

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.
-

1. INTRODUCTION

On behalf of the Board of Directors of Salcon (“**Board**”), Hong Leong Investment Bank Berhad (*formerly known as MIMB Investment Bank Berhad*) (“**HLIB**”), wishes to announce that the Company had on 12 September 2013 entered into the following agreements:

- (i) conditional sale and purchase agreement between Salcon and Beijing Enterprises Water Group Limited (“**BEWG**” or “**Purchaser**”) for the proposed disposals by Salcon of the entire equity interests held in Salcon Darco Environmental Pte Ltd (“**Salcon Darco**”) and Salcon Jiangsu (HK) Limited (“**Salcon Jiangsu**”) to BEWG (“**SPA-A**”); and
- (ii) conditional sale and purchase agreement between Salcon, Salcon Water (Asia) Limited, a 60%-owned subsidiary of Salcon (“**Salcon Water**”) and BEWG for the proposed disposals by Salcon and Salcon Water of the entire equity interests held in Salcon Fujian (HK) Limited (“**Salcon Fujian**”), Salcon Zhejiang (HK) Limited (“**Salcon Zhejiang**”), Salcon Linyi (HK) Limited (“**Salcon Linyi**”) and Salcon Shandong (HK) Limited (“**Salcon Shandong**”) to BEWG (“**SPA-B**”)

for a total cash consideration of RMB955.0 million (equivalent to approximately RM518.28 million) (“**Disposal Consideration**”) (“**Proposed Disposals**”).

*For the purpose of this announcement, the published foreign exchange middle rate on 6 September 2013 of Chinese Renminbi (“**RMB**”) RMB1.00 : RM0.5427 from Bank Negara Malaysia is used, unless otherwise indicated.*

2. PROPOSED DISPOSALS

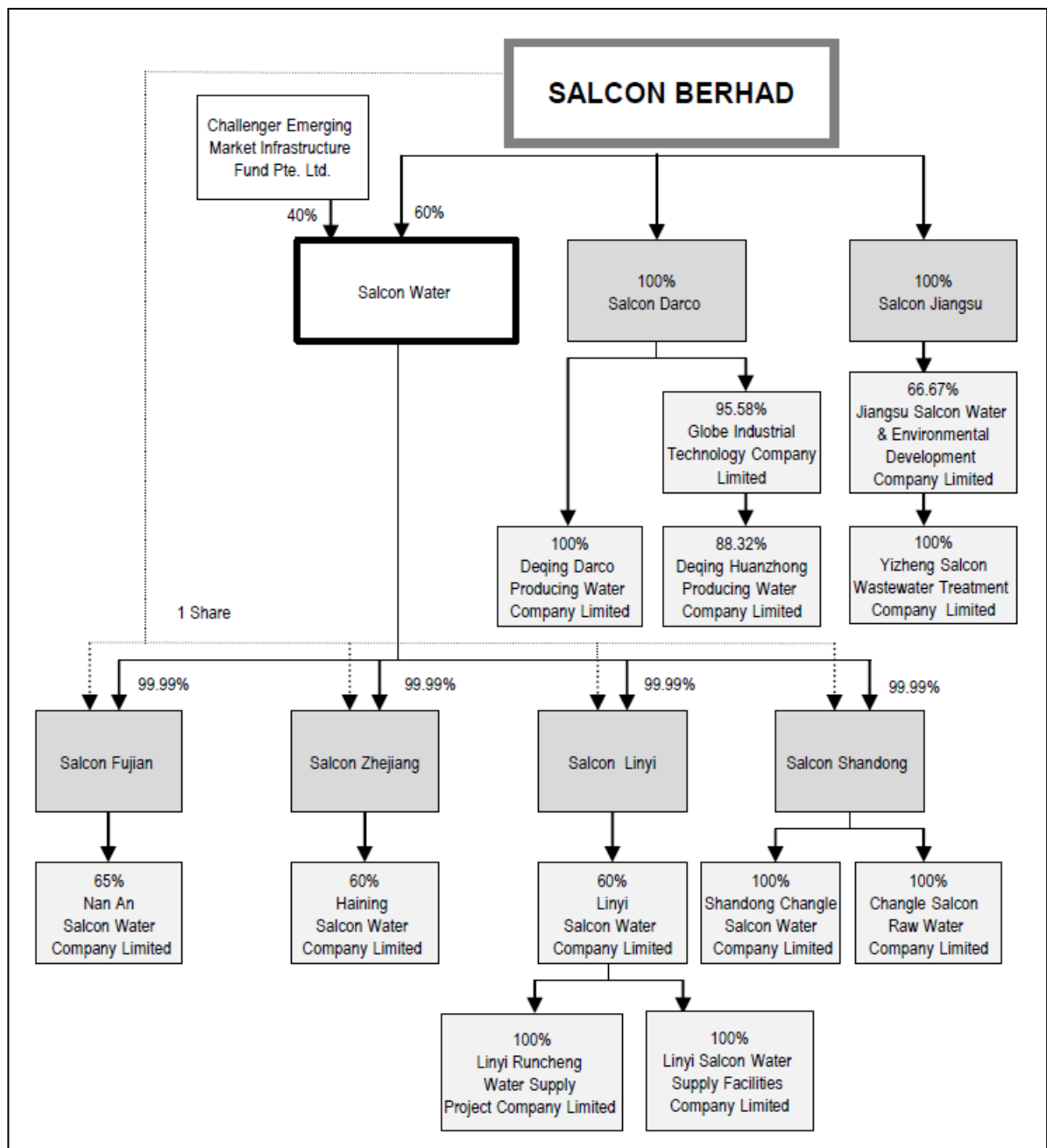
2.1 Details of the Proposed Disposals

The Proposed Disposals involve the following:

- (i) proposed disposal by Salcon of 25,768,459 shares of SGD1.00 each in Salcon Darco, representing the entire issued and paid-up share capital of Salcon Darco to BEWG for a cash consideration of RMB212.0 million (equivalent to approximately RM115.05 million);
- (ii) proposed disposal by Salcon of 1,000 shares of USD1.00 each in Salcon Jiangsu, representing the entire issued and paid-up share capital of Salcon Jiangsu to BEWG for a cash consideration of RMB95.0 million (equivalent to approximately RM51.56 million);
- (iii) proposed disposal by Salcon Water of 84,617,949 shares of HKD1.00 each in Salcon Fujian, representing 99.99% of the issued and paid-up share capital of Salcon Fujian and proposed disposal by Salcon of 1 share of HKD1.00 each in Salcon Fujian, representing 0.01% of the issued and paid-up share capital of Salcon Fujian, to BEWG for a total cash consideration of RMB88.0 million (equivalent to approximately RM47.76 million);
- (iv) proposed disposal by Salcon Water of 61,829,944 shares of HKD1.00 each in Salcon Zhejiang, representing 99.99% of the issued and paid-up share capital of Salcon Zhejiang and proposed disposal by Salcon of 1 share of HKD1.00 each in Salcon Zhejiang, representing 0.01% of the issued and paid-up share capital of Salcon Zhejiang, to BEWG for a total cash consideration of RMB150.0 million (equivalent to approximately RM81.41 million);

- (v) proposed disposal by Salcon Water of 40,345,801 shares of HKD1.00 each in Salcon Linyi, representing 99.99% of the issued and paid-up share capital of Salcon Linyi and proposed disposal by Salcon of 1 share of HKD1.00 each in Salcon Linyi, representing 0.01% of the issued and paid-up share capital of Salcon Linyi, to BEWG for a total cash consideration of RMB130.0 million (equivalent to approximately RM70.55 million); and
- (vi) proposed disposal by Salcon Water of 127,488,970 shares of HKD1.00 each in Salcon Shandong, representing 99.99% of the issued and paid-up share capital of Salcon Shandong and proposed disposal by Salcon of 1 share of HKD1.00 each in Salcon Shandong, representing 0.01% of the issued and paid-up share capital of Salcon Shandong, to BEWG for a total cash consideration of RMB280.0 million (equivalent to approximately RM151.96 million).

Salcon Darco, Salcon Jiangsu, Salcon Fujian, Salcon Zhejiang, Salcon Linyi and Salcon Shandong are collectively referred to as the “**Target Companies**”. The existing corporate structure of the Target Companies is as follows:



2.2 Basis and justification of arriving at the Disposal Consideration

The Disposal Consideration of RMB955.0 million (equivalent to approximately RM518.28 million) was arrived at on a willing-buyer willing-seller basis after taking into consideration the respective valuations of the concessions held by certain subsidiary(ies) of the Target Companies ("**Concessions**") based on a discounted cash flow method of valuation which essentially discounts the projected net cash flows of the Concessions over the respective concession periods at a discount rate of approximately 10%.

2.3 Salient terms of SPA-A

2.3.1 Payment Terms

Salcon shall sell as beneficiary owner and BEWG shall purchase the entire issued and paid up capital of Salcon Darco and Salcon Jiangsu ("**Sale Shares-A**") respectively for a total consideration of RMB307.0 million ("**Consideration-A**") free from all encumbrances and with all rights attaching thereto.

The Consideration-A shall be paid in the following manner:-

- (i) within 3 business days from the Purchaser's receipt of the notification on the account details issued by Salcon, the deposit for the sum of RMB30,700,000 ("**Deposit-A**") shall be paid by BEWG to Salcon;
- (ii) on completion of the SPA-A ("**Completion-A**") that takes place on the 3rd business day after the date on which the fulfilment or waiver of the Conditions as defined in paragraph 2.3.2 below (other than the completion of the SPA-B) or such other date the parties may agree in writing ("**Completion Date-A**"), the amount of RMB268,300,000 ("**Second Payment-A**") shall be paid by BEWG to Salcon; and
- (iii) BEWG shall hold back RMB8,000,000 and pay the same to Salcon after the deductions allowed under the SPA-A, if any, within 10 business days after 9 months following the Completion-A.

The Second Payment-A is subject to the adjustment calculated on the following basis:

- (a) As at 31 May 2013, the difference between the total liabilities amount and the current assets value of Salcon Darco, Salcon Jiangsu and their respective subsidiaries (collectively "**Target Companies-A**" and each "**Target Company-A**") (after deduction of minority interests) was RMB29,540,000 ("**Benchmark-A**").
- (b) Where as at the last date of the month immediately preceding the Completion Date-A ("**Completion Management Accounts Date-A**"), the total liabilities amount of all the Target Companies-A (after deduction of minority interests) exceeds the current assets value of all the Target Companies-A (after deduction of minority interests) by more than the Benchmark-A, the Second Payment-A shall be calculated in the following manner:

Adjusted Second Payment-A = total liabilities amount - current assets value - Benchmark-A.
- (c) Where as at the Completion Management Accounts Date-A, the total liabilities amount of all the Target Companies-A (after deduction of minority interests) exceeds the current assets value of all the Target Companies-A (after deduction of minority interests) by less than the Benchmark-A, the Second Payment-A shall be calculated in the following manner:

Adjusted Second Payment-A = Benchmark-A + current assets value - total liabilities amount.

In the event that:

- (a) the Completion-A not having taken place after all of the Conditions as defined in paragraph 2.3.2 below have been satisfied or waived and Salcon having fully performed all its obligations under the SPA-A but solely due to failure on the part of BEWG to comply with its obligations under the Completion-A, then Salcon shall be entitled to retain the Deposit-A;
- (b) the Completion-A not having taken place solely due to the breach of the Condition stated in paragraph 2.3.2(iii) below, then Salcon shall be entitled to retain the Deposit-A;
- (c) completion of the Conditions set out in paragraph 2.3.2 (v), (vi) and (viii) below in respect of any Target Company-A ("**Given Up Target-A**") not having taken place due to the circumstances contemplated in paragraph 2.3.3 below, then Salcon shall return to BEWG the Deposit-A in respect of the Given Up Target-A within 3 Business Days after the completion for the Sale Shares-A of the other Target Companies-A; and
- (d) the sale and purchase of the Sale Shares-A is not completed, or the SPA-A is terminated, for any other reason, Salcon shall pay to BEWG an amount equivalent to two times the amount of the Deposit-A within 3 Business Days after the date of termination of the SPA-A.

2.3.2 Conditions

The sale and purchase of the Sale Shares-A shall be conditional upon the fulfillment (or waiver) prior to 15 January 2014 or such other date as the parties may agree to extend:-

- (i) the passing of resolutions by the shareholders of Salcon in a general meeting for the disposal of the Sale Shares-A to BEWG;
- (ii) no material breach of any of Salcon's warranties in the SPA-A;
- (iii) BEWG's warranties in the SPA-A remaining true and correct;
- (iv) no breach of any of Salcon's obligations, covenants, undertakings and agreements in SPA-A or of any of Salcon and Salcon Water's obligations, covenants, undertakings and agreements in SPA-B which remain unrectified and in aggregate will result in (x) a decrease in the asset value of, (y) an expense that may be incurred by, or (z) a loss that may be suffered by, the Target Companies-A and the Target Companies-B under the SPA-B taken as a whole, of an amount more than RMB50,000,000 as reasonably estimated by BEWG;
- (v) no statute, regulation or decision which would prohibit, restrict or materially delay the sale and purchase of the Sale Shares-A or the operation of any Target Company-A having been proposed, enacted or taken by any governmental or official authority;
- (vi) Salcon and/or the Target Companies-A having notified in writing to and duly acknowledged receipt of the said notification without any objection by the relevant local governmental or official authorities and the joint venture partners of the Target Companies-A on the transactions under the SPA-A;
- (vii) Salcon shall give access to the information and books and operational matters of the Target Companies-A in accordance with the terms and conditions of the SPA-A;
- (viii) no force majeure event having occurred;
- (ix) the management accounts of the Target Companies-A having been generated in accordance with the terms and conditions of the SPA-A; and
- (x) the SPA-B having been completed.

2.3.3 In the event that any of the Given Up Target-A shall not have been fulfilled or waived prior to 15 January 2014 (or such other agreed extension for Completion-A by the parties), then the parties shall proceed with the Completion-A in respect of the Sale Shares-A for other platform companies and the Second Payment-A shall be reduced by the amount of consideration for the Sale Shares-A of such Given Up Target-A, less the amount of the Deposit-A paid in respect of such Given Up Target-A.

2.3.4 Completion

Completion of the SPA-A shall take place on the Completion Date-A and shall occur immediately following and on the same day as the completion of the SPA-B.

2.4 Salient terms of SPA-B

2.4.1 Payment Terms

Salcon and Salcon Water (collectively "**Vendors**") shall sell as beneficiary owner and BEWG shall purchase the issued and paid-up share capital of Salcon Fujian, Salcon Zhejiang, Salcon Linyi and Salcon Shandong ("**Sale Shares-B**") respectively for a total consideration of RMB648.0 million ("**Consideration-B**") free from all encumbrances and with all rights attaching thereto.

The Consideration-B shall be paid in the following manner:-

- (i) within 3 business days from the Purchaser's receipt of the notification on the account details issued by the Vendors, the deposit for the sum of RMB64,800,000 ("**Deposit-B**") shall be paid by BEWG to the Vendors;
- (ii) on completion of the SPA-B ("**Completion-B**") that takes place on the 3rd business day after the date on which the fulfilment or waiver of the Conditions as defined in paragraph 2.4.2 below or such other date the parties may agree in writing ("**Completion Date-B**"), the amount of RMB527,300,000 ("**Second Payment-B**") shall be paid by BEWG to the Vendors;
- (iii) BEWG shall hold back RMB17,000,000 and pay the same to the Vendors after the deductions allowed under the SPA-B, if any, within 10 business days after 9 months following the Completion-B;
- (iv) within 5 business days after the Vendors have fully complied with its obligations in the Changle Project referred to in paragraph 2.4.4(a) below, BEWG shall pay to the Vendors an amount of RMB11,000,000;
- (v) within 5 business days after the completion of the Pipeline Acquisition referred to in paragraph 2.4.4(b) below, BEWG shall pay to the Vendors an amount of RMB11,000,000; and
- (vi) within 5 business days after the Vendors providing reasonable proof on the Water Tariff Increment referred to in paragraph 2.4.4(c) below, BEWG shall pay to the Vendors an amount of RMB16,900,000.

The Second Payment-B is subject to the adjustment calculated on the following basis:

- (a) As at 31 May 2013, the difference between the total liabilities amount and the current assets value of Salcon Fujian, Salcon Zhejiang, Salcon Linyi and Salcon Shandong and their respective subsidiaries (collectively "**Target Companies-B**" and each "**Target Company-B**") (after deduction of minority interests) was RMB266,050,000 ("**Benchmark-B**").
- (b) Where as at the last date of the month immediately preceding the Completion Date-B ("**Completion Management Accounts Date-B**"), the total liabilities amount of all the Target Companies-B (after deduction of minority interests) exceeds the current assets value of all the Target Companies-B (after deduction of minority interests) by more than the Benchmark-B, the Second Payment-B shall be calculated in the following manner:

Adjusted Second Payment-B = total liabilities amount - current assets value – Benchmark-B.

- (c) Where as at the Completion Management Accounts Date-B, the total liabilities amount of all the Target Companies-B (after deduction of minority interests) exceeds the current assets value of all the Target Companies-B (after deduction of minority interests) by less than the Benchmark-B, the Second Payment-B shall be calculated in the following manner:

Adjusted Second Payment-B = Benchmark-B + current assets value – total liabilities amount.

In the event that:

- (a) the Completion-B not having taken place after all of the Conditions as defined in paragraph 2.4.2 below have been satisfied or waived and the Vendors having fully performed all its obligations under the SPA-B but solely due to failure on the part of BEWG to comply with its obligations under the Completion-B, then the Vendors shall be entitled to retain the Deposit-B;
- (b) the Completion-B not having taken place solely due to the breach of the Condition stated in paragraph 2.4.2(a)(iii) below, then the Vendors shall be entitled to retain the Deposit-B;
- (c) completion of the Conditions set out in paragraph 2.4.2(a)(vi), (vii) and (ix) below in respect of any Target Company-B (“**Given Up Target-B**”) not having taken place due to the circumstances contemplated in paragraph 2.4.3 below, then Salcon shall return to BEWG the Deposit-B in respect of the Given Up Target-B within 3 Business Days after the completion for the Sale Shares-B of the other Target Companies-B; and
- (d) the sale and purchase of the Sale Shares-B is not completed, or the SPA-B is terminated, for any other reason, Salcon shall pay to BEWG an amount equivalent to two times the amount of the Deposit-B within 3 Business Days after the date of termination of the SPA-B.

2.4.2 Conditions

- (a) The sale and purchase of the Sale Shares shall be conditional upon the fulfillment (or waiver) prior to 15 January 2014 or such other date as the parties may agree to extend:-
- (i) the passing of resolutions by the shareholders of Salcon in a general meeting for the disposal of the Sale Shares-B to BEWG;
- (ii) no material breach of any of the Vendors’ warranties in SPA-B;
- (iii) BEWG’s warranties in SPA-B remaining true and correct;
- (iv) no breach of any of the Vendors’ obligations, covenants, undertakings and agreements in SPA-B or of any of Salcon’s obligations, covenants, undertakings and agreements in SPA-A which remain unrectified and in aggregate will result in (1) a decrease in the asset value of, (2) an expense that may be incurred by, or (3) a loss that may be suffered by, the Target Companies-B and the Target Companies-A under the SPA-A taken as a whole, of an amount more than RMB50,000,000 as reasonably estimated by BEWG;
- (v) the delivery to BEWG of a written consent from Challenger Emerging Market Infrastructure Fund Pte Ltd to the performance of the obligations by Salcon Water in SPA-B;
- (vi) no statute, regulation or decision which would prohibit, restrict or materially delay the sale and purchase of the Sale Shares-B or the operation of any Target Company-B having been proposed, enacted or taken by any governmental or official authority;
- (vii) the Vendors and/or the Target Companies having notified in writing to and duly acknowledged receipt of the said notification without any objection by the relevant local governmental or official authorities and the joint venture partners of the Target Companies-B on the transactions under the SPA-B;

- (viii) the Vendors shall give access to the information and books and operational matters of the Target Companies-B in accordance with the terms and conditions of the SPA-B;
- (ix) no force majeure event having occurred; and
- (x) the management accounts of the Target Companies-B having been generated in accordance with the terms and conditions of the SPA-B.

2.4.3 In the event that any of the Given Up Target-B shall not have been fulfilled or waived prior to 15 January 2014 (or such other agreed extension for Completion-B by the parties), then the parties shall proceed with the Completion-B in respect of the Sale Shares-B for other platform companies and the Second Payment-B shall be reduced by the amount of consideration for the Sale Shares-B of such Given Up Target-B, less the amount of the Deposit-B paid in respect of such Given Up Target-B.

2.4.4 Projects

- (a) The Vendors shall, at their own cost and expense use best endeavours to procure that Shandong Changle Salcon Water Company Limited (山东昌乐实康水业有限公司) completes, prior to the date falling three months after the date of the SPA-B, upgrading work at the Changle sewage treatment plant such that upon completion of the upgrading work, treated water of the Changle sewage treatment plant shall be ready for commercial operation and be of 1A standard (an upgrade from its existing classification of 1B standard) (the "**Changle Project**"), and deliver the project final accounts and the final acceptance report for the Changle Project to BEWG upon completion of the Changle Project. The Changle Project shall be completed by the date falling three months after the date of the SPA-B (or if the Vendors exercise their right to extend such period to six months).
- (b) The Vendors shall (i) procure that Nan An Salcon Water Company Limited (南安实康水务有限公司) shall complete the acquisition of the raw water transmission pipeline starting at Houqiao Reservoir (后桥水库) and ending at Guanqiao Water Plant (官桥水厂) (the "**Pipeline Acquisition**") within 9 months after the date of the SPA-B; (ii) pay or procure the payment of the consideration of the Pipeline Acquisition; and (iii) procure that the raw water transmission pipeline shall be acquired free from encumbrances.
- (c) The Vendors shall procure that Nan An Salcon Water Company Limited (南安实康水务有限公司) increases water tariff for Project of Fujian Nan An Raw Water Plant (福建南安原水项目) ("**Water Tariff Increment**") from RMB 1.03/ton within 9 months after the date of the SPA-B.

2.4.5 Completion

Completion of the SPA-B shall take place on the Completion Date-B and completion of the SPA-A shall take place on the same day.

THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK
--

2.5 Original cost and date of investment

The original cost and date of investment for Salcon Darco and Salcon Jiangsu, respectively by Salcon are as follows:

Company	Date of investment	Cost of investment (RM'000)
Salcon Darco	8 August 2012	47,848
	26 July 2013	32,687
		<u>80,535</u>
Salcon Jiangsu	28 December 2004	7
	⁽¹⁾	40,460
		<u>40,467</u>

Note:

(1) Advances from Salcon and a subsidiary to be capitalised upon completion of the Proposed Disposals.

The original cost and date of investment for Salcon Fujian, Salcon Zhejiang, Salcon Linyi and Salcon Shandong, respectively by Salcon Water are as follows:

Company	Date of investment	Cost of investment (HKD'000)
Salcon Fujian	30 July 2007	⁽¹⁾
	12 January 2011	84,618
		<u>84,618</u>
Salcon Zhejiang	30 June 2006	⁽¹⁾
	12 January 2011	61,830
		<u>61,830</u>
Salcon Linyi	17 February 2005	⁽¹⁾
	12 January 2011	40,346
		<u>40,346</u>
Salcon Shandong	16 April 2008	⁽¹⁾
	12 January 2011	127,489
		<u>127,489</u>

Note:

(1) Transfer of 1 subscriber share of HKD1.00 to Salcon.

2.6 Liabilities to be assumed

There are no liabilities, including contingent liabilities and guarantees to be assumed by BEWG arising from the Proposed Disposals, save for the liabilities stated in the management accounts of the Target Companies as at 31 May 2013.

THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK

3. Information on the Target Companies

3.1 Information on Salcon Darco

Salcon Darco was incorporated in Singapore under the Singapore Companies Act on 8 December 2001 as a private limited company under the name of Darco Environmental Pte Ltd. On 1 November 2012, Salcon Darco assumed its present name. Salcon Darco is a wholly-owned subsidiary of Salcon. As at 6 September 2013, being the latest practicable date prior to this announcement (“LPD”), the issued and paid-up share capital of Salcon Darco is SGD25,768,459 comprising 25,768,459 ordinary shares of SGD1.00 each. Salcon Darco is a wholly-owned subsidiary of Salcon.

Salcon Darco is an investment holding company whilst the principal activities of its subsidiaries are as follows:

Company	Place of incorporation	Equity interest (%)	Principal activities
Deqing Darco Producing Water Company Limited (“ Deqing Darco ”)	People’s Republic of China (“ PRC ”)	100.00	Management and operation of water production and sale of water in Deqing county, Zhejiang Province
Globe Industrial Technology Company Limited (“ Globe Industrial ”)	Hong Kong	95.58	Investment holding

As at the LPD, Salcon Darco does not have any associated companies.

As at the LPD, the directors of Salcon Darco are as follows:

- (i) Ooi Cheng Swee
- (ii) Law Woo Hock
- (iii) Tee Xun Hao
- (iv) Jean-Paul Max Alain Binot

Please refer to Appendix I of this announcement on the historical financial information of the company.

3.1.1 Information on Deqing Darco

Deqing Darco is a wholly foreign owned enterprise incorporated under the laws of the PRC on 13 December 2006. As at the LPD, the registered capital and paid-in capital of Deqing Darco is USD11,960,000. Deqing Darco is a wholly-owned subsidiary of Salcon Darco. As at the LPD, Deqing Darco does not have any subsidiary or associated companies.

As at the LPD, the directors of Deqing Darco are as follows:

- (i) Thye Kim Meng
- (ii) Thye Ze Pin
- (iii) Zhang Jue

Please refer to Appendix I of this announcement on the historical financial information of Deqing Darco. The details of the concession held by Deqing Darco are set out in Appendix II.

THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK

3.1.2 Information on Globe Industrial

Globe Industrial was incorporated in Hong Kong under the Companies Ordinance on 17 July 2002. As at the LPD, the authorised share capital of Globe Industrial is HKD226,353 comprising 226,353 ordinary shares of HKD1.00 each, all of which has been issued and fully paid-up.

The principal activities of its subsidiary are as follows:

Company	Place of incorporation	Equity interest (%)	Principal activities
Deqing Huanzhong Producing Water Company Limited (“ Deqing Huanzhong ”)	PRC	88.32	Management and operation of water production and sale of water in Deqing county, Zhejiang Province

As at the LPD, Globe Industrial does not have any associated companies.

The shareholders of Globe Industrial as at the LPD are Salcon Darco, Fan Ming Chun and Yeoh Ah Luan Joan with shareholdings of 95.58%, 4.42% and 1 share of the total paid-up share capital, respectively.

As at the LPD, the directors of Globe Industrial are as follows:

- (i) Ooi Cheng Swee
- (ii) Law Woo Hock
- (iii) Tee Xun Hao

Please refer to Appendix I of this announcement on the historical financial information of the company.

3.1.3 Information on Deqing Huanzhong

Deqing Huanzhong is a Sino-foreign contractual joint venture duly established under the laws of the PRC on 28 September 2002. As at the LPD, the registered capital of Deqing Huanzhong is USD8,939,000. As at the LPD, Deqing Huanzhong does not have any subsidiary or associated companies.

The shareholders of Deqing Huanzhong as at the LPD are Globe Industrial and Deqing County Water Co., Ltd with shareholdings of 88.32% and 11.68% of the total registered capital, respectively.

As at the LPD, the directors of Deqing Huanzhong are as follows:

- (i) Thye Kim Meng
- (ii) Teo Sin Ying
- (iii) Thye Ze Pin
- (iv) Zhang Jue
- (v) Chen Xin Nian
- (vi) Hu Xiang Lan
- (vii) Xuan Hai Jiang

Please refer to Appendix I of this announcement on the historical financial information of Deqing Huanzhong. The details of the concession held by Deqing Huanzhong are set out in Appendix II.

3.2 Information on Salcon Jiangsu

Salcon Jiangsu was incorporated in Hong Kong under the Companies Ordinance on 23 March 2004 under the name Salcon Linq (Hong Kong) Limited as a private limited company. On 14 January 2005, the company changed its name to Salcon Yunnan (HK) Limited and assumed its present name on 6 November 2009. As at the LPD, the authorised share capital of Salcon Jiangsu is USD1,000 comprising 1,000 ordinary shares of USD1.00 each, all of which has been issued and fully paid-up. Salcon Jiangsu is a wholly-owned subsidiary of Salcon.

Salcon Jiangsu is an investment holding company whilst the principal activities of its subsidiary are as follows:

Company	Place of incorporation	Equity interest (%)	Principal activities
Jiangsu Salcon Water & Environmental Development Company Limited (“ Jiangsu Salcon ”)	PRC	66.67	Design, build and operate water transmission in Jiangsu Province

As at the LPD, Salcon Jiangsu does not have any associated companies.

As at the LPD, the directors of Salcon Jiangsu are as follows:

- (i) Tee Tiam Lee
- (ii) Leong Kok Wah
- (iii) Law Woo Hock

Please refer to Appendix I of this announcement on the historical financial information of the company.

3.2.1 Jiangsu Salcon

Jiangsu Salcon was incorporated under the laws of the PRC on 10 December 2009. As at the LPD, the registered capital and paid-in capital of Jiangsu Salcon is RMB120,000,000.

The principal activities of its subsidiary are as follows:

Company	Place of incorporation	Equity interest (%)	Principal activities
Yizheng Salcon Wastewater Treatment Company Limited (“ Yizheng Salcon ”)	PRC	100.00	Management and operation of wastewater treatment plant in Yizheng city.

As at the LPD, Jiangsu Salcon does not have any associated companies.

The shareholders of Jiangsu Salcon as at the LPD are Salcon Jiangsu and Yizheng Urban and Rural Water Co., Ltd. with shareholdings of 66.67% and 33.33% of the total paid-in capital, respectively.

As at the LPD, the directors of Jiangsu Salcon are as follows:

- (i) Ooi Cheng Swee
- (ii) Law Woo Hock
- (iii) Tee Xun Hao
- (iv) Zou Shi Ming
- (v) Zhang Song
- (vi) Cao Song Bao
- (vii) Wu Chun Lin

Please refer to Appendix I of this announcement on the historical financial information of the company.

3.2.2 Yizheng Salcon

Yizheng Salcon was incorporated under the laws of the PRC on 27 August 2003 under the name of Yizheng Rong Xin Wastewater Treatment Company Limited. On 28 December 2011, Yizheng Salcon assumed its present name. As at the LPD, the registered capital and paid-in capital of Yizheng Salcon is RMB32,536,679. Yizheng Salcon is a wholly-owned subsidiary of Jiangsu Salcon.

As at the LPD, Yizheng Salcon does not have any subsidiary or associated companies.

As at the LPD, the directors of Yizheng Salcon are as follows:

- (i) Ooi Cheng Swee
- (ii) Law Woo Hock
- (iii) Tee Xun Hao
- (iv) Zhang Song
- (v) Cao Song Bao
- (vi) Wu Chun Lin

Please refer to Appendix I of this announcement on the historical financial information of the company. The details of the concession held by Yizheng Salcon are set out in Appendix II.

3.3 Information on Salcon Fujian

Salcon Fujian was incorporated in Hong Kong under the Companies Ordinance on 8 June 2007 as a private limited company. The authorised share capital of Salcon Fujian is HKD300,000,000 comprising 300,000,000 ordinary shares of HKD1.00 each of which HKD84,617,950 comprising 84,617,950 ordinary shares of HKD1.00 each has been issued and fully paid-up. Salcon Fujian is an investment holding company whilst the principal activities of its subsidiary are as follows:

Company	Place of incorporation	Equity interest (%)	Principal activities
Nan An Salcon Water Company Limited (“ Nan An Water ”)	PRC	65.0	Design, build and operate water transmission in Fujian Province

As at the LPD, Salcon Fujian does not have any associated companies.

The shareholders of Salcon Fujian as at the LPD are Salcon Water and Salcon with shareholdings of 99.99% and 1 share of the total paid-up capital, respectively.

As at the LPD, the directors of Salcon Fujian are as follows:

- (i) Tee Tiam Lee
- (ii) Leong Kok Wah
- (iii) Law Woo Hock

Please refer to Appendix I of this announcement on the historical financial information of the company.

3.3.1 Information on Nan An Water

Nan An Water was incorporated under the laws of the PRC on 18 April 2008. As at LPD, the registered capital and paid-in capital of Nan An Water is RMB150,000,000.

As at the LPD, Nan An Water does not have any subsidiary or associated companies.

The shareholders of Nan An Water as at the LPD are Salcon Fujian and Nan An Industries and Agriculture Investment Management Co., Ltd. with shareholdings of 65% and 35% of the total paid-in capital, respectively.

As at the LPD, the directors of Nan An Water are as follows:

- (i) Ooi Cheng Swee
- (ii) Zhang Rui Ping
- (iii) Law Woo Hock
- (iv) Fan Zhi Ping
- (v) Wu Jian An
- (vi) Chen Tian Yi

Please refer to Appendix I of this announcement on the historical financial information of the company. The details of the concession held by Nan An Water are set out in Appendix II.

3.4 Information on Salcon Zhejiang

Salcon Zhejiang was incorporated in Hong Kong under the Companies Ordinance on 12 June 2006 as a private limited company. The authorised share capital of Salcon Zhejiang is HKD300,000,000 comprising 300,000,000 ordinary shares of HKD1.00 each of which HKD61,829,945 comprising 61,829,945 ordinary shares of HKD1.00 each has been issued and fully paid-up. Salcon Zhejiang is an investment holding company whilst the principal activities of its subsidiary are as follows:

Company	Place of incorporation	Equity interest (%)	Principal activities
Haining Salcon Water Company Limited (“ Haining Water ”)	PRC	60.0	Management and operation of water production and sale of water in Haining City, Zhejiang Province

As at the LPD, Salcon Zhejiang does not have any associated companies.

The shareholders of Salcon Zhejiang as at the LPD are Salcon Water and Salcon with shareholdings of 99.99% and 1 share of the total paid-up capital, respectively.

As at the LPD, the directors of Salcon Zhejiang are as follows:

- (i) Tee Tiam Lee
- (ii) Leong Kok Wah
- (iii) Law Woo Hock

Please refer to Appendix I of this announcement on the historical financial information of the company.

3.4.1 Information on Haining Water

Haining Water was incorporated under the laws of the PRC on 28 September 2006. As at the LPD, the registered capital and paid-in capital of Haining Water is USD13,550,000.

As at the LPD, Haining Water does not have any subsidiary or associated companies.

The shareholders of Haining Water as at the LPD are Salcon Zhejiang and Haining City Water Investment Group Company Limited with shareholdings of 60% and 40% of the total paid-in capital, respectively.

As at the LPD the directors of Haining Water are as follows:

- (i) Ooi Cheng Swee
- (ii) Law Woo Hock
- (iii) Zhu Jian Qiang
- (iv) Zhang Song
- (v) Chen Juan
- (vi) Ma Jun Jie

Please refer to Appendix I of this announcement on the historical financial information of the company. The details of the concession held by Haining Water are set out in Appendix II.

3.5 Information on Salcon Linyi

Salcon Linyi was incorporated in Hong Kong under the Companies Ordinance on 11 January 2005 as a private limited company. The authorised share capital of Salcon Linyi is HKD300,000,000 comprising 300,000,000 ordinary shares of HKD1.00 each of which HKD40,345,802 comprising 40,345,802 ordinary shares of HKD1.00 each has been issued and fully paid-up. Salcon Linyi is an investment holding company whilst the principal activities of its subsidiary are as follows:

Company	Place of incorporation	Equity interest (%)	Principal activities
Linyi Salcon Water Company Limited (“ Linyi Water ”)	PRC	60.0	Management and operation of water production and distribution of water in Linyi City

As at the LPD, Salcon Linyi does not have any associated companies.

The shareholders of Salcon Linyi as at the LPD are Salcon Water and Salcon with shareholdings of 99.99% and 1 share of the total paid-up capital, respectively.

As at the LPD, the directors of Salcon Linyi are as follows:

- (i) Tee Tiam Lee
- (ii) Leong Kok Wah
- (iii) Law Woo Hock

Please refer to Appendix I of this announcement on the historical financial information of the company.

3.5.1 Information on Linyi Water

Linyi Water was incorporated under the laws of the PRC on 7 November 2005. As at the LPD, the registered capital of Linyi Water is USD7,400,000. The principal activities of its subsidiary are as follows:

Company	Place of incorporation	Equity interest (%)	Principal activities
Linyi Runcheng Water Supply Project Company Limited (“ Linyi Runcheng ”)	PRC	100.0*	Repair and maintenance of municipal water supply pipeline, equipment, water supply equipment
Linyi Salcon Water Supply Facilities Company Limited (“ Linyi Water Supply Facilities ”)	PRC	100.0	Repair and maintenance of municipal water supply pipeline, equipment, water supply equipment

Note:

* Sole beneficial owner

As at the LPD, Linyi Water does not have any associated companies.

The shareholders of Linyi Water as at the LPD are Salcon Linyi and Linyi Municipal Water Supply Company with shareholdings of 60% and 40% of the total registered capital, respectively.

As at the LPD, the directors of Linyi Water are as follows:

- (i) Ooi Cheng Swee
- (ii) Law Woo Hock
- (iii) Xu Lihua
- (iv) Zhang Song
- (v) Zhang Xingye
- (vi) Sun Chao

Please refer to Appendix I of this announcement on the historical financial information of the company. The details of the concession held by Linyi Water are set out in Appendix II.

3.5.2 Information on Linyi Runcheng

Linyi Runcheng was incorporated under the laws of the PRC on 3 July 1993 under the name of Linyi Water Supply Environmental Installation Company. On 22 April 2008 the company assumed its present name. As at the LPD, the registered capital and paid-in capital of Linyi Rucheng is RMB120,000. Linyi Water is the sole beneficial owner of Linyi Runcheng.

As at the LPD, Linyi Runcheng does not have any subsidiary or associated companies.

As at the LPD, the director of Linyi Runcheng is Xu Lihua.

Please refer to Appendix I of this announcement on the historical financial information of the company.

3.5.3 Information on Linyi Water Supply Facilities

Linyi Water Supply Facilities was incorporated under the laws of the PRC on 11 July 2011. As at the LPD, the registered capital and paid-in capital of Linyi Water Supply Facilities is RMB10,000,000. Linyi Water Supply Facilities is a wholly-owned subsidiary of Linyi Water.

As at the LPD, Linyi Water Supply Facilities does not have any subsidiary and associated companies.

As at the LPD, the director of Linyi Water Supply Facilities is Xu Lihua.

Please refer to Appendix I of this announcement on the historical financial information of the company.

3.6 Information on Salcon Shandong

Salcon Shandong was incorporated in Hong Kong under the Companies Ordinance on 14 April 2008 as a private limited company. The authorised share capital of Salcon Shandong is HKD300,000,000 comprising 300,000,000 ordinary shares of HKD1.00 each of which HKD127,488,971 comprising 127,488,971 ordinary shares of HKD1.00 each has been issued and fully paid-up. Salcon Shandong is an investment holding company whilst the principal activities of its subsidiaries are as follows:

Company	Place of incorporation	Equity interest (%)	Principal activities
Shandong Changle Salcon Water Company Limited (“ Shandong Changle Water ”)	PRC	100.0	Management and operation of water production and distribution of water in Changle County, Shandong Province
Changle Salcon Raw Water Company Limited (“ Changle Salcon Raw Water ”)	PRC	100.0	Design, build and operate of water transmission in Changle County, Shandong Province

As at the LPD, Salcon Shandong does not have any associated companies.

The shareholders of Salcon Shandong as at the LPD are Salcon Water and Salcon with shareholdings of 99.99% and 1 share of the total paid-up capital, respectively.

As at the LPD, the directors of Salcon Shandong are as follows:

- (i) Tee Tiam Lee
- (ii) Leong Kok Wah
- (iii) Law Woo Hock

Please refer to Appendix I of this announcement on the historical financial information of the company.

3.6.1 Information on Shandong Changle Water

Shandong Changle Water was incorporated under the laws of the PRC on 14 November 2003. As at the LPD, the registered capital and paid-in capital of Shandong Changle Water is USD7,000,000. Shandong Changle Water is a wholly-owned subsidiary of Salcon Shandong.

As at the LPD, Shandong Changle Water does not have any subsidiary or associated companies.

As at the LPD, the directors of Shandong Changle Water are as follows:

- (i) Ooi Cheng Swee
- (ii) Law Woo Hock
- (iii) Yu Xian Xiang
- (iv) Feng Li Sheng
- (v) Han Ning

Please refer to Appendix I of this announcement on the historical financial information of the company. The details of the concessions held by Shandong Changle Water are set out in Appendix II.

3.6.2 Information on Changle Salcon Raw Water

Changle Salcon Raw Water was incorporated under the laws of the PRC on 12 June 2008. As at the LPD, the registered capital and paid-in capital of Changle Salcon Raw Water is USD8,680,000. Changle Salcon Water is a wholly-owned subsidiary of Salcon Shandong.

As at the LPD, Changle Salcon Raw Water does not have any subsidiary or associated companies.

As at the LPD, the directors of Changle Salcon Raw Water are as follows:

- (i) Ooi Cheng Swee
- (ii) Yu Xian Xiang
- (iii) Law Woo Hock
- (iv) Feng Li Sheng
- (v) Han Ning

Please refer to Appendix I of this announcement on the historical financial information of the company. The details of the concession held by Changle Salcon Raw Water are set out in Appendix II.

4. Information on BEWG

BEWG was incorporated in Bermuda on 23 November 1992 under The Companies Act 1981 of Bermuda as a limited liability company under the name of Wanon International Holdings Limited. The company subsequently changed its name to Beijing Enterprises Water Group Limited on 19 March 2008. It was listed on the Main Board of The Stock Exchange of Hong Kong Limited on 19 April 2013.

As at 21 August 2013, the authorised share capital of BEWG is HKD1,500,000,000 comprising 15,000,000,000 ordinary shares of HKD0.10 each, of which 7,685,981,324 ordinary shares of HKD0.10 each have been issued and fully paid-up.

BEWG and its subsidiaries were involved in the following principal activities:

- construction of sewage and reclaimed water treatment and seawater desalination plants, and provision of construction services for comprehensive renovation projects in the PRC and Malaysia.
- provision of sewage and reclaimed water treatment services in Mainland China.
- distribution and sale of piped water in Mainland China.
- provision of technical and consultancy services that are related to sewage treatment and construction of comprehensive renovation projects in Mainland China.
- licensing of technical know-how that is related to sewage treatment in Mainland China.

THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK

The directors of BEWG as at 21 August 2013 are as follows:

Executive Directors:

Mr. Zhang Honghai (*Chairman*)
 Mr. E Meng (*Vice Chairman*)
 Mr. Jiang Xinhao
 Mr. Hu Xiaoyong (*Chief Executive Officer*)
 Mr. Zhou Min
 Mr. Li Haifeng
 Mr. Zhang Tiefu
 Mr. Hou Feng
 Ms. Qi Xiaohong
 Mr. Ke Jian
 Mr. Tung Woon Cheung Eric

Independent Non-Executive Directors:

Mr. Shea Chun Lok Quadrant
 Mr. Zhang Gaobo
 Mr. Guo Rui
 Ms. Hang Shijun
 Mr. Wang Kaijun
 Mr. Yu Ning

The substantial shareholders (holding 5% or more) of BEWG and their shareholdings in BEWG as at 31 December 2012 (as extracted from BEWG's published 2012 annual report) are as follows:

Name of Shareholders	Capacity in which shares were held	Long position in the shares	Approximate percentage of BEWG's issued share capital ⁽⁵⁾
Beijing Enterprises Group Company Limited ⁽¹⁾⁽²⁾⁽³⁾	Interest of controlled corporation	3,047,556,993	44.11%
	Security Interest	400,000,000	5.79%
Beijing Enterprises Holdings Limited ("BEHL") ⁽¹⁾⁽²⁾⁽³⁾	Interest of controlled corporation	3,047,556,993	44.11%
	Security Interest	400,000,000	5.79%
Tenson Investment Limited ("Tension") ⁽²⁾⁽⁴⁾	Beneficial owner	684,789,919	9.91%
Wang Taoguang	Beneficial owner	347,479,119	5.03%

Notes:

- (1) Beijing Enterprises Group Company Limited is deemed to be interested in 3,047,556,993 shares as a result of its indirect holding of such shares through the following entities including its wholly-owned subsidiaries:

Name	Long position in shares
Beijing Enterprises Environmental Construction Limited ("BE Environmental")	3,047,556,993
BEHL	3,047,556,993
Beijing Enterprises Group (BVI) Company Limited	3,047,556,993
Beijing Enterprises Group Company Limited	3,047,556,993

BE Environmental beneficially holds 3,047,556,993 shares of the company. BE Environmental is a wholly-owned subsidiary of BEHL, which is in turn directly held as to approximately 36.15% by Beijing Enterprises Group (BVI) Company Limited, and which is in turn held as to 100% by Beijing Enterprises Group Company Limited.

- (2) The company noted from the website of the Stock Exchange of HK that on 29 May 2012, BEHL and Tenson entered into a share mortgage whereby Tenson agreed to charge mortgaged shares of 400,000,000 ordinary shares of the Company ("**Mortgaged Shares**") beneficially owned by Tenson in favour of BEHL as security for the provision of guarantee entered into by BEHL on 29 May 2012 in favour of DBS Bank Ltd., Hong Kong Branch ("**DBS**") in respect of a loan facility granted to Tenson by DBS ("**Guarantee**").

- (3) The long positions held by Beijing Enterprises Group Company Limited and BEHL include: (i) the 3,047,556,993 Shares as described in Note 1 above; and (ii) 400,000,000 Mortgaged Shares as described in Note 2 above. Beijing Enterprises Group Company Limited is deemed to be interested in 400,000,000 Mortgaged Shares as its indirect holding of shares of BEHL as described in Note 1 above.
- (4) The share capital of Tenson is beneficially owned as to approximately 52.62% by Mr. Hu Xiaoyong, as to approximately 44.93% by Mr. Zhou Min, and as to approximately 2.45% by Mr. Hou Feng, all being executive Directors.
- (5) The percentage represented the number of shares over the total issued shares of the company as at 31 December 2012 of 6,909,170,486 shares.

5. RATIONALE FOR THE PROPOSED DISPOSALS

The Proposed Disposals involve the disposal of the Group's subsidiaries which currently holds the concessions portfolio in the PRC, namely in Deqing, Jiangsu, Fujian, Zhejiang and Shandong provinces. Despite the positive contribution from the concessions in the PRC, the Group expects a more challenging operating environment in respect of the concessions in the PRC going forward, mainly due to the uncertainty in the economic outlook and the prolongation of upward revision in the water tariff. Furthermore, intense competition from the domestic players may impede the Group's prospect of expanding into new concessions in the PRC.

The Proposed Disposals provide an opportunity to the Salcon Group to realise and unlock the value of its investments in the Target Companies and allow the Group to strengthen its financial position by reducing the gearing level of the Group. With the proceeds from the Proposed Disposals, Salcon will be able to re-mobilise its capital and resources for expansion of its other core business including the property development segment and/or investments in new income stream.

The Salcon Group had diversified its principal activities to include property development. The Group's first property development project in Selayang has received encouraging response since its soft launch in April 2013 with approximately 50% of the total units has been sold. The construction of the project is expected to commence in the fourth quarter of 2013. For the Group's second venture, its property development project in Johor ("**Johor Project**") is expected to be launched in the first half of year 2014. The Johor Project will comprise mixed residential and commercial development. As the Group's lands in Johor are strategically located approximately 2 kilometres north of the Central Business District of Johor Bahru and the Causeway of Singapore, which is sited within the Flagship Zone A of the Iskandar Malaysia economic corridor, the Group expects the Johor Project will receive positive response in tandem with the growth prospects of Iskandar Malaysia.

6. UTILISATION OF PROCEEDS

The company intends to utilise proceeds from the Proposed Disposals as follows:

Description	Note	RM'000	Timeframe for the utilisation of proceeds
Future investments	1	263,000	Within 24 months
Working capital	2	20,237	Within 24 months
Defraying expenses incidental to the Proposed Disposals	3	1,200	Within 3 months
Repayment of borrowings	4	102,400	Within 6 months
Total	*	386,837	

Notes:

- * The gross proceeds from the proposed disposal of Salcon Darco and Salcon Jiangsu is RMB307.0 million (equivalent to RM166.61 million). The gross proceeds from the proposed disposal of Salcon Fujian, Salcon Zhejiang, Salcon Linyi and Salcon Shandong is RMB648.0 million (equivalent to RM351.67 million). Assuming repayment of shareholders' advances of RMB47.0 million to Salcon and RMB3.0 million to Challenger Emerging Market Infrastructure Fund Pte. Ltd ("**EMIF**") (which own 40% equity interest in Salcon Water), the net proceeds attributable to Salcon and EMIF are RMB358.80 million (equivalent to RM194.72 million) and RMB239.20 (equivalent to RM129.81 million), respectively. The total proceeds from the Proposed Disposals attributable to Salcon (including repayment of shareholders' advances of RMB47.0 million) is RMB712.80 million (equivalent to RM386.84 million).
- (1) The Group expects to utilise the proceeds for future investments which has yet to be identified as at the LPD. The proposed investment activities may include acquisition of strategic investments and/or strategic collaborations, joint ventures or alliances. In the event shareholders' approval is required pursuant to the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("**Bursa Securities**") ("**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 Listing Requirements. Any excess/shortfall in the actual amount utilised for future investments would be adjusted to/from working capital.
 - (2) 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.
 - (3) Estimated expenses in relation to the Proposed Disposals comprising adviser, lawyers, regulatory fees and other related costs. Any excess/shortfall in the actual amount utilised for defraying the estimated expenses relating to the Proposed Disposals would be adjusted to/from working capital.
 - (4) The proposed repayment of part of the Group's bank borrowings is expected to contribute to interest savings of approximately RM5.65 million per annum based on the average interest rate of 5.54% per annum.

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 this announcement.

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.

7. RISK FACTORS FOR THE PROPOSED DISPOSALS

The completion of the Proposed Disposals is conditional upon the conditions as set out in SPA-A and SPA-B ("collectively referred to as "**SPAs**") as set out in Sections 2.3.2 and 2.4.2 above being satisfied. The non-fulfillment of the conditions may result in the SPAs being terminated and the Company may be required to repay to the Purchaser an amount equivalent to two times the deposits received as disclosed in Sections 2.3.1 and 2.4.1 of this announcement. There is no assurance that the Proposed Disposals can be completed within the time period permitted under the SPAs.

Should a delay or non-completion occur, the Group may lose the opportunity to dispose its subsidiaries. Consequently, the Group will not be able to utilise the proceeds from the Proposed Disposals in the manner set out in Section 6 of this announcement. Nevertheless, the Board will take reasonable steps to ensure that the conditions precedent is met within the stipulated timeframe and that every effort is made to obtain all the necessary approvals for the Proposed Disposals.

THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK

8. EFFECTS OF THE PROPOSED DISPOSALS

8.1 Share capital and substantial shareholders' shareholding

The Proposed Disposals will not have any effect on the share capital and substantial shareholders' shareholdings of Salcon as the Proposed Disposals do not involve any issuance of new ordinary shares of RM0.50 each in Salcon ("Salcon Shares").

8.2 Earnings and earnings per share ("EPS")

Save for the expected gain arising from the Proposed Disposals, the Proposed Disposals are not expected to have a material effect on the earnings of the Salcon Group for the financial year ending 31 December 2013.

Upon completion of the Proposed Disposals, the Salcon Group is expected to realise a net gain attributable to owners of the Company of approximately RM94.61 million based on the latest audited financial statements of the Salcon Group for the FYE 31 December 2012. The net gain attributable to owners of the Company represents an EPS of approximately RM0.16.

The Proposed Disposals are expected to contribute positively to the future earnings of the Salcon Group. Assuming the benefits arising from the utilisation of proceeds materialise, the Proposed Disposals are expected to strengthen the Salcon Group's future ability to generate earnings.

8.3 Net assets ("NA") per share and gearing

Based on the latest audited consolidated financial statements of the Company as at 31 December 2012, the proforma effects of the Proposed Disposal on the Company's NA per share and gearing are set out as follows:

	Audited as at 31 December 2012 RM'000	After adjusting for events after 31 December 2012 up to LPD Proforma I ⁽¹⁾ RM'000	Proforma II ⁽²⁾ RM'000	After the Proposed Disposals RM'000
Share capital	260,869	300,238	300,238	300,238
Reserves				
- Share premium	36,627	45,363	45,363	45,363
- Warrant reserve	22,150	22,150	22,150	22,150
- Translation reserve	13,309	13,309	13,309	5,599
- Share option reserve	3,909	4,538	4,538	4,538
Retained earnings	79,691	75,260	82,162	169,875
Shareholders' equity	416,555	460,858	467,760	547,763
Non-controlling interests	225,490	225,490	185,901	147,724
Total equity	642,045	686,348	653,661	695,487
Number of shares outstanding ('000)	521,738	600,476	600,476	600,476
NA per share (RM)	0.80	0.77	0.78	0.91
Total borrowings (RM'000)	343,660	327,907 ⁽³⁾	327,907	8,413 ⁽⁴⁾
Gearing (times)	0.54	0.48	0.50	0.01

Notes:

(1) Proforma I: After adjusting for the private placement of 54,025,268 Salcon Shares at an issue price of RM0.585 per share, which was completed on 20 August 2013, the grant of employee share options in May 2013 of which 29,532,545 options are estimated to be exercised and the exercise of 24,712,400 options at an issue price of between RM0.50 to RM0.57 pursuant to the Company's employee share option scheme.

(2) Proforma II: After adjusting for the acquisition of 40% equity interest in Salcon Darco for a total cash consideration of RMB63,000,000, which was completed on 26 July 2013.

- (3) *Assuming repayment of borrowings of RM15,753,000 pursuant to the private placement completed by the Company on 20 August 2013.*
- (4) *After excluding borrowings of the Target Companies of RM217,094,127 and assuming repayment of borrowing of RM102,400,000.*

9. PERCENTAGE RATIOS

Based on the audited consolidated financial statements of Salcon for the FYE 31 December 2012, the highest percentage ratio applicable for the Proposed Disposals pursuant to paragraph 10.02(g) of the Listing Requirements is approximately 149%.

The Proposed Disposals represents a very substantial transaction pursuant to the Listing Requirements and requires the approval of Salcon's shareholders. The Proposed Disposals are not expected to result in Salcon becoming a cash company or PN17 Company, as defined under the Listing Requirements.

10. APPROVALS REQUIRED

The Proposed Disposals is conditional upon the following approvals being obtained:

- (i) the shareholders of Salcon at an extraordinary general meeting to be convened; and
- (ii) any other relevant authorities and/or parties, if required.

11. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED

None of the Directors and/or major shareholders and/or persons connected with a director or major shareholder of Salcon has any interest, either direct or indirect in the Proposed Disposals.

12. DIRECTORS' STATEMENT

The Board, having considered all aspects of the Proposed Disposals, is of the opinion that the Proposed Disposals are in the best interests of the Salcon Group.

13. SUBMISSION TO THE AUTHORITIES AND ESTIMATED TIMEFRAME FOR COMPLETION

The draft circular in relation to the Proposed Disposals is expected to be submitted to Bursa Securities for clearance within 2 months from the date of this announcement.

The Proposed Disposals are expected to be completed by the end of December 2013.

14. ADVISER

HLIB has been appointed by the Company to act as the Adviser in relation to the Proposed Disposals.

15. DOCUMENTS FOR INSPECTION

The SPA-A and SPA-B will be available for inspection at the registered office of Salcon at 15th Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan, during normal business hours from Monday to Friday (except public holidays) for a period of 3 months from the date of this announcement.

This announcement is dated 12 September 2013.

HISTORICAL FINANCIAL INFORMATION

For the purpose of this announcement, the historical financial information are extracted from the audited accounts of the respective companies for the FYE 31 December 2010, FYE 31 December 2011 and FYE 31 December 2012. However, the figures in RM currency are unaudited and are provided for comparison purposes only. For comparison and illustration purposes, the published foreign exchange middle rates from Bank Negara Malaysia of the following currency are used for the respective financial year end:

30 December 2010	30 December 2011	31 December 2012
SGD1= RM2.3859	SGD1= RM2.4427	SGD1= RM2.503
USD1=RM3.0835	USD1=RM 3.177	USD1=RM3.0583
HKD100 = RM39.6153	HKD100 = RM40.8901	HKD100 = RM39.4534
RMB1 = RM0.4662	RMB1 = RM0.5034	RMB1 = RM0.4909

1. Salcon Darco

FYE	2010		FYE 31 December 2011		2012	
	SGD	RM	SGD	RM	SGD	RM
Other income	1,340,583	3,198,497	(103,546)	(252,932)	23,545	58,933
Profit/ (loss) before tax ("PBT")/("LBT")	1,328,275	3,169,131	(118,621)	(289,756)	2,253	5,639
Profit/ (loss) after tax and minority interest ("PATMI")/("LATMI")	1,328,275	3,169,131	(118,621)	(289,756)	2,253	5,639
Shareholders' funds / NA	2,119,484	5,056,877	2,000,863	4,887,508	27,571,575	69,011,652
Total interest bearing borrowings	-	-	-	-	-	-

Commentaries:

Salcon Darco is an investment holding company and has not recorded any revenue or received any dividends during the financial years under review. Other income comprises gain or loss on foreign exchange for the respective financial years under review. The PBT and PATMI recorded during the financial years under review were mainly due to unrealised foreign exchange gain in respect of advances from the holding company. The increase in the NA for FYE 31 December 2012 is due to capitalisation of debts.

2. Salcon Jiangu

FYE	2010		FYE 31 December 2011		2012	
	USD	RM	USD	RM	USD	RM
Other revenue	4	12	4	13	4	12
PBT/ (LBT)	(72,126)	(222,401)	(4,055)	(12,883)	(20,047)	(61,310)
PATMI/ LATMI	(72,126)	(222,401)	(4,055)	(12,883)	(20,047)	(61,310)
Shareholders' funds / NA	297,524	917,415	293,469	932,351	273,422	836,207
Total interest bearing borrowings	-	-	-	-	-	-

Commentaries:

Salcon Jiangu is an investment holding company and has not recorded any revenue or received any dividends during the financial years under review. Other revenue comprises interest income for the respective financial years under review.

3. Salcon Fujian

FYE	2010		FYE 31 December 2011		2012	
	HKD	RM	HKD	RM	HKD	RM
Revenue	-	-	-	-	-	-
LBT	(1,203,187)	(476,646)	(55,414)	(22,659)	(764,343)	(301,559)
LATMI	(1,203,187)	(476,646)	(55,414)	(22,659)	(764,343)	(301,559)
Shareholders' funds / NA/ (Net liabilities)	(1,099,428)	(435,542)	83,463,107	34,128,148	82,698,764	32,627,474
Total interest bearing borrowings	-	-	-	-	-	-

Commentaries:

Salcon Fujian is an investment holding company and has not recorded any revenue or received any dividends during the financial years under review. The LBT incurred during the financial years under review were mainly due to administrative and operating expenses incurred as well as loss on foreign exchange. The increase in NA for the FYE 31 December 2011 was mainly due to capitalisation of amount due to Salcon Water (Asia) Limited ("**Salcon Water**") of approximately HKD84.6 million.

4. Salcon Zhejiang

FYE	2010		FYE 31 December 2011		2012	
	HKD	RM	HKD	RM	HKD	RM
Revenue	7,450,268	2,951,446	8,510,837	3,480,090	8,817,252	3,478,706
Other revenue	25	10	378	155	452	178
PBT/ (LBT)	6,433,107	2,548,495	8,439,410	3,450,883	8,745,419	3,450,365
PATMI/ (LATMI)	6,060,594	2,400,922	8,013,868	3,276,879	8,304,556	3,276,430
Shareholders' funds / NA	9,446,149	3,742,120	72,789,961	29,763,888	74,578,439	29,423,730
Total interest bearing borrowings	-	-	-	-	-	-

Commentaries:

Revenue recorded for the respective financial years comprises dividends received from its subsidiary. Other revenue comprises interest income for the respective financial years under review. The increase in NA for the FYE 31 December 2011 was mainly due to capitalisation of amount due to Salcon Water of HKD61.8 million.

5. Salcon Linyi

FYE	2010		FYE 31 December 2011		2012	
	HKD	RM	HKD	RM	HKD	RM
Other revenue	6	2	6	2	6	2
LBT	(615,768)	(243,938)	(56,573)	(23,133)	(54,707)	(21,584)
LATMI	(615,768)	(243,938)	(56,573)	(23,133)	(54,707)	(21,584)
Shareholders' funds / NA / (Net Liabilities)	(1,207,259)	478,259)	39,081,969	15,980,656	39,027,262	15,397,582
Total interest bearing borrowings	-	-	-	-	-	-

Commentaries:

Salcon Linyi is an investment holding company and has not recorded any revenue or received any dividends during the financial years under review. Other revenue comprises interest income for the respective financial years under review. The increase in NA for the FYE 31 December 2011 was mainly due to capitalisation of amount due to Salcon Water of approximately HKD40.3 million.

6. Salcon Shandong

FYE	2010		FYE 31 December 2011		2012	
	HKD	RM	HKD	RM	HKD	RM
Other revenue	3	1	1	*	15	6
LBT	(79,737)	(31,588)	(55,907)	(22,860)	(59,491)	(23,471)
LATMI	(79,737)	(31,588)	(55,907)	(22,860)	(59,491)	(23,471)
Shareholders' funds / NA	157,350	62,335	127,590,413	52,171,847	127,530,922	50,315,285
Total interest bearing borrowings	-	-	-	-	-	-

Note:

* Negligible

Commentaries:

Salcon Shandong is an investment holding company and has not recorded any revenue or received any dividends during the financial years under review. Other revenue comprises interest income for the respective financial years under review. The LBT incurred during the financial years under review were mainly due to administrative and operating expenses incurred as well as loss on foreign exchange. The increase in NA for the FYE 31 December 2011 was mainly due to capitalisation of amount due to Salcon Water of approximately HKD127.5 million.

7. Subsidiaries (direct and indirect) of Salcon Darco**(i) Deqing Darco Producing Water Company Limited**

FYE	2010		FYE 31 December 2011		2012	
	RMB	RM	RMB	RM	RMB	RM
Revenue	-	-	3,471,749	1,747,678	25,757,975	12,644,590
PBT/ LBT	-	-	(2,437,551)	(1,227,063)	(1,660,156)	(814,971)
PATMI/ LATMI	-	-	(2,437,551)	(1,227,063)	(1,660,156)	(814,971)
Shareholders' funds / NA	87,534,925	40,808,782	85,097,375	42,838,019	83,437,219	40,959,331
Total interest bearing borrowings	59,229,353	27,612,724	58,900,000	29,650,260	49,600,000	24,348,640

Commentaries:

The company commenced operation of its water treatment plant in October 2011. Revenue increased over the years under review in line with the increase in production output of the water supply.

(ii) **Globe Industrial Technology Company Limited**

FYE	2010		FYE 31 December 2011		2012	
	HKD	RM	HKD	RM	HKD	RM
Revenue	6,686,569	2,648,904	7,223,461	2,953,680	-	-
Other revenue	19	8	12	5	3	1
PBT/ LBT	4,246,009	1,682,069	6,651,892	2,719,965	(300,023)	(118,369)
PATMI/ LATMI	4,246,009	1,682,069	6,651,892	2,719,965	(300,023)	(118,369)
Shareholders' funds / NA	9,776,843	3,873,126	16,338,735	6,680,925	46,729,063	18,436,204
Total interest bearing borrowings	-	-	-	-	-	-

Commentaries:

No revenue generated for the FYE 31 December 2012 and the company has not received any dividends during the said financial year. The LBT incurred for the FYE 31 December 2012 were mainly due to administrative and operating expenses incurred as well as loss on foreign exchange.

(iii) **Deqing Huanzhong Producing Water Company Limited**

FYE	2010		FYE 31 December 2011		2012	
	RMB	RM	RMB	RM	RMB	RM
Revenue	21,176,887	9,872,665	22,004,307	11,076,968	21,234,906	10,424,215
Other revenue	-	-	811,570	408,544	1,427,949	700,980
PBT	8,627,397	4,022,092	10,290,466	5,180,221	9,924,903	4,872,135
PATMI	7,673,825	3,577,537	7,699,107	3,875,730	7,443,677	3,654,101
Shareholders' funds / NA	63,925,770	29,802,194	64,718,435	32,579,260	72,162,112	35,424,381
Total interest bearing borrowings	-	-	-	-	-	-

Commentaries:

Revenue was consistent during the financial years under review. Other revenue for FYE 31 December 2011 and 2012 comprises interest income.

8. **Subsidiaries (direct and indirect) of Salcon Jiangsu**(i) **Jiangsu Salcon Water & Environmental Development Company Limited**

FYE	2010		FYE 31 December 2011		2012	
	RMB	RM	RMB	RM	RMB	RM
Revenue	-	-	2,700,000	1,359,180	2,700,000	1,325,430
PBT/ LBT	(3,503,475)	(1,633,320)	1,600,774	805,830	4,032,259	1,979,436
PATMI/ LATMI	(3,503,475)	(1,633,320)	1,600,774	805,830	3,773,204	1,852,266
Shareholders' funds / NA	116,992,063	54,541,700	118,592,837	59,699,634	122,366,042	60,069,490
Total interest bearing borrowings	-	-	-	-	-	-

Commentaries:

No revenue generated during FYE 31 December 2010 as the water treatment plant only commenced operation in 2011. The LBT incurred during the FYE 31 December 2010 were mainly due to administrative and operating expenses incurred. PBT for FYE 31 December 2012 was higher mainly due to lower operating expenses such as marketing costs and higher interest income.

(ii) Yizheng Salcon Wastewater Treatment Company Limited

FYE	2010		FYE 31 December 2011		2012	
	RMB	RM	RMB	RM	RMB	RM
Revenue	11,201,767	5,222,264	12,051,697	6,066,824	16,038,181	7,873,143
PBT/ LBT	(898,372)	(418,821)	2,635,252	1,326,586	5,197,550	2,551,477
PATMI/ LATMI	(898,372)	(418,821)	782,773	394,048	3,505,310	1,720,757
Shareholders' funds / NA	47,690,555	22,233,337	48,473,328	24,401,473	51,978,638	25,516,313
Total interest bearing borrowings	21,000,000	9,790,200	16,000,000	8,054,400	11,000,000	5,399,900

Commentaries:

Revenue increased over the period in line with the increase in waste water treatment fees. The company incurred LBT for the FYE 31 December 2010 mainly due to higher interest expense. PBT for FYE 31 December 2012 increased mainly due to higher waste water treatment fees and reduction in interest expense.

9. Subsidiary of Salcon Fujian**(i) Nan An Salcon Water Company Limited**

FYE	2010		FYE 31 December 2011		2012	
	RMB	RM	RMB	RM	RMB	RM
Revenue	-	-	7,227,618	3,638,383	10,180,972	4,997,839
LBT	(2,765,797)	(1,289,415)	(812,395)	(408,960)	(2,929,080)	(1,437,885)
LATMI	(2,765,797)	(1,289,415)	(812,395)	(408,960)	(2,929,080)	(1,437,885)
Shareholders' funds / NA	94,003,461	43,824,414	93,191,066	46,912,383	140,261,986	68,854,609
Total interest bearing borrowings	120,000,000	55,944,000	160,000,000	80,544,000	154,000,000	75,598,600

Commentaries:

No revenue generated during the FYE 31 December 2010 as the company only commenced supplying the raw water in 2011. The company's continued losses during the financial years under review were mainly due to high interest expense. The LBT for the FYE 31 December 2011 was lower compared to FYE 31 December 2012 mainly due to higher interest income received for the financial year.

THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK
--

10. Subsidiary of Salcon Zhejiang

(i) Haining Salcon Water Company Limited

FYE	2010		FYE 31 December 2011		2012	
	RMB	RM	RMB	RM	RMB	RM
Revenue	55,333,366	25,796,415	61,233,186	30,824,786	56,270,507	27,623,192
Other revenue	1,243	579	407	205	45,576	22,373
PBT	15,072,789	7,026,934	11,298,396	5,687,613	11,787,242	5,786,357
PATMI	15,072,789	7,026,934	11,298,396	5,687,613	10,317,333	5,064,779
Shareholders' funds / NA	160,236,987	74,702,483	159,735,383	80,410,792	158,252,716	77,686,258
Total interest bearing borrowings	116,000,000	54,079,200	97,000,000	48,829,800	51,000,000	25,035,900

Commentaries:

Revenue were derived from the supply of treated water in bulk. PBT for FYE 31 December 2011 declined mainly due to higher operating costs such as increase in staff and administrative costs.

11. Subsidiaries (direct and indirect) Salcon Linyi

(i) Linyi Salcon Water Company Limited

FYE	2010		FYE 31 December 2011		2012	
	RMB	RM	RMB	RM	RMB	RM
Revenue	35,280,043	16,447,556	38,649,946	19,456,383	43,171,892	21,193,082
Other revenue	2,393,713	1,115,949	1,585,287	798,033	995,413	488,648
PBT	2,421,403	1,128,858	5,831,888	2,935,772	19,034,317	9,343,946
PATMI	1,991,339	928,362	5,171,499	2,603,333	16,508,173	8,103,862
Shareholders' funds / NA	62,265,473	29,028,164	67,436,972	33,947,772	83,945,145	41,208,672
Total interest bearing borrowings	36,197,203	16,875,136	35,742,657	17,992,854	35,742,657	17,546,070

Commentaries:

Revenue improved in FYE 31 December 2012 mainly due to the increase in water consumption by the domestic sector. Other revenue comprises interest income and rental income. PBT for the FYE 31 December 2012 improved substantially due to higher non-operating income from pipelines installation.

THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK

(ii) Linyi Runcheng Water Supply Project Company Limited

FYE	2010		FYE 31 December 2011		2012	
	RMB	RM	RMB	RM	RMB	RM
Revenue	27,181,027	12,671,795	28,426,923	14,310,113	21,251,837	10,432,527
PBT	601,781	280,550	1,309,626	659,266	948,727	465,730
PATMI	390,945	182,259	982,220	494,450	709,567	348,326
Shareholders' funds / NA	1,496,035	697,452	2,478,255	1,247,554	3,187,822	1,564,902
Total interest bearing borrowings	-	-	-	-	-	-

Commentaries:

Revenue for the FYE 31 December 2012 declined mainly due to reduction in installation of pipelines to the residential segment. For the FYE 31 December 2012, PBT declined mainly due to lower revenue generated during the financial year and higher operating expenses including staff costs.

(iii) Linyi Salcon Water Supply Facilities Company Limited

	FYE 31 December 2012	
	RMB	RM
Revenue	2,227,692	1,093,574
PBT	381,274	187,167
PATMI	286,509	140,647
Shareholders' funds / NA	3,614,161	1,774,192
Total interest bearing borrowings	-	-

Commentaries:

The company was incorporated on 11 July 2011. Revenue for the FYE 31 December 2012 was from sales of pipes and water supply equipments.

12. Subsidiaries (direct and indirect) Salcon Shandong**(i) Shandong Changle Salcon Water Company Limited**

FYE	2010		FYE 31 December 2011		2012	
	RMB	RM	RMB	RM	RMB	RM
Revenue	28,280,038	13,184,154	29,145,443	14,671,816	43,865,890	21,533,765
Other revenue	4,012,949	1,870,837	7,063,829	3,555,932	6,710,059	3,293,968
PBT	12,779,761	5,957,925	12,713,532	6,399,992	15,232,179	7,477,477
PATMI	9,488,609	4,423,590	9,466,982	4,765,679	11,289,618	5,542,073
Shareholders' funds / NA	71,754,545	33,451,969	81,126,857	40,839,260	92,303,579	45,311,827
Total interest bearing borrowings	45,348,390	21,141,419	53,000,000	26,680,200	41,215,877	20,232,874

Commentaries:

For the FYE 31 December 2012, revenue increased by 50% due to the increase in output of water supply with the completion of a new water treatment plant during the year. Other revenue comprises income from installation of pipelines. Notwithstanding the increase in revenue for FYE 31 December 2012, PBT margin declined from 43.6% to 34.7% mainly due to higher operating costs such as increase in staff and administrative costs.

(ii) Changle Salcon Raw Water Company Limited

FYE	2010		FYE 31 December 2011		2012	
	RMB	RM	RMB	RM	RMB	RM
Revenue	-	-	-	-	15,064,269	7,395,050
PBT	-	-	-	-	1,143,234	561,214
PATMI	-	-	-	-	1,143,234	561,214
Shareholders' funds / NA	59,136,414	27,569,396	59,136,414	29,769,271	60,279,648	29,591,279
Total interest bearing borrowings	47,616,268	22,198,704	72,143,760	36,317,169	70,266,537	34,493,843

Commentaries:

No revenue generated for the FYE 31 December 2010 and FYE 31 December 2011 as the water treatment plants only commenced operations in 2012 upon completion of the pipelines installation. Revenue for the FYE 31 December 2012 was from the supply of raw water.

THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK
--

DETAILS OF THE CONCESSION

1. Deqing Darco Producing Water Company Ltd (“Deqing Darco”)

Deqing Darco currently operates a water treatment plant located in Deqing County, Zhejiang Province, PRC (“**Qian Yuan Water Treatment Plant**”). In 2006, Darco Environmental Pte. Ltd. (now known as Salcon Darco), the shareholder of Deqing Darco had entered into a concession agreement involving the granting by Deqing County Construction Bureau of 25 years concession rights to Deqing Darco to design, construct, operate, maintain the water supply engineering works in Deqing County and to sell treated water to Deqing County Water Co., Ltd. (“**Deqing County Water Co.**”).

Darco Environmental Pte. Ltd had also on 12 December 2006 entered into a water purchase agreement with Deqing Water Co. whereby Deqing County Water Co. agreed to purchase treated water from Salcon Darco for a period of 25 years.

The Qian Yuan Water Treatment Plant has a design capacity of 100 million liters per day (“**MLD**”) and had commenced operations since 1 January 2012 and the concession will expire on 31 December 2036.

The salient terms of the concession agreement are as follows:

- (a) Deqing Darco shall be responsible in the design, construction, ownership, operation and maintenance of the water supply engineering works at its own cost and risk;
- (b) Deqing Darco shall supply and Deqing County Water Co. shall purchase treated water from Deqing Darco according to the water tariff and charge as stipulated in the water purchase agreement entered between Deqing Darco and Deqing County Water Co.;
- (c) The concession period shall be 25 years, which commences from the date on which Qin Yun Water Treatment Plant is officially operated;
- (d) During the concession period, Deqing Darco enjoy the concession right, the right to property (including all facilities) and land use rights; and
- (e) Deqing Darco is obliged to meet the normal water supply capacity within the concession area and to ensure the compliance of drinking water standards in accordance to the law of China.

The total initial investment amount in Deqing Darco was approximately RMB165.0 million. The investment cost was funded through bank borrowings and internally generated funds. Deqing Darco had subsequently obtained loan from financial institution for the project financing.

2. Deqing Huanzhong Producing Water Company Ltd (“Deqing Huanzhong”)

Deqing Huanzhong currently operates a water treatment plant located in Deqing County, Zhejiang Province, PRC (“**Wukang Water Treatment Plant**”). On 5 September 2005, Globe Industrial Technology Company Limited (“**Globe Industrial**”), a 95.58% owned subsidiary of Salcon Darco, entered into a joint-venture agreement with Deqing County Water Co. to set up a joint venture company, namely Deqing Huanzhong for the design, construction, operation and maintenance of Wukang Water Treatment Plant and water supply engineering works on a Build-Operate-Transfer (“**BOT**”) basis in Deqing County (“**Project**”).

The Wukang Water Treatment Plant has a design capacity of 60 MLD and had commenced operations since 18 April 2006 and the concession will expire on 27 March 2028.

The salient terms of the concession which are provided under the joint-venture agreement are as follows:

- (a) The concession period of the Project under the joint-venture agreement shall be 22 years, which commences from the date on which Wukang Water Treatment Plant is officially operated;
- (b) Deqing County Water Co. shall purchase 60,000 cubic meters per day of treated water from Deqing Huanzhong for a period of 22 years and Deqing Huanzhong shall collect payment therefrom according to the water purchase agreement entered between Deqing Huanzhong and Deqing County Water Co.
- (c) All the costs for construction, maintenance and facilities during the phase 1 of the Project shall be borne by Globe Industrial; and
- (d) Globe Industrial shall also be responsible for the debt and credit of Deqing Huanzhong during the operation period of the Project.

The total investment by Globe Industrial is RMB65.24 million cash (approximately USD7.89 million), representing 88.32% of the total registered share capital of Deqing Huanzhong. Globe Industrial shall inject the capital based on the timing stipulated in the joint-venture agreement. Deqing County Water Co. Ltd will inject a land with a value of RMB8.63 million as its capital, representing 11.68% of the total registered share capital of Deqing Huanzhong. The said land shall be used as Wukang Treatment Plant's construction site. The investment cost of RMB65.24 million was funded through bank borrowings and internally generated funds.

3. **Yizheng Salcon Waste Water Treatment Company Ltd ("Yizheng Salcon")**

Yizheng Salcon currently operates a waste water treatment plant ("**WWTP**") located in Yizheng City, Jiangsu Province, PRC. Jiangsu Salcon Water Environmental Development Company Limited, a 66.67% owned subsidiary of Salcon Jiangsu, had on 20 August 2010 entered into an equity transfer agreement with Wins Sun International Investment Company Limited ("**Wins Sun**"), in relation to the acquisition of the entire equity interest in Yizheng Rong Xin Wastewater Treatment Company Limited (now known as Yizheng Salcon) for a total cash consideration of RMB44 million. Wins Sun had on 18 July 2003 entered into a concession agreement with the People's Government of Yizheng, Jiangsu Province, PRC ("**Concession Agreement**") to build, finance, operate and maintain the WWTP on a BOT basis for the purpose of carrying out treatment of wastewater in Yizheng City. The rights and obligation in the concession agreement has been novated and assigned to Yizheng Salcon upon its incorporation pursuant to the terms and conditions set out in the supplemental concession agreement dated 1 December 2010 ("**Supplemental Concession Agreement**").

The WWTP has a design capacity of 50 MLD, of which 25 MLD capacity has been completed under Phase 1 in October 2006 and commenced operations on the same date. Phase 2 of the WWTP for 25 MLD was completed in October 2011 and commenced operation on the same date. The commercial operations of Phase 2 of the WWTP commenced on 1 September 2013. The concession is exclusive and will expire on 1 September 2043.

The salient terms of the Concession Agreement are as follows:

- (a) Yizheng Salcon shall be responsible to invest, build and operate the WWTP on BOT basis for the purpose of carrying out treatment of wastewater in Yizheng.

THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK
--

- (b) The concession period is 21.5 years commencing from 1 July 2003 and expiring on 31 December 2024, and shall consist of the following:
- (i) 1.5 years for the construction of the WWTP; and
 - (ii) 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 Yizheng Salcon.

- (c) The concession rights granted to Yizheng Salcon 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 Yizheng Salcon.
- (d) 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.

The purchase consideration for the acquisition of Yizheng Salcon of RMB44 million was funded through bank borrowings and internally generated funds. Yizheng Salcon had subsequently obtained loan from financial institution for the project financing.

The salient terms of the Supplemental Concession Agreement are as follows:-

- (a) Yizheng Salcon shall have the exclusive rights to invest, build, operate and maintain the WWTP on BOT basis for the purpose of carrying out Phase 2 of WWTP in Yizheng.
- (b) The concession period is 30 years commencing from the commercial operation date under Phase 2 of WWTP. Accordingly, the concession period for Phase 1 shall be extended and be terminated together with Phase 2 of the WWTP.

4. **Nan An Salcon Water Company Limited ("Nan An Water")**

Nan An Water currently operates and manages a raw water transfer project in Nan An City, Fujian Province, PRC. Salcon Fujian had on 14 January 2008 entered into a joint venture agreement with Nan An City Trading Industry & Agriculture Investment Co Ltd. to jointly establish Nan An Water, on a 65:35 basis, to develop and construct coastal 3-town water supply engineering project of Nan An City ("**Coastal 3-Town Water Project**").

On 26 May 2008, Nan An Water entered into a concession agreement with the People's Government of Nan An City ("**Nan An Government**") for a concession period of 30 years, on a BOT basis whereby Nan An Water has been granted the right by Nan An Government to design, finance, construct, operate and maintain the relevant water supply engineering works, supply raw water to Nan An 3 Coastal Towns (Guan Qiao/Shui Tou/Shi Jing) and the right to collect fees, as well as the exclusive right to execute standardised management on the water resources from ShiBi, HouQiao and ShuNei reservoirs for the 3 Coastal Towns.

The Coastal 3-Town Water Project will be constructed in 2 phases i.e. 170 MLD in Phase I and 175 MLD in Phase II. Phase I of the raw water transfer project was completed in 1 November 2012 and commenced operations on the same date. Phase II of the raw water transfer project is expected to be completed on 31 December 2026. The concession will expire on 25 May 2038.

The salient terms of the concession agreement are as follows:

- (a) the agreement shall form the basis for Nan An Water in the financing, designing, construction, operation, maintenance, service of the project during the concession period. It shall also form part of the basis for the Nan An Government to supervise Nan An Water;
- (b) The Nan An Government shall assist in the following area in accordance/compliance with the relevant laws in China:
 - (i) monitoring and supervising the design, construction, operation and maintenance of the water supply engineering works;
 - (ii) assist Nan An Water in obtaining all the necessary approval pertaining to the design, construction, operation and maintenance of the water supply engineering works;
 - (iii) assist Nan An Water in processing documentations for land approval in accordance with the law;
 - (iv) guarantee that Nan An Water enjoys the water intake right within the concession period; and
 - (v) ensure the concession right is fulfilled according to the law by Nan An Water within the concession area;
- (c) During the concession period, Nan An Water shall enjoy, amongst others the following rights and obligations:
 - (i) to supply water in accordance with the stipulated price and areas stated in the agreements, to operate legally and obtain reasonable returns; and
 - (ii) to guarantee the sufficiency and quality of the Raw Water (B) and to meet the requirement of Nan An 3 Coastal Towns water plants (GuanQiao, Shui Tou, Shi Jing) in accordance with the law of PRC and the requirement contained in the agreement;
- (d) The Nan An Government shall guarantee that Nan An Water can obtain the approval for taking water from the water resource area granted by the government continuously;
- (e) The Nan An Government shall assure the minimum guarantee water quantity with Nan An Water; and
- (f) Upon the expiry of the concession right, Nan An Water shall transfer its water supply engineering, all the relevant document, material and files pertaining to the project to the Nan An Government or its designated organisation.

Both Nan An Government, being the concession giver, and Nan An Water are bounded by the concession agreement. Nevertheless, in incidences of any breach by Nan An Water, the concession giver has the right to terminate the said agreement. In this respect, Nan An Water will ensure that all reasonable steps are taken to prevent any such breach.

The initial funding of the water supply project was via equity (cash) injections made by Nan An City Trading Industry & Agriculture Investment Co Ltd. and Salcon Fujian. The total initial investment by Salcon Fujian and Nan An City Trading Industry & Agriculture Investment Co Ltd. was RMB65 million and RMB35 million representing 65% and 35% respectively of the total registered share capital of Nan An Water. The investment cost of RMB65 million by Salcon Fujian was funded through bank borrowings and internally generated funds. Nan An Water had subsequently obtained loan from financial institution for the project financing.

5. Haining Salcon Water Company Ltd (“Haining Water”)

Haining Salcon currently operates a water treatment plant located in Haining City, Zhejiang Province, PRC. Salcon Zhejiang had on 31 August 2006 entered into an agreement with Haining City Water Investment Ltd. Group to set up Haining Water, a joint venture company, on a 60:40 basis to design, operate, maintain, produce and sell treated water in bulk to Haining City Water Supply Company, a wholly-owned subsidiary of Haining City Water Investment Ltd which in turn will supply the treated water to the consumers of Haining City, Zhejiang Province, PRC.

On 9 October 2006, Haining Water entered into a bulk purchase agreement involving the purchase by Haining City Water Supply Company from Haining Water of treated water (“**Bulk Purchase Agreement**”). On even date, Haining Water entered into a concession agreement involving the granting by Haining City Construction & Planning Bureau, Zhejiang Province, PRC (“**Haining City Construction**”) of 30 years concession rights on a BOT basis to Haining Water to design, finance, construct, operate and maintain the water supply engineering works and collection of charges from Haining City Water Supply Company.

Construction of the Phase I and Phase II of the water plant with each plant capacity of 150 MLD (total 300 MLD) have been fully completed and commenced operations in November 2007 and June 2010, respectively. The concession will expire in 8 October 2036.

The salient terms of the concession agreement are as follows:

- (a) During the concession period, Haining Water shall enjoy the following rights and obligations:
 - (i) to supply water in accordance with the Bulk Purchase Agreement and obtain reasonable returns;
 - (ii) to guarantee the sufficiency and quality of the water source and to meet the requirement of Haining City Water Supply Company of water quality and provision of water supply service in accordance with the law of PRC;
 - (iii) Haining Water has priority for the newly built water supply facilities; and
 - (iv) establish and improve production safety system to prevent accidents occur.
- (b) Haining City Construction shall enjoy the following rights and obligations:
 - (i) to supervise and inspect the provision of water supply service by Haining Water;
 - (ii) to formulate annual water supply quality supervision and investigation proposals, conduct sampling on the water quality of the water source and provide comprehensive evaluation on a yearly basis; and
 - (iii) to maintain the completeness of the concession right; and
- (c) Upon expiry of the concession right, Haining Water shall transfer its water supply engineering, all the relevant document, material and files pertaining to the project to Haining City Construction or its designated organisation.

Both Haining City Construction, being the concession giver, and Haining Water are bounded by the concession agreement. Nevertheless, in incidences of any breach by Haining Water, the concession giver has the right to terminate the said agreement. In this respect, Haining Water will ensure that all reasonable steps are taken to prevent any such breach.

The initial funding of the water supply project was via equity injections made by Haining City Water Investment Ltd. Group (assets and cash) and Salcon Zhejiang (cash). The investment by Salcon Zhejiang is approximately USD8.13 million, representing 60% of the total registered capital of Haining Water. Haining Water had subsequently obtained loan from financial institution for the project financing whereby corporate guarantee was provided by Salcon and Haining City Water Investment Ltd. Group.

6. Linyi Salcon Water Company Ltd (“Linyi Water”)

Linyi Water currently operates a water treatment plant located in Linyi City, Shandong Province, PRC. Salcon Water (HK) Limited, a wholly-owned subsidiary of Salcon, had on 28 May 2004 entered into a joint venture agreement with Shandong Province Linyi City Water Supply Company (“**Linyi Municipality Company**”) to set up Linyi Water, a joint venture company, on a 60:40 basis. Subsequently on 3 April 2005, both parties entered into a supplementary agreement whereby it was agreed amongst others that the name of the investment company which was stated as Salcon Water (HK) Limited in the original agreement be changed to Salcon Linyi (HK) Limited.

On 11 November 2005, Linyi Water entered into a concession agreement with the People’s Government of Linyi City, Shandong Province, PRC (“**Linyi City Government**”) on a Transfer-Operate-Transfer (“**TOT**”) basis whereby the Linyi City Government granted to Linyi Water the right on the design, construction, operation and maintenance of water supply engineering works and collection of charges from the consumers within the concession area, within the concession period of 30 years from the effective date of the agreement and the official operation date where Linyi Water starts to supply water to the consumers.

The water treatment plant commenced operations since 1997 and has a design capacity of 150 MLD. The concession will expire on 31 December 2035. Linyi Water shall enjoy the exclusive right under the concession agreement.

The salient terms of the concession agreement are as follows:

- (a) Except for the obligations stated in the agreement, the Linyi City Government shall assist, supervise and monitor Linyi Water in carrying out the following works. However, the Linyi City Government shall not bear any responsibility in providing such assistance, supervision nor would their existence result in the elimination or reduction of any obligations or responsibilities which shall be borne by Linyi Water:
 - (i) monitoring and supervising the design, construction, operation and maintenance of the water supply engineering works;
 - (ii) assist Linyi Water in obtaining all the necessary approval pertaining to the design, construction, operation and maintenance of the water supply engineering works;
 - (iii) assist Linyi Water in obtaining the land use right of the project site in accordance with the land use standard of public infrastructure;
 - (iv) protect and manage water collection zone. When proposed by Linyi Water to the Linyi City Government, the Linyi City Government shall increase and confirm the additional water collection zone or increase the raw water supply at anytime. Further, the increasing rate of raw water resource fee shall be maintained at minimum cost and shall not exceed the increasing rate of water supply fee;
 - (v) guarantee Linyi Water to enjoy the water intake right within the concession period, as well as assuring the sufficiency of water supply and water quality which is in compliance with the relevant regulations;

- (vi) assist Linyi Water in completing the preliminary works and construction of permanent municipal facilities and other works, including:
- relocating the affected residents, dismantling any buildings or obstacles at the project site;
 - temporary or permanent electricity, water supply, wastewater, sewerage and road; and
 - the closing down of self-supply wells and other water supply according to the time as stipulated in the agreement within the cover area of reticulation network.
- (vii) assist in confirming the electricity fee pursuant to the standards of major industrial electricity charges;
- (b) During the concession period, Linyi Water shall enjoy the following rights and obligations:
- legal rights to supply water to the final consumers exclusively in the concession area and obtain reasonable returns;
 - to ensure the operation of the water treatment plant in the concession area, normal maintenance of the water supply reticulation network and provision of water supply service to the consumers in the concession area in line with social and economic development;
 - to meet the requirements of water quality, water quantity, water pressure and provision of water supply service in accordance with the law of PRC and the requirement contained in the agreement;
 - to fulfill the obligation with social benefit as agreed by both parties; and
 - save from the regulations stipulated in the agreement, Linyi Water shall report the project contract to the Linyi City Government for recording purpose;
- (c) Upon expiry of the concession right as stipulated in the agreement, Linyi Water shall transfer with no considerations all of its fixed assets, rights, documents, materials and files to the Linyi City Government or its designated organisation on the date of transfer and ensure that the fixed assets fulfill the standard technical requirements and functionality requirement.

Both Linyi City Government, being the concession giver, and Linyi Water are bounded by the concession agreement. Nevertheless, in incidences of any breach by Linyi Water, the concession giver has the right to terminate the said agreement. In this respect, Linyi Water will ensure that all reasonable steps are taken to prevent any such breach.

The initial funding of the water supply project was via equity (cash) injections made by Linyi City Government and Salcon Water (HK) Limited. The investments by Salcon Water (HK) Limited is approximately USD3.71 million, representing 60% of the total registered capital of Linyi Water.

THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK
--

7. Shandong Changle Salcon Water Company Limited (“Shandong Changle Water”)

7.1 Water concession

Shandong Changle Water currently operates a water treatment plant located in Changle County, Shandong Province, PRC. Salcon Water (HK) Limited, a wholly-owned subsidiary of Salcon, had on 25 July 2003 entered into a joint venture agreement with Changle County General Water Supply Company to set up the joint venture company, Shandong Changle Water, on a 75:25 basis to handle, upgrade and manage the existing and newly-built facilities/plant for the production and supply of potable water and industrial water to Changle County on a TOT basis. On 25 July 2003, the People’s Government of Changle County, Shandong Province, PRC (“**Changle Government**”) issued a letter of undertaking granting the concession right to Shandong Changle Water to operate the plant with 40 MLD capacity, exclusively for 50 years i.e. from 1 January 2004 to 31 December 2053 (“**Undertaking Letter**”). On 21 November 2005, Salcon Shandong entered into a sale and purchase agreement with Changle County General Water Supply Company to acquire the remaining 25% of the registered share capital of Shandong Changle Water for RMB4 million in cash.

Subsequently, Shandong Changle Water signed a “Memorandum of Shandong Changle 100 MLD Water Plant Expansion and Investment Project” and the “Construction of 100 MLD New Water Plant and Nan Liu Quan Water Plant Counter Buy Agreement” with Changle Government on 18 March 2008 and 21 April 2008, respectively, which stipulates that within the authority of the existing concession right, Shandong Changle Water shall construct, operate and manage a new water treatment plant with a capacity of 100MLD, on a BOT basis. Upon operation of the 100 MLD new water plant, the Changle Government shall close down the existing 40 MLD water plant, after the acquisition of the said existing 40 MLD water plant by the Changle Government from Shandong Changle Water.

On 3 July 2008, Salcon Water (HK) Limited entered into a sale and purchase agreement with Salcon Shandong to dispose all its shares in Shandong Changle Water to Salcon Shandong.

The 40 MLD water treatment plant commenced operations since 1 January 2004. The new 100 MLD water treatment plant commenced operations in July 2011. The concession will expire on 13 November 2053.

The salient terms of concession are as provided in the joint venture agreement, as follows:

- (a) Shandong Changle Water is to possess, upgrade, construct, operate and manage the water production and distribution systems in the Changle County as well as to produce and sell water in compliance with the standards to potable and industrial users (excluding wastewater treatment and its related activities).
- (b) The co-operation period shall be of 50 years commencing from the date on which the business license was obtained (“**Co-operation Period**”). The said business license was issued by the National Administrative Bureau for Industry and Commerce, PRC.
- (c) The following are the water tariff and charge:
 - (i) Initial water tariff and charge for household and industrial consumption shall be based on the existing regulations and policies;
 - (ii) The General Manager of Shandong Changle Water shall submit the proposal for the revision to the water tariff to the Board of Directors of Shandong Changle Water and relevant government departments for approval after the signing of the joint venture agreement. The approval from the Board of Directors of Shandong Changle Water is to be obtained one (1) month before the end of every two (2) years or within one (1) month upon which the state policies are published; and

- (iii) In the event there is an obvious increase in the production costs of Shandong Changle Water, the Board of Directors of Shandong Changle Water has the rights to request for an increase in the water tariff from the government departments.

Both Changle County General Water Supply Company, being the concession giver, and Shandong Changle Water are bounded by the Undertaking Letter. Nevertheless, in incidences of any breach by Shandong Changle Water, the concession giver has the right to terminate the said agreement. In this respect, Shandong Changle Water will ensure that all reasonable steps are taken to prevent any such breach.

The initial funding of the water project was via equity injections made by Changle County General Water Supply Company (assets and cash) and Salcon Water (HK) Limited (cash). The investments by Salcon Water (HK) Limited is approximately USD1.44 million, representing 75% of the total registered share capital of Shandong Changle Water. The investment cost of USD1.44 million by Salcon Water (HK) Limited was funded through bank borrowings and internally generated funds. Shandong Changle Water had subsequently obtained loans from financial institution for the project financing whereby corporate guarantee was provided by Salcon.

7.2 Wastewater concession

Shandong Changle Water currently operates a WWTP located in Changle County, Shandong Province, PRC. Salcon Water (HK) Limited had on 27 February 2005 entered into a framework agreement with the Changle Government to takeover a wastewater treatment plant on a TOT basis. Subsequently on 22 April 2005, Salcon Water (HK) Limited entered into a TOT agreement i.e. "Changle Wastewater Treatment Plant TOT Project Agreement" to secure the concession of 30 years from the Changle Government, whereby an operating Company (herein referred to as Shandong Changle Water) was incorporated to engage in the design, finance, construction, transfer, operation and maintenance of the wastewater treatment facilities inside the Changle County Wastewater Treatment Plant for the Changle Government.

The WWTP commenced operations since 22 April 2005 and has a design capacity of 40 MLD. The concession is exclusive and will expire on 21 April 2035.

The salient terms and conditions of the concession which are provided in the TOT agreement are as follows:

- (a) The Changle Government shall grant the following exclusive responsibilities to Salcon Water (HK) Limited without compensation within the 30 years from the 90 days within the signing and effectives of the agreement or 15 days upon which all the conditions precedents are fulfilled (whichever is later), which shall be the date on which the existing facilities is transferred from Changle Government to Salcon Water (HK) Limited ("**First Transfer Date**") ("**Concession Period**") and issue relevant license of operating wastewater treatment business to Shandong Changle Water:
 - (i) Manage, own, operate and maintain the existing facilities and extension portion of the existing facilities;
 - (ii) Financing, design and build the extension part of the existing facilities;
 - (iii) Exclusive right to treat wastewater in the service area; and
 - (iv) Collect the abovementioned relevant wastewater treatment service fee.

- (b) Salcon Water (HK) Limited shall be entitled to enjoy the following rights within the Concession Period:
- (i) To enjoy the property rights of the project and takeover all the facilities, equipment, records of the WWTP;
 - (ii) To operate and manage the wastewater treatment plant, enjoy all owner's equity and profit-sharing right, own, use, manage and maintain all the facilities;
 - (iii) Salcon Water (HK) Limited shall have the exclusive right within the service areas on the concession right granted by the Changle Government; the Changle Government shall guarantee that it shall not sign any contracts or agreements with any third party which is in competition with any items contained in the agreement; and
 - (iv) The ownership of the project and the concession right on the wastewater treatment business belong to Salcon Water (HK) Limited and the Shandong Changle Water during the Concession Period. All the ownership right of the project shall be transferred to the Changle Government upon expiry of the Concession Period and Salcon Water (HK) Limited shall guarantee that the project is free from encumbrances during the second transfer which is the date on which the existing facilities is transferred by Salcon Water (HK) Limited to Changle Government based on the market price at that time and settlement of the transfer payment upon expiry of the Concession Period. The transfer value will be determined later.

Both Changle Government, being the concession giver, and Shandong Changle Water are bounded by the concession agreement. Nevertheless, in incidences of any breach by Shandong Changle Water, the concession giver has the right to terminate the said agreement. In this respect, Shandong Changle Water will ensure that all reasonable steps are taken to prevent any such breach.

The total investment amount for the WWTP is RMB18 million which was funded by Shandong Changle Water through bank borrowings and internally generated funds.

8. Changle Salcon Raw Water Company Ltd (“Changle Salcon Raw Water”)

Changle Salcon Raw Water currently operates and manages a raw water supply project in Changle County, Shandong Province, PRC. Salcon Shandong had on 21 April 2008 entered into a concession agreement i.e. “Raw Water Supply Concession Agreement” with the Changle Government to establish Changle Salcon Raw Water, a foreign wholly owned project company in Changle County, Shandong Province, PRC (“**Project Company**”). Upon the establishment of the Project Company, Salcon Shandong's rights and obligations stated in the agreement shall be transferred to the Project Company. The concession is on a BOT basis for a period of 30 years and involves the design, construction, ownership, operation and maintenance of the raw water project. The facilities i.e. raw water pipelines are to channel raw water from the Gao Ya reservoir to the 100 MLD water treatment plant.

Construction of the raw water pipelines was completed on 11 November 2011 and commenced operations on 1 March 2012. The concession will expire on 28 February 2042.

The salient terms of the concession agreement are as follows:

- (a) Salcon Shandong shall be responsible in the design, finance, construction, ownership, operation and maintenance of the water supply engineering works, and upon the expiry of the concession period, shall transfer the raw water supply project to the organisation appointed by the Changle Government.

- (b) Each party agrees that the agreement shall only form the basis for the Project Company in the financing, design, construction, operation, maintenance, service of the project during the concession period. It shall also form part of the basis for the Changle Government to supervise Salcon Shandong in accordance with the terms and conditions contained in the agreement during the concession period.
- (c) The agreement shall not constitute a joint venture or partnership relationship between the Changle Government and Salcon Shandong.
- (d) The concession period shall be 30 years, which commences from the date on which the Project Company is officially operated.
- (e) The initial estimated investment amount of the Project Company shall be USD15.8 million (RMB109 million) whereby Salcon Shandong shall inject the capital based on the timing stipulated in the Memorandum & Articles of Association approved by the approving authority. On 3 June 2009, the investment amount of the Project Company was revised to USD21.7 million (RMB148 million).
- (f) Salcon Shandong shall be responsible in the design and technical service, financing arrangement, procurement, construction, operation and maintenance of the project within the concession period whilst the Changle Government shall assist in the following area in accordance with the relevant laws in PRC:
 - (i) Monitoring and supervising the design, construction, operation and maintenance of the water supply engineering works;
 - (ii) Assist Salcon Shandong in obtaining all the necessary approval pertaining to the design, construction, operation and maintenance of the water supply engineering works;
 - (iii) Assist Salcon Shandong in obtaining the land use right of the project site in accordance with the land use standard of public infrastructure;
 - (iv) Assist Salcon Shandong in processing the documentations of using the land in accordance with the law;
 - (v) Guarantee Salcon Shandong to enjoy the water intake right within the concession period;
 - (vi) Assist Salcon Shandong in completing the preliminary works and construction of permanent municipal facilities and other works; and
 - (vii) Taking strong measures to protect the ecology of water resources area.
- (g) During the concession period, Salcon Shandong shall enjoy the following rights and obligations:
 - (i) to supply water to areas in accordance with the price stipulated;
 - (ii) to meet water demand within the concession area and to ensure that water quality is in compliance with the requirement of relevant standards as well as the law of PRC and the requirement contained in the agreement;
 - (iii) upon the operation of water supply engineering works, Salcon Shandong shall obtain the water resource from Gao Ya Reservoir or various water reservoirs within the Changle County, and has the right to sell raw water to the raw water users of Changle County;

- (h) Upon expiry of the concession right, Salcon Shandong shall guarantee that all facilities are in good condition and all the liabilities have been cleared, Salcon Shandong, shall transfer without consideration the engineering facilities which is related to the water supply project and all the relevant document, material and files to the Changle Government of its designated organization.

Both Changle Government, being the concession giver, and Changle Salcon Raw Water are bounded by the concession agreement. Nevertheless, in incidences of any breach by Changle Salcon Raw Water, the concession giver has the right to terminate the said agreement. In this respect, Changle Salcon Raw Water will ensure that all reasonable steps are taken to prevent any such breach.

The total investment amount in Changle Salcon Raw Water was approximately USD21.70 million. The investment cost was funded through bank borrowings and internally generated funds. Changle Salcon Raw Water had subsequently obtained loan from financial institution for the project financing.

For clarification purposes, all the salient terms of the agreements as extracted/summarised and provided herein have been translated from the original Chinese agreements to English. In the event of any discrepancy between the original and translated version of the agreements, the terms of the original Chinese agreement shall prevail over the translated English version.