

Reply to Bursa Malaysia Securities Berhad's ("Bursa Malaysia") letter dated 29 April 2013 (Re: YL-130429-55073)

PROPOSED ACQUISITION BY SALCON BERHAD OF 10,307,383 ORDINARY SHARES OF S\$1.00 EACH FULLY PAID IN SALCON DARCO ENVIRONMENTAL PTE LTD (FORMERLY KNOWN AS DARCO ENVIRONMENTAL PTE LTD), REPRESENTING THE REMAINING 40% OF THE TOTAL ISSUED AND PAID-UP SHARE CAPITAL OF SALCON DARCO ENVIRONMENTAL PTE LTD (FORMERLY KNOWN AS DARCO ENVIRONMENTAL PTE LTD) FROM DARCO WATER TECHNOLOGIES LTD ("PROPOSED ACQUISITION")

[Unless otherwise stated, all abbreviations used herein shall have the same meaning as those mentioned in the announcement dated 26 April 2013 in relation to the Proposed Acquisition ("Announcement")]

The Board of Directors of Salcon Berhad ("Salcon" or "the Company") wishes to furnish herewith the following additional information as requested in the aforementioned letter from Bursa Malaysia:-

1. The Original Cost of Investment by Darco Water Technologies Ltd in SDE Group and date of such investment

The cost of investment as per the paid-up capital subscribed by Darco Water Technologies Ltd in SDE Group is RM65,052,474.00. However, the date of such investment is not privy to Salcon.

2. The Date on which the deposit of RMB9,450,000.00 was paid to Darco Water Technologies Ltd

The deposit of RMB9,450,000.00 was paid on 27 February 2013

3. The definition of Termination Event pursuant to the Sale and Purchase Agreement

The definition of Termination Event as per the SPA is as follows:-

- (a) In the case of Darco Water Technologies Ltd, any
 - (i) event, matter or circumstance which could give rise to a breach of any of the warranties;
 - (ii) fire, flood, accident, computer failure or other calamity occurring after the execution of the SPA and having a Material Adverse Effect on any company under SDE Group ("**Group Company**");
 - (iii) act of fraud on the part of Darco Water Technologies Ltd or any director of a Group Company appointed by and representing Darco Water Technologies Ltd;

- (iv) loss by Deqing Darco Producing Water Co. Ltd or Deqing Huanzhong Producing Water Co. Ltd of any rights, awards, benefits or privileges granted or purported to be granted under any relevant concession agreement or any other project documents to which it is a party or under which it derives any benefit, provided such loss is not a direct or indirect result of any action or omission on the part of Salcon or carried out on the instructions or with the consent of Salcon;
- (v) termination or discontinuation of, or any bona fide threat of termination or discontinuation of, any project document or any bona fide challenge to the validity of any project document being asserted in writing against any Group Company (whether by any counterparty, relevant authority or otherwise), provided such termination or discontinuation or threat of termination or discontinuation is not a direct or indirect result of any action or omission on the part of Salcon or carried out on the instructions or with the consent of Salcon;
- (vi) event, matter or circumstance which affects or is likely to affect in an adverse manner the business, operations, assets, insurance, management, properties, position (financial, trading or otherwise), profits or prospects of Darco Water Technologies Ltd's Group or any Group Company;

provided that any such Termination Event or Termination Events (referred to in sub-paragraphs (i) to (vi) above) when taken together has had or is reasonably likely to have a Material Adverse Effect; and

- (b) In the case of Salcon, any:
 - (i) event, matter or circumstance which constitutes a material breach of the SPA by Salcon; or
 - (ii) event, matter or circumstance which materially affects or is likely to affect materially the ability of Salcon to perform its obligations at Completion;

The definition of Material Adverse Effect as per the SPA is as follows:-

Means an adverse effect on the business, assets, properties, liabilities, results of operations, revenues or financial condition of SDE Group or any Group Company, or prospects of the Group or any Group Company, that constitutes or results or may reasonably be expected to constitute or result in losses equal to at least RMB10,000,000 in aggregate and, for the purposes of deciding whether a Termination Event shall have a Material Adverse Effect, Salcon shall not be required to take into account the existence or otherwise of any insurance against the whole or any part of the losses resulting from the Termination Event.

In addition to the above and further to the Announcement, the Board of Directors of Salcon wishes to inform/clarify on the following:-

1. Percentage Ratios

As the initial 60% equity interest in SDE was acquired by Salcon on 21 May 2012 and pursuant to Paragraph 10.12 of the Main Market Listing Requirements of Bursa Malaysia and Practice Note 14 (Principle of Aggregation for Transactions), the highest percentage ratio applicable is 24.79%.

2. Approvals Required

The Proposed Acquisition is not subject to the approval of Salcon's shareholders. However, it is subject to the approval of the shareholders of Darco Water Technologies Ltd and consent from relevant authority such as national or state governmental bodies, authorities, public and industry regulatory authorities, or political subdivision thereof, if required.

3. Other Information

The net loss of SDE disclosed earlier in the Announcement was at the company level and not the group consolidated result. Deqing Huanzhong Producing Water Co. Ltd, which is a subsidiary of SDE is a profit making company contributes positively to the profit and revenue of the SDE Group. Further, the water treatment plant of Deqing Darco Producing Co. Ltd, also a subsidiary of SDE, has commenced commercial production of water effective from 1 January 2012 will also contribute positively to the profit and cashflow of SDE Group.