

SALCON BERHAD (“SALCON” OR THE “COMPANY”)

PROPOSED DISPOSALS OF THE ENTIRE EQUITY INTERESTS HELD IN THE FOLLOWING:

- (I) SALCON DARCO ENVIRONMENTAL PTE LTD;
- (II) SALCON JIANGSU (HK) LIMITED;
- (III) SALCON FUJIAN (HK) LIMITED;
- (IV) SALCON ZHEJIANG (HK) LIMITED;
- (V) SALCON LINYI (HK) LIMITED; AND
- (VI) SALCON SHANDONG (HK) LIMITED.

(“PROPOSED DISPOSALS”)

All terms and expressions used herein shall have the same meaning as those used in the Company’s announcement dated 12 September 2013 in relation to the Proposed Disposals, unless stated otherwise.

We refer to the Company’s announcement dated 12 September 2013 made by Hong Leong Investment Bank Berhad (“**HLIB**”) on behalf of the Company in relation to the Proposed Disposals.

On behalf of the Board of Directors of Salcon (“**Board**”), HLIB wishes to inform that the Company proposes to vary the utilisation of proceeds to be received from the Proposed Disposals, to include a proposed distribution of part of the proceeds from the Proposed Disposals to shareholders of Salcon. The tables below illustrate the breakdown of the proposed utilisation of proceeds from the Proposed Disposals:

Table 1: Utilisation of proceeds as per announcement dated 12 September 2013

Description	Amount	Timeframe for the utilisation of proceeds
	(RM’000)	
Future investments	263,000	Within 24 months
Repayment of borrowings	102,400	Within 6 months
Working capital	20,237	Within 24 months
Defraying expenses incidental to the Proposed Disposals	1,200	Within 3 months
Total	<u>^386,837</u>	

Note:

[^] *The total proceeds from the Proposed Disposals attributable to Salcon (including repayment of shareholders’ advances of RMB47.0 million) are RMB712.80 million (equivalent to RM386.84 million based on the the published foreign exchange middle rate on 6 September 2013 of RMB1.00 : RM0.5427 from Bank Negara Malaysia).*

Table 2: Proposed variation to the utilisation of proceeds

Description	Note	Amount	Timeframe for utilisation of proceeds from the date of completion of the Proposed Disposals
		(RM’000)	
Future investments	1	230,000	Within 24 months
Repayment of borrowings	2	97,540	Within 6 months
Distribution to shareholders of Salcon	3	30,000	Within 12 months
Working capital	4	10,397	Within 24 months
Defraying expenses incidental to the Proposed Disposals	5	1,437	Within 3 months
Total	*	<u>369,374</u>	

Notes:

- * The total proceeds from the Proposed Disposals attributable to Salcon (including repayment of shareholders' advances of RMB47.0 million) are RMB712.80 million (equivalent to RM369.37 million based on the the published foreign exchange middle rate on 31 October 2013 of RMB1.00 : RM0.5182 from Bank Negara Malaysia). The actual proceeds to be received from the Proposed Disposals are subject to adjustments in accordance with the terms of the SPAs. The details on the proceeds from the Proposed Disposals are as follows:

	Amount	
	(RMB'million)	(RM'million)
SPA-A		
Proposed disposal of Salcon Darco and Salcon Jiangsu	307.0	159.09
SPA-B		
Proposed disposal of Salcon Fujian, Salcon Zhejiang, Salcon Linyi and Salcon Shandong	648.0	335.79
(Less): Assuming repayment of shareholders' advances ¹	(50.0)	(25.91)
Total	598.0	309.88
Net proceeds attributable to the following for SPA-B:		
Salcon and Salcon Water (60%)	358.8	185.93
EMIF (40%)	239.2	123.95
Total	598.0	309.88
Proceeds from the Proposed Disposals which are attributable to the Salcon Group are as follows:		
- SPA-A	307.0	159.09
- SPA-B	358.8	185.93
- Repayment of shareholders' advances	47.0	24.35
Total	712.8	369.37

- (1) The Group expects to utilise the proceeds for future investments which has yet to be identified as at the 31 October 2013. The proposed investment activities may include acquisition of strategic investments and/or strategic collaborations, joint ventures or alliances. The proposed investment activities may or may not be in similar or complementary industries to the Group's existing businesses. In the event shareholders' approval is required pursuant to the Main Market Listing Requirements for the strategic investments and/or strategic collaborations, joint ventures or alliances, such approval will be sought as per the provisions of the Main Market Listing Requirements. Any excess/shortfall in the actual amount to be utilised for future investments would be adjusted to/from working capital.
- (2) The Group's total bank borrowings as at the 31 October 2013 is approximately RM352.92 million. The proposed repayment of part of the Group's bank borrowings amounting to RM97.54 million is expected to contribute to interest savings of approximately RM5.30 million per annum based on the average interest rate of 5.44% per annum. Details are as below:

Name of financial institution	Type of facility	Total amount outstanding as at the 31 October 2013	Amount to be repaid from the proceeds received	Average interest rates per annum	Interest expense per annum
		(RM'000)	(RM'000)	(%)	(RM'000)
Standard Chartered Bank Malaysia Berhad	Term loan	97,540	97,540	5.44	5,302

- (3) It is the intention of the Board to distribute part of the proceeds from the Proposed Disposals, of up to RM30.0 million to the shareholders of Salcon via a special dividend or other means, such as capital repayment, the method of which will be determined at a later stage, after taking into consideration, amongst others, the actual proceeds to be received from the Proposed Disposals ("**Proposed Distribution**"). The method of the Proposed Distribution is subject to the approval by the Board and an announcement in accordance with the Main Market Listing Requirements will be made by the Company once the method of distribution is finalised and the Board's approval is obtained. The Company will also seek the relevant approvals for the Proposed Distribution, if required. Any excess in the actual amount utilised for the Proposed Distribution, would be adjusted to working capital.

¹ The shareholders advances of RMB47.0 million (equivalent to RM24.35 million) and RMB3.0 million (equivalent to RM1.56 million) from Salcon and EMIF (which own 40% equity interest in Salcon Water), respectively to Salcon Water was provided between January 2012 to May 2013 and utilised to fund the increase in project/construction costs for the raw water transfer projects in Nan An City and Changle County. The shareholders advances have no fixed repayment terms, are repayable on demand, do not bear any interest and is unsecured. As at the 31 October 2013, the total amount owing by Salcon Water to Salcon and EMIF are RMB47.0 million and RMB3.0 million, respectively.

- (4) Working capital requirements for the Group include day-to-day operations to support the Group's existing business operations which shall include, but not limited to, the payment of trade and other payables, and management, employees and marketing expenses. The breakdown of proceeds to be utilised for each component of working capital has not been determined at this juncture. Moreover, the actual amount to be utilised by each component of working capital may differ subject to the operating requirements at the time of utilisation.
- (5) The estimated expenses in relation to the Proposed Disposals comprising professional fees such as the adviser and lawyers, regulatory fees and other related costs. Any excess/shortfall in the actual amount to be utilised for defraying the estimated expenses relating to the Proposed Disposals would be adjusted to/from working capital. The breakdown of the estimated expenses are as follows:

	RM'000
Professional fees	1,200
Fees to be paid to relevant authorities	30
Miscellaneous expenses, which includes printing, advertising and estimated costs for the forthcoming Extraordinary General Meeting	207
Total	<u>1,437</u>

The actual proceeds from the Proposed Disposals will depend on the final consideration to be determined as set out in Sections 2.3.1 and 2.4.1 of the announcement dated 12 September 2013. Any difference between the actual proceeds received from the Proposed Disposals and the Disposal Consideration will be adjusted accordingly to the proceeds earmarked for future investments.

Pending the utilisation of the proceeds by Salcon, the proceeds will be placed in interest-bearing deposit accounts with financial institutions or short-term money market instrument(s) as the Board may deem fit.

This announcement is dated 11 November 2013.