivery of vacant possession of the Lands. The date of obtaining such approval shall hereinafter be referred to as “Unconditional Date”. In the event the Condition Precedent cannot be fulfilled for any reason whatsoever within the Extended Cut-Off Date, the Purchaser shall be entitled within the Extended Cut-Off Date, to nominate a party in its place and failing such nomination, the Vendor shall be entitled to forfeit a sum of RM4,984,955.20, equivalent to 5% of the Purchase Consideration (“Forfeiture Sum”) as agreed liquidated damages and to refund the balance of the Deposit paid and upon such refund being made, the SPA shall be null and void and be of no further effect and neither party shall have the right or claim against the other save for any antecedent breaches;
(iv) Vacant possession of the Lands will be delivered to the Purchaser within the Delivery Period failing which the Vendor will pay a sum equivalent to 8% per annum calculated on a daily rest basis on the Purchase Consideration from the expiry of the Delivery Period until the Purchaser’s receipt of the same; and

(v) Pursuant to the SPA, the Vendor agrees to grant to the Purchaser an irrevocable power of attorney to deal with the Lands to secure the Purchaser’s interest in the Lands as beneficial owner from the date of payment of the full consideration for the sale and purchase of the Lands until the registration of the transfer of the Lands in favour of the Purchaser.

2.6. Liabilities to be assumed

Save for the bank borrowings to be procured for the Purchase Consideration the quantum of which has not been ascertained at this juncture, Salcon will not assume any other liabilities, including contingent liabilities and guarantees arising from the Proposed Acquisition.

2.7. Additional financial commitment

Save for the financial commitments set out in Section 2.8 below, the Board does not expect to incur any other additional financial commitments by the Purchaser in relation to the Proposed Acquisition.

2.8. Proposed development project

The Lands are proposed to be developed into a mixed residential and commercial project which is proposed to be known as JB Festival Mall and Service Apartments and is expected to comprise a shopping mall with a net lettable area of approximately 700,000 sq.ft., 37 units of 5 storey strata shop offices and 1,100 units of service apartments (“Proposed Development”). At this juncture, the Proposed Development is still subject to the approval of the relevant state and local authorities.

The gross development value of the Proposed Development is estimated to be approximately RM1.16 billion and the total development cost (including the acquisition of the Lands) is estimated to be approximately RM926 million. The Proposed Development is expected to have a gross profit of approximately RM234 million.

The Proposed Development is expected to commence in the first (1st) quarter of 2014 and is estimated to be completed by the fourth (4th) quarter of 2019. The development cost of the Proposed Development will be financed through a combination of internally generated funds and/or bank borrowings, the quantum of which has not been ascertained at this point in time.
2.9. Information on the Purchaser

The Purchaser was incorporated in Malaysia on 2 March 2012 under the Companies Act, 1965 (“Act”) as a private limited company and has a registered office at 15th Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan. Its authorised share capital is RM100,000 comprising 100,000 ordinary shares of RM1.00 each, of which RM10,000 comprising 10,000 shares of RM1.00 each has been issued and fully paid-up.

The principal activity of the Purchaser is property development.

The directors and the shareholders of the Purchaser are as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Designation(s)</th>
<th>No. of ordinary shares of RM1.00 held</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salcon Development Sdn Bhd</td>
<td>Shareholder</td>
<td>5,001</td>
<td>50.01</td>
</tr>
<tr>
<td>Kembar Makmur Sdn Bhd (“Kembar Makmur”)</td>
<td>Shareholder</td>
<td>4,999</td>
<td>49.99</td>
</tr>
<tr>
<td>Tan Sri Dato’ Tee Tiam Lee</td>
<td>Director</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Dato’ Leong Kok Wah</td>
<td>Director</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Law Woo Hock</td>
<td>Director</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Ong Aun Kung</td>
<td>Director</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Lee Thiam Lai</td>
<td>Director</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

2.10. Information on the Vendor

Total Merit was incorporated in Malaysia on 20 August 2004 under the Act as a private limited company and has a registered office at Suite 801, (8th Floor), Merlin Tower, Jalan Meldrum, 80000 Johor Bahru. Its authorised share capital is RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each, of which RM900,000 comprising 900,000 shares of RM1.00 each has been issued and fully paid-up.

The principal activity of Total Merit is property development.

The directors and the shareholders of Total Merit are as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Designation(s)</th>
<th>No. of ordinary shares of RM1.00 held</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soh Kok Hiang</td>
<td>Director</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Kuan Poh Huat</td>
<td>Director</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Soon Mon Huay</td>
<td>Shareholder</td>
<td>90,000</td>
<td>10.00</td>
</tr>
<tr>
<td>Rubaiah Binti Leman</td>
<td>Shareholder</td>
<td>180,000</td>
<td>20.00</td>
</tr>
<tr>
<td>Brandlink Sdn Bhd</td>
<td>Shareholder</td>
<td>630,000</td>
<td>70.00</td>
</tr>
</tbody>
</table>

(Source: Companies Commission of Malaysia search dated 29 November 2012)
3. DETAILS OF THE PROPOSED DIVERSIFICATION

Salcon is primarily a water and wastewater engineering company offering value-added services in the investment, design, construction and commissioning, operation and maintenance of water and wastewater treatment plants and ancillary facilities ("Core Business"). For the financial year ended ("FYE") 31 December 2011, Salcon had three operating segments which are as follows:

<table>
<thead>
<tr>
<th>Operating segment</th>
<th>Revenue (RM'000)</th>
<th>Percentage segment contribution to the Salcon Group’s total revenue (%)</th>
<th>Segment profit(1) (RM'000)</th>
<th>Percentage segment contribution to the Salcon Group’s total segment profit(1) (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Construction</td>
<td>265,627</td>
<td>56.22</td>
<td>22,863</td>
<td>40.89</td>
</tr>
<tr>
<td>(b) Concessions</td>
<td>193,408</td>
<td>40.94</td>
<td>31,542</td>
<td>56.42</td>
</tr>
<tr>
<td>(c) Trading</td>
<td>13,427</td>
<td>2.84</td>
<td>1,502</td>
<td>2.69</td>
</tr>
<tr>
<td>Total</td>
<td>472,462</td>
<td>100.00</td>
<td>55,907</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Note: (1) Segment profit comprises revenue from external customers and share of profit in associates and it excludes depreciation and amortisation, finance costs, finance income and income tax expenses.

(Source: Salcon’s Annual Report 2011)

Salcon has built a commendable track record in the past as a water and wastewater solutions provider not just in Malaysia but in the international market where the Group has successfully secured contracts in Sri Lanka, Thailand, India, China and Vietnam. Notwithstanding the opportunities in the water and wastewater treatment business, the management is of the view that the Proposed Acquisition represents an opportunity for the Salcon Group to diversify its revenue sources (into the property development industry) and reduce the Salcon Group’s sole dependency on its Core Business as part of a longer term plan to move the Salcon Group forward.

(Source: Management of Salcon)

Pursuant to the above, the Board anticipates that the Salcon Group’s new business activities in property development may contribute 25% or more of the net profits of the Salcon Group in the future. Furthermore, the Board anticipates that the property development activities will be a major contributor to the Salcon Group’s earnings in the future as it will continue to seek and secure more property development projects in the long-term. As such, the Board proposes to seek the approval of the shareholders for the Proposed Diversification pursuant to Paragraph 10.13 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") at an extraordinary general meeting ("EGM") to be convened.
4. RATIONALE FOR THE PROPOSALS

The Proposed Acquisition is part of the Salcon Group’s plan to diversify its revenue sources to reduce the Group’s sole dependency on its Core Business. The Proposed Acquisition is part of the Group’s efforts to venture into the proposed new business of property development.

Earlier on 28 March 2012, Salcon had announced that its wholly-owned subsidiary, Salcon Development Sdn Bhd, had entered into a share sale agreement (which was subsequently completed on 23 April 2012) to acquire 500,001 ordinary shares of RM1.00 each in Azitin Venture Sdn Bhd (“AVSB”) representing 50% plus one (1) share of the issued and paid-up share capital of AVSB for a total cash consideration of RM7,200,000. AVSB is a property development company and is the legal and registered owner of two (2) parcels of leasehold land in Mukim Batu, Daerah Gombak, Negeri Selangor and in Bandar Selayang, Daerah Gombak, Negeri Selangor. AVSB has obtained a development order for the said lands which was issued by Majlis Perbandaran Selayang for the proposed development of a 21 storey commercial building with one level of basement car park together with shop offices and small offices.

The Board plans to increase the Salcon Group’s presence in this new segment through more opportunistic acquisitions and/or joint ventures to secure more property development projects and investments subject to the positive evaluation of the projected returns from potential projects. Hence, the Proposed Acquisition represents an opportunity for the Salcon Group to increase its presence in the property development business.

At this juncture, the Proposed Development is still pending the approvals of the relevant local and state authorities. Nevertheless, given the easy accessibility and strategic location of the Lands which is neighbouring upcoming mixed residential and commercial developments and barring any unforeseen circumstances, the Board is confident that the Proposed Development, when launched, would contribute positively to the earnings of the Group in the future.

The Board believes that the diversification of the Group’s business into the property development industry, which has growth prospects, will be beneficial to the Salcon Group’s future prospects. The Proposed Diversification will reduce the Group’s sole reliance on its Core Business for its growth and will potentially provide the Group with another profit avenue and earnings growth for the Group in the future.

5. FINANCIAL EFFECTS OF THE PROPOSALS

The effects of the Proposals are as follows:

5.1. Proposed Acquisition

(a) Share capital and substantial shareholders’ shareholdings

The Proposed Acquisition will not have any effect on the share capital or the substantial shareholders’ shareholding in the Company as it does not involve the issuance of new ordinary shares of RM0.50 each in Salcon (“Share(s)”).
(b) **Net assets (“NA”), NA per share and gearing**

For illustrative purposes, the pro forma effects of the Proposed Acquisition on the consolidated NA, NA per Share and gearing of Salcon based on the latest audited consolidated financial statements for the FYE 31 December 2011 are as follows:

**Scenario I: Assuming the Proposed Acquisition is funded entirely through internally generated funds**

<table>
<thead>
<tr>
<th></th>
<th>Audited consolidated as at FYE 31 December 2011 (RM '000)</th>
<th>After (I) and the completion of the Proposed Acquisition (RM '000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
<td>237,154</td>
<td>237,154</td>
</tr>
<tr>
<td>Reserves</td>
<td>67,501</td>
<td>67,501</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>84,743</td>
<td>84,493&lt;sup&gt;(1)&lt;/sup&gt;</td>
</tr>
<tr>
<td>NA attributable to owners of the Company/Shareholders’ funds attributable to owners of the Company</td>
<td>389,398</td>
<td>389,148</td>
</tr>
<tr>
<td>Number of Shares in issue ('000)</td>
<td>474,308</td>
<td>474,308</td>
</tr>
<tr>
<td>NA per Share attributable to the shareholders (RM)&lt;sup&gt;(2)&lt;/sup&gt;</td>
<td>0.82</td>
<td>0.82</td>
</tr>
<tr>
<td>Borrowings&lt;sup&gt;(3)&lt;/sup&gt;</td>
<td>303,185</td>
<td>303,185</td>
</tr>
<tr>
<td>Gearing (times)&lt;sup&gt;(4)&lt;/sup&gt;</td>
<td>0.78</td>
<td>0.78</td>
</tr>
</tbody>
</table>

**Notes:**

<sup>(1)</sup> After deducting the estimated expenses of RM250,000 in respect of the Proposed Acquisition.

<sup>(2)</sup> Calculated based on the NA attributable to owners of the Company divided by the number of Shares in issue.

<sup>(3)</sup> Comprises interest bearing borrowings.

<sup>(4)</sup> Calculated based on the borrowings divided by the NA attributable to owners of the Company.
**Scenario II:** Assuming the Proposed Acquisition is funded entirely through bank borrowings

<table>
<thead>
<tr>
<th></th>
<th>(I) Audited consolidated as at FYE 31 December 2011 (RM '000)</th>
<th>After (I) and the completion of the Proposed Acquisition (RM '000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
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<td>237,154</td>
</tr>
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<td>Reserves</td>
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</tr>
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<td>Retained earnings</td>
<td>84,743</td>
<td>84,493(1)</td>
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</tr>
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<td>Number of Shares in issue ('000)</td>
<td>474,308</td>
<td>474,308</td>
</tr>
<tr>
<td>NA per Share attributable to the shareholders(RM)(2)</td>
<td>0.82</td>
<td>0.82</td>
</tr>
<tr>
<td>Borrowings(3)</td>
<td>303,185</td>
<td>402,884</td>
</tr>
<tr>
<td>Gearing (times)(4)</td>
<td>0.78</td>
<td>1.04</td>
</tr>
</tbody>
</table>

**Notes:**

(1) After deducting the estimated expenses of RM250,000 in respect of the Proposed Acquisition (excluding the interest expenses to be incurred on bank borrowings for the financing of the Proposed Acquisition).

(2) Calculated based on the NA attributable to owners of the Company divided by the number of Shares in issue.

(3) Comprises interest bearing borrowings.

(4) Calculated based on the borrowings divided by the NA attributable to owners of the Company.

Based on the above, the Proposed Acquisition is not expected to have any material effects on the consolidated NA per Share. Furthermore, the effects on the gearing ratio of the Salcon Group will largely depend on the amount of the Proposed Acquisition to be funded by bank borrowings where the quantum has not been ascertained at this juncture.

**(c) Earnings and earnings per share ("EPS")**

The Proposed Acquisition is expected to be completed within the first (1st) quarter of 2014 and is not expected to have any immediate effect on the earnings and the EPS of the Salcon Group for the FYE 31 December 2013 except for the estimated expenses in relation to the Proposed Acquisition.

However the Proposed Acquisition is expected to contribute positively to the earnings and EPS of the Salcon Group in the future financial years, over the development period of the Proposed Development.
5.2. Proposed Diversification

(a) Share capital and substantial shareholders’ shareholdings

The Proposed Diversification will not have any effect on the share capital or the substantial shareholders’ shareholding in the Company as it does not involve the issuance of new Shares.

(b) NA, NA per Share and gearing

Save for the estimated expenses of approximately RM250,000 in relation to the Proposed Acquisition, the Proposed Diversification is not expected to have any material impact on the Salcon Group’s NA, NA per Share and gearing ratio for the FYE 31 December 2013.

(c) Earnings and EPS

The Proposed Diversification is expected to contribute positively to the future earnings of the Salcon Group.

6. INDUSTRY OVERVIEW, OUTLOOK AND PROSPECTS

6.1. Overview and outlook of the Malaysian economy

The Malaysian economy expanded at a faster pace of 5.1% during the first half of 2012 (January – June 2011: 4.7%) despite the increasingly challenging global economic conditions. Growth in the domestic economy was supported by strong private consumption and robust private investment. The global economy is expected to further moderate during the second half of 2012 as the euro area debt crisis shows no clear signs of abating. The deterioration in the external environment and correction in commodity prices are expected to weigh on Malaysia’s export performance during the second half of 2012. Nevertheless, the vibrant domestic demand is expected to be sustained during the second half of 2012, supported by both public and private sectors amid conducive financial market conditions, stable prices and favourable labour market. Taking into account the downside risks emanating from the external sector and a resilient domestic economy, the real Gross Domestic Product (“GDP”) is estimated to expand 4.5% - 5% in 2012 (2011: 5.1%).

Domestic demand will be the main driver of the Malaysian economy supported by private and public sector expenditure. Growth in private consumption is expected to be buoyed by stable employment and income coupled with lower inflation. The salary revision and bonus for civil servants, cash assistance under Bantuan Rakyat 1Malaysia, reward to the Federal Land Development Authority settlers and other cash payments to assist various groups supported private consumption. Private investment is envisaged to drive economic growth over the medium term, underpinned by the ongoing implementation of the Economic Transformation Programme (“ETP”) and vibrant construction activity. Growth in private investment will be broad-based in line with positive investors’ confidence and strong domestic demand. Public investment will be largely led by the Non-Financial Public Enterprises’ (“NFPE”) capital spending on oil and gas, telecommunications and transport-related industries.
On the supply side, growth in 2012 is expected to emanate from the services and manufacturing sectors with the construction sector playing a stronger role in supporting the economy. The strong growth in the services sector is largely due to buoyant wholesale and retail trade, communication, accommodation and restaurant as well as business services subsectors. Manufacturing output, especially domestic-oriented industries, is expected to expand steadily in tandem with strong domestic activities.

The Malaysian economy is expected to strengthen further and projected to grow at a faster rate of 4.5% - 5.5% in 2013. Growth will be supported by improving exports and strong domestic demand on the assumption that global growth will pick up, especially during the second half of 2013. The growth projection is premised upon the expectation of an improvement in the resolution of the debt crisis in the euro area and stronger growth momentum in the economies of Malaysia’s major trading partners. Domestic demand is expected to maintain its strong momentum driven by robust private investment and strong private consumption. Private sector activity will be supported by an accommodative monetary policy in an environment of low inflation coupled with a robust financial sector. Recovery in the external sector, particularly increasing external demand from regional economies and major trading partners will further provide the impetus for a private-led growth. The overall public expenditure is expected to increase, led by higher NFPE’s capital investment which will further augment growth.

(Source: Economic Report 2012/2013, Ministry of Finance)

6.2. Overview and outlook of the Malaysian property market

The Malaysian property market had shown remarkable growth in 2011. The property market had maintained double digit growth of 14.3% in volume, and 28.3% in value. The year registered 430,403 transactions worth RM137.83 billion, surpassing the 2010 property market activity which recorded 376,583 transactions and RM107.44 billion in volume and worth respectively.

All property sub-sectors recorded positive growths. Residential and development land sub-sectors recorded double digit growths of 18.9% and 14.7% respectively and followed by commercial sub-sector (9.7%), industrial sub-sector (6.5%) and agriculture sub-sector (4.6%).

The better property market was supported by various implementation of ETP projects. Completed projects such as Johor Premium Outlets and RM50 million shaded walkways in the KLCC-Bukit Bintang area, served as a tourism product-cum-initiative to attract more foreign tourists to the country. Whilst the newly launched infrastructure projects, such as the Klang Valley Mass Rapid Transit project starting with Sungai Buloh-Kajang Line, Senai-Pasir Gudang-Desaru Expressway and coastal road connecting Johor Bahru and Nusajaya stimulated market activities in the Klang Valley and Johor Bahru respectively. Another project was the Damansara City 2 in Pusat Bandar Damansara which upon completion will comprise two office blocks, a retail block, a hotel and service apartments. The mixed development is set to be the next iconic landmark that will also support the multinational corporation attraction initiatives.
The review period (2011) recorded 24,997 shop transactions worth RM13.76 billion. The volume of transactions recorded a slight increase of 0.8% (as compared to 2010 which had 24,731 transactions) whilst value recorded a higher increase of 11.7% (RM12.32 billion). The shop sector remained the major contributor to the commercial sub-sector, representing 57.2% (24,997 units) of the total transaction.

The residential property sub-sector continued to prosper as indicated by improved sales performance of existing and new launches, reduced overhang numbers and higher housing starts. The year saw 269,789 residential property transactions worth RM61.83 billion, the highest recorded in the last five years. Both volume and value recorded double digit growth of 18.9% and 22.1% respectively. Residential property continued to dominate the overall property market, capturing 62.7% of the total volume and 44.9 of the value of transactions.

On the overall property market performance for 2012, it is expected that the resident sub-sector will be sustained. Higher housing starts and building plans approvals in 2011 signify confidence of developers and investors in the development activity. The vacant space in the office and retail sub-sectors is foreseen to be absorbed as more space is taken up when ETP takes place. Development in the various regional economic corridors and Greater Kuala Lumpur/Klang Valley would continue to give positive impacts on property development and the market in the coming years. (Source: Property Market Report 2011, Valuation and Property Services Department, Ministry of Finance)

6.3. Overview and outlook of the Johor property market

The property market in Johor sustained its promising performance in 2011. The year recorded 52,946 transactions worth RM17.07 billion as compared to 48,537 transactions worth RM11.81 billion in 2010. Compared to 2010, the market volume and value increased by 9.1% and 44.6% respectively. The residential sub-sector led the market, contributing 58.7% (31,084 transactions) market share. The agricultural sub-sector was the next active sector, with 23.1% market share, followed by the commercial sub-sector with 10.2% market share.

Movement in market volumes were mixed. Residential, commercial and development land sub-sectors recorded positive growths of 15.7% (2010: 4.0%), 5.2% (2010: 19.8%) and 42.8% (2010: 28.1%) respectively. On the other hand, industrial and agricultural sub-sector declined by 11.6% (2010: 38.1%) and 5.6% (2010: 10.5%). In terms of value, movements were positive for all sub-sectors with the exception of industrial sub-sectors and to record negative growths. (Source: Property Market Report 2011, Valuation and Property Services Department, Ministry of Finance)

6.4. Prospects of the Lands

The Lands are strategically located and is at a short distance from the Central Business District of Johor Bahru and the Causeway of Singapore (with a 10 minute driving distance). The accessibility of the Lands is served by the major and busiest road within the Johor Bahru city centre. Upon development of the Lands, it is expected to enjoy good response in terms of demand in tandem with the growth of Iskandar Malaysia.
Premised on the above, the Board is of the view that the Proposed Acquisition will be in the position to benefit from favourable market demand and selling price and as a result, is expected to contribute positively to the future earnings of the Salcon Group.

(Source: Management of Salcon)

7. RISK FACTORS RELATING TO THE PROPOSALS

The potential risk factors relating to the Proposed Acquisition and the Proposed Diversification (which may not be exhaustive) are as follows:

7.1. Proposed Acquisition

(a) Non completion of the Proposed Acquisition

The completion of the SPA is conditional upon the Condition Precedent being fulfilled or waived. There can also be no assurance that the completion date relating to the SPA can be within the timeframe stipulated in the SPA. Nevertheless, the Purchaser anticipates that such risk can be mitigated by proactively engaging with the relevant authorities/parties to obtain all the necessary approvals and documents required for the completion of the SPA.

Further, in the event that the Purchaser fails to obtain the shareholders’ approval for the Proposed Diversification within the Extended Cut-Off Date and fails to nominate a party in its place, the Purchaser will be liable to pay the Forfeiture Sum as liquidated damages (further details are set out in Section 2.5(iii) above) and thereafter the SPA shall be null and void.

(b) Financing Risk

Property development is a capital intensive business. The availability of or the ability to secure adequate financing is critical to the Salcon Group’s ability to complete the Proposed Development.

The Salcon Group will be able to reduce its gearing level via the future earnings and cash flows to be generated from the Proposed Development in the future.

Furthermore, the management will continuously monitor and if necessary, refine and adjust its future development projects and marketing strategies to changes in the economic environment and market demand for the Proposed Development.

Both the Purchase Consideration in relation to the Proposed Acquisition and the development costs of the Lands will be funded through a combination of internally generated funds and/or bank borrowings where the quantum has not been ascertained at this juncture.
7.2. Proposed Diversification

(a) Business Risk

The Proposals will expose the Salcon Group to risks inherent to the property development and property investment industry. These may include, amongst others, competition from existing players and entry of new players, changes in demand and oversupply of properties, increases in the costs of labour and building materials, labour and building materials disruptions and/or shortages, changes in the consumers' preference for products types, changes in credit conditions such as availability of end finance and changes in the legal and environment framework within which this industry operates.

Although the Salcon Group will seek to limit these risks through, *inter-alia*, effective human resource development strategies, market research and feasibility studies, product development, implement effective project management and cost-control policies, undertaking prudent business strategies, monitoring consumers’ preference and lifestyle, reviewing operations and marketing strategies, no assurance can be given that any changes to these risks factors will not have a material adverse effect on the Salcon Group's business and earnings in the future.

(b) Threat of new entrants and lack of past track record and expertise

The Proposed Development is one of the Salcon Group’s foray into property development and therefore the Salcon Group will be exposed to the risks associated with new entrants in the market (as detailed in item (c) below). Premised on the foregoing, the Board will, to the best of its endeavours seek to limit the risks set out below (which may not be exhaustive) when undertaking the Proposed Development. As the Salcon Group has minimal past track record or expertise in property development, Salcon has sought Kembar Makmur, (a 49.9% shareholder of the Purchaser) who is led by Ong Aun Kung and Lee Thiam Lai (both of which are directors of the Purchaser) who have managed various property development projects which include, amongst others, One Ampang Avenue located in Kuala Lumpur (development project comprises four (4) phases of condominium, shop houses and a private clubhouse), Subang Central in USJ (development project comprises 144 units of 3 and 4-storey shop houses), and Subang Business Centre located in Subang Jaya (development project comprises 89 units of shop offices). The Board believes that the directors of Kembar Makmur have the relevant skills, expertise and past track record to assist the Group in managing the Proposed Development.
(c) **Competition**

Pursuant to the Proposed Diversification, the Salcon Group will face direct competition from both new entrants and existing players in the property development and property investment industry. The Salcon Group may also face disadvantages as a new entrant in the property development and property investment industry as it lacks the relevant track record and brand name as compared to the existing players which enjoy the privilege of their established brand name and reputation in the industry. The Salcon Group’s competitiveness will largely depend on, amongst others, its sales and marketing strategies, products design, location of the development and its ability to price and differentiate its development to meet the needs of the target markets. Hence, measures that will be undertaken by the Salcon Group to mitigate competition risk includes conducting market surveys during the development planning stage to correctly position its products to fulfil the needs of its target market.

The Salcon Group will continuously monitor and if necessary, refine and adjust its development plan prior to launching and also its marketing strategies in response to changes in the economic environment, consumers’ preference and market demand. Further, the 49.9% shareholder of the Purchaser has the relevant skills, expertise and past track record in terms of its ability to manage property development projects. Nonetheless, no assurance can be given that any change to these factors would not have any material adverse impact on the Salcon Group in the future.

(d) **Completion and Delay in Completion**

There is always a potential risk that the returns from the Proposed Development to be undertaken by the Salcon Group may have a longer payback period than expected or the investment in the Proposed Development may not generate the expected rate of return due to various factors including, *inter-alia*, increased in development and/or construction costs, unavailability of skilled manpower, delay in completion of the development project and obtaining approvals from the relevant authorities for the development, securing adequate funding for the Proposed Development and that a ready market would be available for the developed properties in the future. Adverse developments in respect of these factors can lead to interruptions or delays in completing a project, which can consequently result in cost overruns and affect the profitability and cash flow of the Salcon Group.

Although the Salcon Group will mitigate its investment risks by exercising due care in the evaluation of its investments and continuously review and evaluate market conditions, the work in progress of the development project and cash flows, there can be no assurance that the Proposed Development or other future development projects to be undertaken by the Salcon Group will yield the targeted returns to the Salcon Group and be completed as planned or that such challenges would not have an adverse material impact on the Salcon Group’s future financial performance.
(e) **Political, Economic and Regulatory Considerations**

Adverse changes in political, economic and regulatory conditions in Malaysia could materially affect the financial and prospects of the property development and property investment business. Amongst the political, economic and regulatory uncertainties are the changes in the risks of economic downturn, unfavourable monetary and fiscal policy changes, exchange control regulations or introduction of new rules or regulation affecting the property development and property investment industry, changes in interest rates, inflation, taxation method, general employment outlook and political leadership.

In mitigating such risks, the Salcon Group will continue to review its business development strategies in response to the changes in political, monetary, fiscal and economic conditions. Nonetheless, no assurance can be given that any change to these factors would not have any material adverse impact on the Salcon Group’s business in the future.

8. **APPROVALS REQUIRED**

The Proposed Acquisition is not subject to any approvals and/or consents being obtained. The Proposed Diversification requires the approval from the shareholders of Salcon at an EGM to be convened pursuant to paragraph 10.13 of the Main Market Listing Requirements of Bursa Securities.

The Proposed Acquisition is conditional upon the shareholders’ approval on the Proposed Diversification but not vice versa. The Proposals are not conditional upon any other proposals undertaken or to be undertaken by the Company.

9. **DIRECTORS AND MAJOR SHAREHOLDERS’ INTEREST**

None of the Directors and/or major shareholders of Salcon and/or persons connected to them has any interest, direct or indirect, in the Proposals.

10. **DIRECTORS’ STATEMENT**

The Board, having considered all aspects of the Proposals (including but not limited to the rationale of the Proposals and the risk factors relating to the Proposals), is of the opinion that the Proposals are in the best interest of the Company.

11. **ESTIMATED TIMEFRAME FOR COMPLETION**

Barring any unforeseen circumstances, the Proposed Acquisition is expected to be completed within the first (1st) quarter of 2014.
12. **APPLICATIONS TO THE RELEVANT AUTHORITIES**

Barring any unforeseen circumstances, the applications to the relevant authorities in relation to the Proposed Diversification is expected to be made within 2 months from the date of this announcement.

13. **PERCENTAGE RATIO APPLICABLE TO THE PROPOSED ACQUISITION PURSUANT TO PARAGRAPH 10.02(G) OF THE MAIN MARKET LISTING REQUIREMENTS OF BURSA SECURITIES**

The highest percentage ratio applicable to the Proposed Acquisition pursuant to Paragraph 10.02(g) of the Main Market Listing Requirements of Bursa Securities is 12.80%, computed based on the Purchase Consideration and the audited consolidated NA of Salcon for the FYE 31 December 2011.

14. **DOCUMENTS AVAILABLE FOR INSPECTION**

A copy of the SPA and the Valuation Report will be made available for inspection at the registered office of Salcon at 15th Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan, during normal office hours on Mondays to Fridays (except public holidays) for a period of three (3) months from the date of this announcement.

This announcement is dated 7 January 2013.