

**SALCON BERHAD ("SALCON" OR THE "COMPANY")  
SUPPLEMENTAL AGREEMENT TO THE TRANSFER-OPERATE-TRANSFER ("TOT")  
AGREEMENT BETWEEN THE PEOPLE'S GOVERNMENT OF CHANGLE COUNTY  
("PGCC") AND SHANDONG CHANGLE SALCON WATER COMPANY LIMITED  
("SCSW"), A WHOLLY-OWNED SUBSIDIARY OF SALCON SHANDONG (HK) LIMITED,  
A SUBSIDIARY OF SALCON BERHAD.**

**1. INTRODUCTION**

Further to the announcements on 26 April 2005 and 7 December 2005, the Board of Directors of Salcon wishes to announce that on 23 January 2013, SCSW has entered into a Supplemental Agreement to the TOT Agreement ("**Supplemental Agreement**") with PGCC for the purpose of upgrading the Changle Salcon Wastewater Treatment Plant to inter-alia ensure that the effluent quality standards meet the waste water discharge standards of Class 1A as required by the Weifang Environmental Bureau ("**the Upgrading Project**").

SCSW's principal activities consist of upgrading, building, operating and managing potable water and wastewater treatment plants in Changle County, as well as the water distribution system, sale and production of domestic and industrial water in Changle County.

The Supplemental Agreement was signed by SCSW as all the rights under the agreement signed by Salcon Water (HK) Limited, the previous holding company of SCSW, with PGCC earlier has been automatically transferred to the operating company i.e. SCSW.

**2. SALIENT TERMS OF THE SUPPLEMENTAL AGREEMENT**

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

- a. The purpose of the Upgrading Project is to ensure that the effluent quality standards meet the required standards of "Discharge standard of pollutants for municipal wastewater treatment plant (GB18918-2002)" ("**the Standard**"), of Class 1A (from Class 1B currently).
- b. Upon the completion of the Upgrading Project, the wastewater treatment capability shall increase from 40,000m<sup>3</sup> per day to 52,000m<sup>3</sup> per day.

- c. SCSW will be responsible for all the processes required for the implementation of the Upgrading Project i.e. environmental impact assessment, bidding, construction and etc. SCSW is required to fulfill all the responsibilities and obligations stated in the Supplemental Agreement in order to continue to enjoy the benefits of the TOT Agreement.
- d. The Upgrading Project is expected to be completed before 31 May 2013 and meets the Class 1A of the Standard as required by the Weifang Environmental Bureau.
- e. The Upgrading Project will not affect the duration of the existing TOT Agreement. The TOT has a concession period of 30 years.
- f. With retrospective 1 January 2012, the wastewater treatment service fee is increased from RMB0.80 per m<sup>3</sup> to RMB1.16 per m<sup>3</sup>. The difference arising therefrom shall be payable by PGCC to SCSW before 30 June 2013. Upon the effluent quality standards meeting Class 1A of the Standard, the wastewater treatment service fee shall be increased from RMB1.16 per m<sup>3</sup> to RMB1.84 per m<sup>3</sup>.
- g. The total investment cost of the Upgrading Project is approximately RMB22,950,000 (equivalent to approximately RM11.3 million).

### **3. SOURCE OF FUND**

The total investment cost will be borne by SCSW and will be funded through internally generated funds and bank borrowings, the actual breakdown of which could not be quantified at this juncture.

### **4. FINANCIAL EFFECTS OF THE SUPPLEMENTAL AGREEMENT**

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

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

#### **4.2 Earnings per share**

The Upgrading Project will not have any significant effect on the earnings per share of Salcon Group for the financial year ending 31 December 2013.

#### 4.3 Net Assets

The Upgrading Project will not have any significant effect on the net assets per share of Salcon Group for the financial year ending 31 December 2013.

#### 4.4 Gearing

The Upgrading Project will increase the gearing of Salcon Group to 0.18 times from 0.16 times based on the latest audited consolidated financial statements of the Company for the financial year ending 31 December 2011.

### **5. 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 Supplemental Agreement.

### **6. DIRECTORS' STATEMENT**

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

### **7. APPROVALS REQUIRED**

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

This announcement is dated 25 January 2013.