

ACQUISITION OF YIZHENG RONG XIN WASTEWATER TREATMENT COMPANY LIMITED BY JIANGSU SALCON WATER & ENVIRONMENTAL DEVELOPMENT COMPANY LIMITED, A 66.67% SUBSIDIARY

1. INTRODUCTION

Further to the announcement of 1 December 2009 on the execution of Co-operation Agreement with the People's Government of Yizheng, Jiangsu Province, People's Republic of China ("PRC") for Water Integration Scheme in the Yizheng City and its Neighbourhoods, Salcon Berhad ("Salcon" or "the Company") is pleased to announce that Jiangsu Salcon Water & Environmental Development Company Limited ("Purchaser") has on 20 August 2010 entered into an Equity Transfer Agreement ("ETA") with Wins Sun International Investment Company Limited ("Vendor"), Hong Kong, in relation to the acquisition of the entire equity interest in Yizheng Rong Xin Wastewater Treatment Company Limited ("RXWT") for a total cash consideration of RMB44 million (approximately RM20.28 million, which was converted based on the exchange rate as at 20 August 2010 of RMB1 vs. RM0.461) ("Purchase Price").

2. DETAILS OF THE PARTIES

2.1 Information on the Vendor

The Vendor is a company incorporated in Hong Kong with the registered address at Flat/Rm 21D, Tower 2, Nan Fung Plaza, Tseung Kwan O, New Territories, Hong Kong and its principal activity is investment holding.

The Directors of the Vendor are Hu Xing Rong, Hu Bo Qing, Hu Guo Liang and Lin Ding Chun, and its shareholders are Hu Xing Rong and Lin Ding Chun.

The issued and paid-up share capital of the Vendor is HK\$100.

2.2 Information on the Purchaser

The Purchaser is a company incorporated in the PRC with the registered address at 115 Shiqiao Hebei Road, Yizheng City, Jiangsu Province, PRC and its principal activity is to undertake the following:-

- (a) production and supply of potable water;
- (b) treatment of wastewater and recycled water; and
- (c) investment, construction and operation of water distribution networks, water and wastewater facilities.

The registered capital of Purchaser is RMB60 million (approximately RM27.66 million).

The Purchaser is a 66.67% subsidiary of Salcon Jiangsu (HK) Limited, which is a wholly-owned subsidiary of the Company incorporated in Hong Kong.

3. **DETAILS OF THE ACQUISITION**

3.1 **Information on RXTW**

RXTW is a company incorporated in the PRC with the registered address at Hong Qi Village, Xin Cheng Town, Yizheng City, Jiangsu Province, PRC and its registered capital is USD4,000,000 (approximately RM12.53 million). RXTW was incorporated on 27 August 2003.

The principal activity of RXTW is treatment of wastewater, which is being carried out via a wastewater treatment plant (“WWTP”) of 25 million litre per day (“MLD”).

The net profit of RXTW for the financial year ended 31 December 2009 is RMB1.11 million (approximately RM511,710).

3.2 **Basis of Determining the Purchase Price**

The Purchase Price for the Acquisition was determined based on the net assets value (“NAV”) of RMB29.58 million (approximately RM13.64 million) as disclosed in the audited financial statements of RXTW for the financial year ended 31 December 2009 and the NAV of RM29.03 million (approximately RM13.38 million) as disclosed in the management accounts as at 30 June 2010.

3.3 **Justification of the Purchase Price**

The Purchase Price was arrived after taking into the consideration the intense competition in water and wastewater business in PRC to secure a reasonable concession.

The Purchase Price represents 1.49 times and 1.52 times of the NAV of RXTW as at 31 December 2009 and 30 June 2010 respectively.

3.4 **Salient Terms of the ETA**

3.4.1 **Agreement to Sell and Purchase**

Pursuant to the ETA, the Vendor shall sell and transfer and the Purchaser shall purchase from the Vendor the entire equity interest in RXTW.

For avoidance of doubt, save for the bank borrowing amounting to RMB21 million (approximately RM9.68 million) of RXTW, other debts will be settled in full by the Vendor prior to the date of approval being obtained from the State Administration for Industry & Commerce of PRC (“Transfer Date”), and the assets underlying the Acquisition shall include the assets listed in the Yizheng Audit Bureau Report number [2008]9 and other assets (save for cash in hand and deposit in bank). The Vendor entitles for the cash in hand and deposit in bank of RXTW on the Transfer Date.

3.4.2 **Conditions Precedent**

- (a) The conditions for the transfer of the equity interest in RXTW are as follows:-
- (i) execution and exchange of all agreements and documents for and in relation to the Acquisition (“Transaction Agreements”) by the Parties;
 - (ii) procurement from the governmental authorities the relevant approval for the Acquisition and the approval shall not in essence, modify the contents of the Transaction Agreements;
 - (iii) there is no material detrimental change in RXTW on the Transfer Date;
 - (iv) verification on the assets underlying the Acquisition has been completed and ascertained by the Parties;
 - (v) the Purchaser has paid RMB5 million (approximately RM2.31 million) to RXTW in accordance with Clause 3.2 of the ETA; and
 - (vi) the transfer of concession rights from the Vendor to RXTW has been duly approved by the People’s Government of Yizheng.
- (b) The Parties shall present the resolution(s) of their shareholders and/or Directors in relation to the Acquisition and the authorization letter for their authorized signatory(ies) to execute the Transaction Agreements.
- (c) The Vendor shall ensure that RXTW executes and submits the following documents:-

- (i) the resolution of its Directors, which unanimously resolve the revocation of the authorization to operate all bank accounts of RXTW by its authorized signatories; and
- (ii) letters of resignation of all present Directors.

3.4.3 **Terms of Payment**

- (a) First payment of RMB36.65 million (approximately RM16.90 million) shall be paid by the Purchaser on the Transfer Date. The Purchaser shall, on the Transfer Date, make the payment in USD (in accordance with the buy rate published by the People's Bank of China on the payment date) equivalent to RMB36.65 million (approximately RM16.90 million) into a bank account assigned by the Vendor; and
- (b) The remaining RMB7.35 million (approximately RM3.39 million) ("Retention Sum") shall be released by the Purchaser within 6 months from the Transfer Date in USD (in accordance with the buy rate published by the People's Bank of China on the payment date) equivalent to RMB7.35 million (approximately RM3.39 million) into a bank account assigned by the Vendor.

3.4.4 **Assumption and Settlement of Liabilities**

- (a) Bank Borrowings

As at the date of execution of the ETA, the bank borrowing from Bank of China by RXTW is RMB21 million (approximately RM9.68 million). The Parties agree that, after the transfer of equity interest, the bank borrowing is continued to be repaid by RXTW in accordance with the terms and conditions agreed by RXTW and the Bank. In the event the Bank would like to recall the bank borrowing due to change of shareholders, the Purchaser shall settle the bank borrowing in accordance with the requests of the Bank.

- (b) Assumption of Liabilities up to RMB5 million by the Purchaser

The Purchaser will assume up to RMB5 million (approximately RM2.31 million) other liabilities of RXTW.

- (c) The Vendor shall, save of the bank borrowing of RMB21 million (approximately RM9.68 million), settle all other liabilities of RXTW prior to the Transfer Date. Failing which, the Retention Sum will be adjusted accordingly.

3.5 **Salient Terms and Conditions of the Concession**

3.5.1 **Parties to the CA**

The CA was entered by the Vendor and the People's Government of Yizheng on 18 July 2003.

The rights and obligations in the CA has been novated and assigned to RXTW upon its incorporation pursuant to the terms and conditions set out the CA.

3.5.2 **Nature of Concession**

RXTW has been granted a concession right by the People's Government of Yizheng to invest, build and operate a wastewater treatment plant ("WWTP") on Build-Operate-Transfer (B.O.T.) basis for the purpose of carrying out treatment of wastewater in Yizheng.

3.5.3 **Concession Period**

The concession period is 21.5 years commencing from 1 July 2003 and expiring on 31 December 2024, and shall consist of the following:-

- (a) 1.5 years for the construction of the WWTP; and
- (b) 20 years for the operation of the WWTP.

The concession period may be extended subject to mutual agreement of the People's Government of Yizheng and RXTW.

3.5.4 **Location and Capacity of WWTP**

The WWTP is situated at Hong Qi Village, Xin Cheng Town, Yizheng City, Jiangsu Province, PRC.

The WWTP has a design capacity of 50 MLD, of which 25 MLD capacity has been completed under Phase 1 and in operation presently.

3.5.5 **Exclusivity**

The concession rights granted to RXTW to operate in Yizheng is exclusive. The People's Government of Yizheng has undertaken not to grant the concession rights, wholly or partly, to any third party and will not approve the setting up of other WWTPs in the areas designated for RXTW.

3.5.6 Collection of Wastewater Treatment Fee

The wastewater treatment fee is collected from the People's Government of Yizheng, and the Finance Department of the People's Government of Yizheng has also undertaken to settle the treatment fee which has been delayed by the Government and make good for the shortfall of the treatment fee which has not been paid by the Government, if any.

3.6 Rights and Obligations to Expand the WWTP

The Purchaser has resolved to expand the WWTP from the present 25 MLD to 50 MLD upon completion of the Acquisition.

Total capital expenditure for the expansion was estimated at RMB20 million (approximately RM9.22 million), which will be financed entirely with bank borrowings.

An extension of up to 10 years for the concession period will be negotiated with the People's Government of Yizheng following the expansion.

4. **LIABILITIES TO BE ASSUMED BY THE PURCHASER**

Save for the liabilities stated in Paragraphs 3.4.4 (a) and 3.4.4 (b) herein, there are no other liabilities (including contingent liabilities and guarantees) to be assumed by the Purchaser, arising from the Acquisition.

5. **SOURCES OF FUNDS**

The Company will fund the Acquisition through internally generated funds and bank borrowings at the proportion of 40% and 60% respectively.

6. **RATIONALE AND PROSPECTS OF THE ACQUISITION**

The Acquisition is an integral part of the water integration scheme in Yizheng City and its neighbourhoods, and is in line with the expansion plan of core business activities of Salcon Group.

The Acquisition is expected to contribute to the medium and long term profitability and growth of Salcon Group.

7. **RISK FACTORS**

The risk factors for the Acquisition include but not limited to those associated with changes in the economic, political and regulatory conditions in the PRC such as changes to government policies and administration, interest rates, taxes and exchange control regulations.

8. **FINANCIAL EFFECTS OF THE ACQUISITION**

8.1 **Share Capital and Substantial Shareholders**

The Acquisition will not have any effect on the issued and paid-up share capital and substantial shareholding structure of the Company.

8.2 **Earnings per Share**

The Acquisition will not have any significant effect on the earnings per share of Salcon Group for the financial year ending 31 December 2010. The Acquisition is however expected to contribute positively to the future earnings of Salcon Group.

8.3 **Net Assets per Share**

The Acquisition will not have any significant effect on the earnings per share of Salcon Group for the financial year ending 31 December 2010.

8.4 **Gearing**

The Acquisition will increase the gearing of Salcon Group to 0.44 times from 0.36 times based on the latest audited consolidated financial statements of the Company for the financial year ended 31 December 2009.

9. **INTEREST OF DIRECTORS AND/OR MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED WITH THEM**

None of the Directors and/or major shareholders of the Company and/or persons connected with them, has any interest, direct or indirect, in the Acquisition.

10. **APPROVALS OF SHAREHOLDERS AND AUTHORITIES**

The Acquisition is not subject to the approval of shareholders. The Acquisition is however subject to the approval of the State Administration for Industry & Commerce of PRC and other relevant authorities in the PRC.

11. **STATEMENT BY DIRECTORS**

The Directors of the Company, having taken into consideration the rationale and all relevant aspects of the Acquisition, is of the opinion that the Acquisition is in the best interest of the Company and its shareholders.

12. **ESTIMATED TIME FRAME FOR COMPLETION**

Barring any unforeseen circumstances and subject to the approval of the relevant authorities in the PRC being obtained, the Acquisition is expected to be completed within 45 days from the date of the ETA, unless otherwise extended.

13. **HIGHEST PERCENTAGE RATIO APPLICABLE**

The highest percentage ratio applicable to the Acquisition based on the latest audited consolidated financial statements of the Company for the financial year ended 31 December 2009 pursuant to Chapter 10 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad is 7%.

15. **DOCUMENTS FOR INSPECTION**

A copy of the ETA is available for inspection at the Company's registered office at 15th Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP, Subang Jaya, Selangor during normal office hours from Mondays to Fridays (except public holidays) for a duration of 3 months from the date of this announcement.