

**SALCON BERHAD ("SALCON" OR THE "COMPANY")**

- (I) TERMINATION OF TRANSFER-OPERATE-TRANSFER CONCESSION AGREEMENT BETWEEN CHANGZHOU CITY TIAN NING DISTRICT DIAO ZHUANG STREET OFFICE ("CCTNDDZSO"), SALCON CHANGZHOU (HK) LIMITED ("SCHK"), A WHOLLY-OWNED SUBSIDIARY OF SALCON AND CHANGZHOU SALCON WASTEWATER TREATMENT CO. LTD. ("CSWT"), A WHOLLY-OWNED SUBSIDIARY OF SCHK**
  
- (II) ASSET TRANSFER AGREEMENT BETWEEN CHANGZHOU SOUTHEAST INDUSTRIAL WASTEWATER TREATMENT PLANT ("CSIWTP") AND CSWT**

**1. INTRODUCTION**

We refer to the announcements dated 21 March 2011, 25 March 2011 and 26 April 2011 in respect of the 30 years Transfer-Operate-Transfer wastewater treatment concession agreement dated 21 March 2011 entered into between CCTNDDZSO and SCHK ("**TOT Wastewater Concession Agreement**") and the asset transfer agreement dated 21 March 2011 entered into between CSIWTP and SCHK for the acquisition, upgrading, operation and maintenance of the Changzhou Southeast Industrial Wastewater Treatment Plant at Tian Ning, Changzhou, Jiangsu Province, the People's Republic of China ("**PRC**") ("**Project**").

The Board of Directors of Salcon wishes to announce that SCHK, CCTNDDZSO and CSWT had on 12 November 2012 entered into the following agreements:-

- (i) Concession Termination Agreement between CCTNDDZSO, SCHK and CSWT for the purpose of mutually terminating the TOT Wastewater Concession Agreement ("**Concession Termination Agreement**"); and
  
- (ii) Asset Transfer Agreement between CSIWTP and CSWT for the purpose of transferring the assets under the Project to CSIWTP ("**Asset Transfer Agreement**").

("Termination")

## 2. SALIENT TERMS OF THE CONCESSION TERMINATION AGREEMENT

The salient terms and conditions of the Concession Termination Agreement, amongst others, are set out as follows:-

- (i) Within three (3) working days from the date of the Concession Termination Agreement, SCHK shall cause to transfer the assets under the Project to CCTNDDZSO or any party nominated by it. The assets to be transferred shall include but not limited to fixed assets, construction in progress, ownership of project equipment and related interests, intangible assets, project information, documents and certificates.
- (ii) Upon termination of the TOT Wastewater Concession Agreement, CCTNDDZSO shall, prior to 1 November, 2015 pay a sum of RMB65 million (equivalent to RM31.8 million) to SCHK or CSWT as compensation (**Compensation Amount**) and this sum shall be final and SCHK or CSWT shall not be entitled to any further fees. CCTNDDZSO shall pay late payment interest of 10% per annum on overdue amount calculated from the date of overdue.
- (iii) A sum of RMB1.7 million (equivalent to RM0.8 million) as cost to be incurred in connection with the transfer of assets shall be borne by SCHK or CSWT and this sum shall be deducted from the Initial Compensation Amount. Arising therefrom, the final Compensation Amount payable by CCTNDDZSO to SCHK or CSWT shall be RMB63.3 million (equivalent to RM 31 million ).

## 3. SALIENT TERMS OF THE ASSET TRANSFER AGREEMENT

The salient terms and conditions of the Asset Transfer Agreement, amongst others, are set out as follows:-

- (i) Upon the execution of the Asset Transfer Agreement, CSWT is required to return all the assets under the Project as stipulated in the list of property contained in Annexure 9 of the TOT Wastewater Concession Agreement. The assets to be transferred included but not limited to the assets that were received by CSWT from CSIWTP under the TOT Wastewater Concession Agreement and any additional assets created by CSWT (**Assets**).

- (ii) Both parties are required to sign an Asset Transfer Assessment Form after the completion of the transfer of Assets. CSIWTP will be entitled to and liable for all the rights, interests or risks of the Assets after the execution of Asset Transfer Assessment Form.
- (iii) With retrospective 1 November 2012, CSWT will not be liable to pay salaries, insurance benefit or termination compensation and etc to those employees who were transferred to CSWT under the TOT Wastewater Concession Agreement and these employees will be placed under the care of CSIWTP.
- (iv) CSWT will only be liable for all the affairs of employees who were employed by them after 21 March 2011 for the Project (“**new employee**”), included termination procedures etc. CSWT will also be liable to pay CSIWTP all losses, if any, that are caused by the new employee.

#### **4. COST OF INVESTMENT**

The total cost of investment of Salcon in the entire concession project up to the date of the Termination amounted to RMB62.5 million (equivalent to RM30.6 million).

The Termination is expected to result in a gain on investment to Salcon Group of approximately RMB0.8million (equivalent to RM0.4million).

#### **5. BASIS OF ARRIVING AT THE COMPENSATION AMOUNT**

The Compensation Amount is arrived at after a mutual agreement.

#### **6. RATIONALE/REASONS FOR THE TERMINATION**

PRC's Government buy back due to redevelopment plan on the industrial zone.

#### **7. PROPOSED UTILIZATION OF COMPENSATION AMOUNT**

The net Compensation Amount will be utilised for working capital and future business.

## **8. HIGHEST PERCENTAGE RATIO APPLICABLE**

The highest percentage ratio applicable to the above asset transfer computed based on the final Compensation Amount and Salcon's latest audited consolidated financial statements for the financial year ended 31 December 2011 pursuant to Chapter 10 of the Bursa Malaysia Securities Berhad Main Market Listing Requirements is 7.96%.

## **9. EFFECTS OF THE TERMINATION**

### **9.1 Share Capital and Substantial Shareholder's shareholding**

The Termination does not have any effect on the issued and paid-up share capital and substantial shareholding structure of Salcon.

### **9.2 Earnings per share**

The Termination will not have any significant effect on the earnings per share of Salcon Group for the financial year ending 31 December 2012.

### **9.3 Net Assets**

The Termination will not have any significant effect on the net assets per share of Salcon Group for the financial year ending 31 December 2012.

### **9.4 Gearing**

The Termination will not have any significant effect on the gearing based on the latest audited consolidated financial statements of the Company for the financial year ending 31 December 2011.

## **10. DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS**

None of the Directors and Major Shareholders of Salcon and/or persons connected with them have any interest, direct or indirect, in the Termination.

## **11. DIRECTORS' STATEMENT**

After having taken into consideration all aspects of the Termination, the Board is of the opinion that the Termination is in the best interests of Salcon.

**12. APPROVALS REQUIRED**

The Termination is not subject to the approval of the shareholders of Salcon and/or any other relevant government authorities.

**13. DOCUMENTS FOR INSPECTION**

A copy each of the Concession Termination Agreement and Assets Transfer Agreement are available for inspection at the registered office of Salcon at 15<sup>th</sup> Floor, Menara Summit, Persiaran Kewajipan USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan during normal office hours from Monday to Friday (except public holidays) for a duration of three (3) months from the date of this announcement.

This announcement is dated 12 November 2012.