

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

- **PROPOSED DIVERSIFICATION OF THE PRINCIPAL ACTIVITIES OF SALCON BERHAD AND ITS SUBSIDIARIES TO INCLUDE MANUFACTURING AND TRADING OF RUBBER GLOVES AND ITS RELATED SERVICES (“PROPOSED DIVERSIFICATION”)**

1. INTRODUCTION

On behalf of the Board of Directors of Salcon (“**Board**”), Affin Hwang Investment Bank Berhad (“**Affin Hwang IB**”) wishes to announce that the Company proposes to undertake the Proposed Diversification.

On 12 November 2020, Nusantara Jasakita Sdn Bhd, a 90.00%-owned subsidiary of Salcon then (“**NJSB**”), had entered into a share sale agreement (“**SSA**”) with Ganesan A/L Subramaniam (“**Ganesan**”) to acquire 1,020,000 ordinary shares in JR Engineering and Medical Technologies (M) Sdn Bhd (“**JREMT**”), representing 51.00% equity interest therein, for a cash consideration of RM28.56 million (“**JREMT Acquisition**”). The Proposed Diversification is undertaken following the completion of the JREMT Acquisition on 12 March 2021. JREMT is principally involved in the business of manufacturing and trading of latex, nitrile and medical gloves, and provision of turnkey advisory and consultancy services for rubber glove players (“**Glove Business**”).

Subsequently on 10 May 2021, Salcon completed the acquisition for the remaining 10.00% equity interest in NJSB. As such, NJSB has become a wholly-owned subsidiary of Salcon.

The Board currently anticipates that the Glove Business may likely be one of the major contributors to Salcon and its subsidiary companies’ (“**Group**”) revenue and net profits in the future. Hence, the Company proposes to seek an approval from its shareholders for the Proposed Diversification at an extraordinary general meeting (“**EGM**”) to be convened, pursuant to Paragraph 10.13(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“**Bursa Securities**”) (“**Listing Requirements**”).

Further details of the Proposed Diversification are set out in the ensuing sections of this announcement.

2. DETAILS OF THE PROPOSED DIVERSIFICATION

The Group is principally involved in water and wastewater engineering with key focus on the investment, design, construction, commissioning, operation and maintenance of water and wastewater treatment plants and ancillary facilities across the Asian region (“**Core Business**”). Based on the latest audited financial results for the financial year ended (“**FYE**”) 31 December 2020, the Group had four reportable segments from its continuing operations, which are as follows:

Operating segment	Revenue (RM’000)	Percentage segment contribution to the Salcon Group’s total revenue (%)	Segment profit ⁽¹⁾ (RM’000)	Percentage segment contribution to the Salcon Group’s total segment profit ⁽¹⁾ (%)
(a) Construction ⁽²⁾	153,593	79.11%	833	32.58%
(b) Concessions ⁽³⁾	-	-	367	14.35%
(c) Trading ⁽⁴⁾	16,792	8.65%	5,086	198.90%
(d) Property development ⁽⁵⁾	23,763	12.24%	(3,729)	-145.83%
Total	194,148	100.00%	2,557	100.00%

Notes:

- (1) Segment profit comprises revenue from external customers and share of profit in associates and joint ventures, and it excludes depreciation and amortisation, finance costs, finance income and income tax expenses. It also excludes contribution from discontinued operations.
- (2) Comprises design, construction and commissioning of water and wastewater treatment facilities including downstream activities, i.e. non-revenue water reduction, customer service, billing and collection.
- (3) Comprises water treatment concession in Vietnam.
- (4) Comprises provision of the following services:

Service	Description
Transportation	Transportation and tour services by Eco-Coach & Tour (M) Sdn Bhd, a 51.3% owned subsidiary of Salcon Capital Sdn Bhd which in turn is a wholly-owned subsidiary of Salcon
Renewable energy services	Sales of solar power products and solar energy by Salcon Power (HK) Limited, a wholly-owned subsidiary of Salcon
Technology services	Mobile backhaul services and metro ethernet for carrier and enterprise markets by Volksbahn Technologies Sdn Bhd, a 50.0% and 2 shares owned joint venture company of Salcon

- (5) Comprises investment and development of residential, commercial and industrial properties.

(Source: Salcon's Annual Report 2020)

Salcon has built a track record in the past as a water and wastewater solutions provider in Malaysia and also in other countries such as Sri Lanka, Thailand, India, China and Vietnam. Hence, the Board intends to continue the Group's operations in the Core Business.

Nevertheless, the Group has been continually searching for alternative avenues to improve its financial performance. The Group was introduced to JREMT in September 2020 and had given due consideration before deciding to acquire JREMT in November 2020. The Group had entered into the Glove Business when it completed the JREMT Acquisition on 12 March 2021.

The Board anticipates that the Glove Business will immediately contribute to the Group's earnings given the global demand for rubber gloves arising from the coronavirus disease 2019 ("COVID-19") pandemic. In accordance with Paragraph 10.13(1) of the Listing Requirements, Salcon is required to obtain its shareholders' approval in a general meeting for any transaction or business arrangement which might reasonably be expected to result in either:

- (a) the diversion of 25% or more of Salcon's net assets to an operation which differs widely from those operations previously carried on by Salcon; or
- (b) the contribution from such an operation of 25% or more to Salcon's net profits.

The Board expects that the Glove Business will trigger the threshold above in the immediate future, and therefore intends to seek the shareholders' approval for the Proposed Diversification.

JREMT is an experienced rubber glove manufacturer which has been in operation for almost 20 years. Further, JREMT had recorded positive historical financial results for the past 3 years. Further details of JREMT is set out in Section 2.1 of this announcement.

2.1 Details of JREMT

2.1.1 History and principal activities

JREMT was incorporated in Malaysia on 11 June 2001 under the laws of Malaysia as a private limited company. JREMT is principally engaged in the business of manufacturing and trading of latex, nitrile and medical gloves, and provision of turnkey advisory and consultancy services for rubber gloves players.

Its factory is located at Rasa, Selangor with 4 fully commissioned and operational glove manufacturing lines as at 30 April 2021 (being the latest practicable date prior to this announcement) (“**LPD**”). JREMT produces latex and nitrile gloves which are suitable for medical, surgical, cleanroom and car assembly use, amongst others. The annual production capacity of JREMT as at the LPD is 420 million pieces of gloves per year. Its products are certified and recognised by the United States Food & Drug Association (“**FDA**”) and CE Marking Certification for the European region. JREMT has been servicing more than 163 customers from 16 countries.

The audited financial results of JREMT for the last 3 FYE 30 September 2018 to 30 September 2020 and the 6-months unaudited financial period ended 31 March 2021 are as follows:

Audited FYE 30 September	2018 RM'000	2019 RM'000	2020 RM'000	Unaudited 6-months financial period ended 31 March 2021 RM'000
Revenue	34,468	35,026	51,232	66,076
PAT	764	1,024	1,831	11,614
NA	3,106	4,130	5,961	17,575

(Source: JREMT)

2.1.2 Share Capital

As at the LPD, the issued share capital of JREMT is RM2,000,000 comprising 2,000,000 ordinary shares.

2.1.3 Directors

As at the LPD, the Directors of JREMT are as follows:

Name	Designation
Tan Sri Dato' Tee Tiam Lee	Non-Independent Non-Executive Director
Dato' Leong Kok Wah	Non-Independent Non-Executive Director
Law Woo Hock	Non-Independent Non-Executive Director
Ganesan	Managing Director
Hamen A/L Ganesan (“ Hamen ”)	Non-Independent Executive Director

Tan Sri Dato' Tee Tiam Lee and Dato' Leong Kok Wah are the Executive Deputy Chairman and Executive Director of Salcon respectively, whilst Law Woo Hock is the Director – Corporate Affairs & Finance / Chief Financial Officer of Salcon.

Ganesan founded JREMT in 2001 and has been the Managing Director after its incorporation.

2.1.4 Shareholders

As at the LPD, the shareholders of JREMT and their respective shareholdings are as follows:

Shareholder	No. of shares	%
NJSB	1,020,000	51.00000
Ganesan	979,999	48.99995
Hamen	1	0.00005
Total	2,000,000	100.00000

Upon completion of the JREMT Acquisition on 12 March 2021, all the shareholders and JREMT (collectively the “Parties”) have entered into a shareholders’ agreement to regulate their rights, obligations and liabilities as shareholders of JREMT (“SHA”). Further details of the SHA are set out in Section 2.3 and Appendix of this announcement.

2.2 Key Management Personnel

Post JREMT Acquisition, Ganesan and Hamen have agreed to remain as JREMT’s Managing Director and General Manager, respectively, for a duration of 3 years from 12 March 2021 with an option to extend their tenure by a further 3 years, subject to mutual agreement on such terms and conditions by the Parties.

(a) Ganesan

Ganesan, a Malaysian aged 58, obtained his Diploma in Mechanical Engineering from Bradford Technical College Kuala Lumpur in 1986. He ventured into the glove manufacturing business in 1991 when he joined Brightway Holdings Sdn Bhd and was the General Manager when he left in 2001. He has more than 30 years of experience in the glove manufacturing industry as well as expertise in the design, engineering, construction of gloves dipping lines, quality control system and management in the wastewater treatment plant and boilers.

Ganesan founded JREMT in 2001 and has been the Managing Director after its incorporation. He has grown JREMT from a small distributor and processing agent to its present position as a glove manufacturer with an annual production capacity of 420 million pieces of gloves per year (as at the LPD). As the Managing Director of JREMT, he will continue to spearhead and oversee JREMT’s day-to-day management and overall operations, marketing activities, and to formulate and implement new business strategies.

Further, Ganesan has experience and knowledge in setting up of glove dipping plants and is able to provide know-how technical application and inputs for plants set-up. He has advised several glove companies both locally and abroad on the setting up of gloves dipping plants.

(b) Hamen

Hamen, a Malaysian aged 29, graduated with a Bachelor of Business Administration (Hons) degree majoring in International Business and Marketing from Unitar International University in 2014.

After obtaining his degree, he joined Massive Global Resources Sdn Bhd as the Marketing Manager. He was responsible for managing the company’s marketing initiatives which includes preparation and review of promotion materials. In addition, he also oversaw and managed the company’s sales activities which included preparing the sales budget and forecast, monitoring market trends on product prices and implementing price adjustment accordingly. Further, he has experience in conducting market studies to assess the demand for certain types of products across different target segments.

In January 2017, he joined JREMT as the Marketing Manager and thereafter was promoted to General Manager in March 2017. He is responsible for overseeing the daily business activities, improving overall business functions, training the various heads of department, increasing sales and marketing efforts, as well as assist the Managing Director in directing and managing JREMT's business activities. Hamen is also appointed as a Director of JREMT in October 2020 and is the son of Ganesan.

(c) Mohanadass A/L Ganesan (“Mohanadass”)

Mohanadass, a Malaysian aged 33, graduated with a Bachelor of Automotive Engineering and Bachelor of Automotive Technologies from University of Technology Auckland, New Zealand in 2012.

After obtaining his Bachelor degrees, he started his professional career in New Zealand where he joined Team McMillan BMW Auckland City as an Automotive Engineer and Research and Development Technician in 2013. Subsequently, in 2015, he joined Giltrap Lamborghini Manukau, Mangere as its Chief Technical Officer. In 2016, he returned to Malaysia and joined Massive Global Resources Sdn Bhd as its Technical Manager.

In 2017, he joined JREMT as its Project Manager and thereafter promoted to General Manager of Operations in January 2018. As the General Manager of Operations, he is in charge of overseeing the daily operations of the glove manufacturing lines and quality control measures, ensuring technical requirements of the plant and machineries are met, as well as managing procurement of raw materials. Mohanadass is the son of Ganesan.

(d) Sethuraman A/L Elangovan (“Sethuraman”)

Sethuraman, an Indian citizen aged 36, graduated with a Bachelor of Commerce degree from the University of Bharathidasan, India in 2012. He had joined JREMT in July 2005 as a Logistics Supervisor and was subsequently promoted to Operations Manager in 2012.

He has approximately 16 years of working experience in the areas of logistics, quality assurance, marketing, purchasing and, project and operation planning. As the Operations Manager, he is responsible for the overall daily operations and management of the glove manufacturing lines, processes and production facilities.

2.3 Salient terms of the SHA

On 12 March 2021, the Parties have entered into the SHA upon completion of the JREMT Acquisition. The salient terms of the SHA are as follows:

(I) The Parties' agreed shareholding ratio in JREMT (“**Agreed Ratio**”) are as follows:

Shareholder	Shareholding (%)
NJSB	51.00
Ganesan and Hamen (collectively the “ Ganesan Group ”)	49.00
Total	100.00

(II) JREMT's Board of Directors (“**JREMT Board**”) will consist of 5 Directors, of which 3 Directors shall be nominated by NJSB and another 2 shall be nominated by the Ganesan Group. The Chairman of the JREMT Board shall be nominated by NJSB and will not have a casting vote.

(III) Employment of Ganesan and Hamen

- (a) Ganesan shall continue as the Managing Director of JREMT for a period of 3 years from the date of completion of the SSA (i.e. 12 March 2021) based on the same terms and conditions as per his current terms of employment with JREMT.

Ganesan will have the power and authority to fully manage JREMT and shall be in charge of the day-to-day management and operation of JREMT. Ganesan will report to the JREMT Board and make recommendations in respect of the annual budget, expansion and strategy of JREMT;

On the expiration of the 3 years' period, Ganesan has an option to further extend his tenure of employment as the Managing Director for an additional 3 years based on such terms and conditions to be mutually agreed between the Parties.

- (b) Hamen shall also continue his current employment as a General Manager with JREMT for a duration of 3 years from the date of completion of the SSA (i.e. 12 March 2021) based on the same terms and conditions as per his current terms of employment with JREMT and has an option to extend his tenure of employment for a further 3 years based on terms and conditions to be mutually agreed between the Parties.

(IV) Transfer of Shares

- (a) The shareholders shall not:
- i. sell, transfer, assign, charge, pledge or otherwise dispose of or encumber any of their shares or any beneficial interest in such shares to any third party;
 - ii. grant or permit to subsist any option over any mortgage, charge, pledge or other encumbrances; or
 - iii. dispose of any beneficial interest in any such shares,
- without the prior written consent from the other shareholders.
- (b) If the shareholders wish to dispose their respective shareholdings, the disposing shareholder is obligated to offer first to the other shareholder, save for transfers within the Ganesan Group.
- (c) If NJSB wishes to sell its shares to a third party, the Ganesan Group has a right to tag-along.

- (V) Subject to making such appropriate provisions for reserves and working capital as the JREMT Board may decide and as are required by applicable law, and subject to any relevant requirements of lenders of JREMT, if any, the net profit after tax in respect of any financial year will be distributed in the Agreed Ratio by way of dividends or otherwise mutually agreed by the shareholders, after taking into consideration the solvency, loan commitment, working capital and capital commitment of JREMT.

The other salient terms of the SHA are set out in the Appendix of this announcement.

3. RATIONALE AND JUSTIFICATION FOR THE PROPOSED DIVERSIFICATION

The Group is principally involved in water and wastewater engineering with key focus on the investment, design, construction, commissioning, operation and maintenance of water and wastewater treatment plants and ancillary facilities. This segment is the key driver and largest contributor of the Group's total consolidated revenue. Besides water and wastewater engineering, the Group is involved in other business areas such as property development, technology services, transportation and renewable energy services, amongst others.

The Group has been actively identifying alternative avenues to improve its financial performance. This effort was given more emphasis in 2020 due to the COVID-19 pandemic which had an impact on the Group's existing business operations.

In September 2020, the Group was introduced to JREMT. Subsequently, after due consideration, the Group decided to acquire JREMT to enter into the Glove Business in November 2020. The Group decided to engage in the Glove Business after observing the development of the glove industry and demand for rubber gloves in light of the COVID-19 pandemic.

The Group had also taken into consideration of the following:

(a) Diversification on the Group's Core Business

The revenue from the Core Business has declined by 6.03% for FYE 31 December 2020 as compared to FYE 31 December 2019. Similarly, the segment profit from the Core Business has also declined by 92.74% for FYE 31 December 2020 as compared to FYE 31 December 2019. The decline was mainly due to delays suffered by the Group in the execution of construction contracts. In addition, the Group faced a challenging operation landscape such as government mandated shutdown of construction sites and labour constraints. Nevertheless, the Board expects the financial performance will improve progressively once the COVID-19 pandemic is under control.

Through the Proposed Diversification, it is the Group's intention to have a recurring income portfolio which encompasses different business areas and to help mitigate potential downside risks of the Group's existing business arising from the wide-ranging effects of the COVID-19 pandemic on the local economy including the local construction and tourism industry as well as the global economy.

(b) Fundamental shift in demand for gloves

The COVID-19 pandemic has led to rising awareness for cleanliness and personal hygiene which has resulted in a wider use of personal protective equipment such as gloves beyond the medical sector. These sectors include, amongst others, manufacturing, food and beverage as well as tourism. As such, the Group is of the view that there is a fundamental shift in demand for gloves given the widespread usage of gloves across the aforementioned sectors which is expected to continue in the medium term.

The Group acknowledges that other existing manufacturers are actively increasing their production capacities in glove manufacturing and there are new players venturing into this sector. Nevertheless, the Group believes that this fundamental shift in the usage of gloves will continue to cause heightened demand for gloves in the near to medium term.

(c) The Proposed Diversification yields immediate results

The Group has immediate access into the Glove Business in the form of an operational manufacturing facility, skilled labour force, existing customers base and an immediate source of revenue and profits. JREMT has been operating for almost 20 years and thus, the Group can save time and costs related to setting up a new manufacturing plant and obtaining all the required approvals and certifications. The details of JREMT's history, business activities and past results are set out Section 2.1 of this announcement.

The Glove Business of JREMT has experienced growth in FYE 30 September 2020 due to the COVID-19 pandemic where the revenue increased by 46.27% and the profit after tax increased by 78.81% as compared to 2019. Further, for the unaudited 6-months financial period ended 30 March 2021, JREMT has already achieved RM66.08 million in revenue and RM11.61 million in profit after taxation.

Moving forward, the Group will be entitled to part of JREMT's profit in accordance with its shareholding in JREMT. Hence, the Proposed Diversification will provide a new revenue stream to the Group and provides an opportunity for the Group to grow its revenue and to improve its financial performance.

(d) Profit guarantee provided by Ganesan

Ganesan, being the vendor in the JREMT Acquisition, has provided a profit guarantee of at least RM10.00 million in profits after tax for JREMT. Premised on Salcon's shareholding in JREMT and the profit guarantee of at least RM10.00 million, the Group's share of JREMT's profits after tax would be at least RM5.10 million.

The said profit guarantee is valid for 3 financial years ending 31 December 2021 to 31 December 2023. In the event that the targeted profit after tax is not achieved, Ganesan will pay for the profit guarantee shortfall.

The profit guarantee shortfall is to be rounded up or down to the nearest RM100,000 and is payable upon demand by NJSB, which is no later than 30 June of the following year. Further, such payment of the shortfall may be taken from Ganesan's portion of dividends declared by JREMT for the relevant year, if so assigned by him.

4. EFFECTS OF THE PROPOSED DIVERSIFICATION

4.1 Share capital and substantial shareholders' shareholding

The Proposed Diversification will not have any effect on the share capital or the substantial shareholders' shareholding in the Company as it does not involve the issuance of new ordinary shares in Salcon ("**Shares**").

4.2 Net Assets ("NA**"), NA per Share and gearing**

The impact to the NA, NA per Share and gearing of the Group as a result of the Proposed Diversification will depend on the future profit contribution from the Glove Business.

Premised on the profit guarantee provided by Ganesan, the Proposed Diversification is expected to contribute positively to the Group's NA in the future. However, it is not expected to have any material impact on the Group's NA, NA per Share and gearing ratio as at 31 December 2020, assuming that the Proposed Diversification had been effected on 31 December 2020.

4.3 Earnings and earnings per Share (“EPS”)

Premised on the profit guarantee provided by Ganesan, the Proposed Diversification is expected to contribute positively to the future earnings and EPS of the Group for the financial year ending 31 December 2021.

5. INDUSTRY OVERVIEW AND OUTLOOK AND PROSPECTS OF THE GROUP

5.1 Overview and outlook of the Malaysian economy and water industry

The Malaysian economy registered a smaller decline of 0.5% in the first quarter of 2021 (4Q 2020: -3.4%). The growth performance was supported mainly by the improvement in domestic demand and robust exports performance, particularly for electrical & electronic (E&E) products. Growth was also supported by the continued policy measures. The imposition of the Second Movement Control Order (MCO 2.0) and the continued closure of international borders and restrictions on inter-state travel, however, weighed on economic activity. Nevertheless, as restrictions were eased in February and March, economic activity gradually picked up.

All economic sectors registered an improvement, particularly in the manufacturing sector. On the expenditure side, growth was driven by better private sector expenditure and strong exports. On a quarter-on-quarter seasonally-adjusted basis, the economy registered a growth of 2.7% (4Q 2020: -1.5%).

Despite the recent re-imposition of containment measures, the impact on growth is expected to be less severe than that experienced in 2020, as almost all economic sectors are allowed to operate. Overall, the growth recovery will benefit from better global demand, increased public and private sector expenditure as well as continued policy support. This will also be reflected in the recovery in labour market conditions, especially in the gradual improvement in hiring activity. Higher production from existing and new manufacturing facilities, particularly in the E&E and primary-related sub-sectors, as well as oil and gas facilities will provide a further impetus to growth. The roll-out of the domestic COVID-19 vaccine programme will also lift sentiments and contribute towards recovery in economic activity. Nevertheless, the pace of recovery will be uneven across economic sectors.

(Source: Economic and Financial Developments in the Malaysia in the First Quarter of 2021, Bank Negara Malaysia)

The total market size (in revenue terms) of the Malaysian water industry was estimated at RM10.1 billion in 2017. It is estimated that the industry is growing at a compounded annual growth rate (“CAGR”) of between 2.5% and 6.6% with an average of 4.6% from 2017 to 2020. In 2020, the market size of the Malaysian water industry (in revenue terms) is estimated at RM11.6 billion, employing roughly 40,000 people. 65% of the industry’s revenue (or ~RM7.5 billion) is contributed by water utilities and sewerage services. Water equipment and chemicals is the next largest, contributing 17% of the industry’s revenue. This is followed by consulting services at 9% of the industry’s revenue.

(Source: The Malaysian Water Industry Status & Outlook Report 2020/21, Malaysian Water Association)

5.2 Overview and outlook of the glove industry

Exports of Malaysia's natural rubber amounted 58,852 tonnes in March 2021, an increase of 7.7% as against 54,632 tonnes in February 2021. Rubber gloves was the main export item with an export value of RM6.4 billion in March 2021, an increase of 9.4% as compared to February 2021 (RM5.8 billion). United States of America was the highest importer of rubber gloves followed by Germany and China.

(Source: Monthly Rubber Statistics Malaysia, March 2021, Department of Statistics Malaysia)

The World Health Organisation (“WHO”) recommends the use of medical gloves by health-care workers to prevent germ transmission. The use of medical gloves reduces the risk of contamination of health-care workers hands with blood and other body fluids as well as germ dissemination to the environment and of transmission from the health-care worker to the patient and vice versa, as well as from one patient to another.

(Source: Glove Use Information Leaflet, August 2009, WHO)

On 11 March 2020, the WHO declared that the COVID-19 virus would be categorised as a pandemic. As the COVID-19 virus spread at a rapid pace, the Centre for Disease Control and Prevention (“CDC”) and the FDA had acknowledged the shortage of rubber glove supplies and made various recommendations and proposals to optimise the use of available glove resources.

(Source: WHO Director-General's Opening Remarks at the Media Briefing on COVID-19, March 2020, WHO; Enforcement Policy for Gowns, Other Apparel, and Gloves During the COVID-19 Public Health Emergency, March 2020, FDA; and Strategies for Optimising the Supply of Disposable Medical Gloves, December 2020, CDC)

Premised on the above, the Group anticipates that the global demand for gloves will continue to persist and potentially surpass the current level. The increase in demand is expected to be largely driven by the rapid growth and expansion of the medical and healthcare services industry both locally and globally. Further, the resumption of industrial manufacturing activities as well as other non-healthcare related business such as food and beverages as well as tourism may also contribute to an increase in gloves consumption globally.

5.3 Prospects of the Group

The Group is principally involved in water and wastewater engineering with key focus on investment, design, construction, commissioning, operation and maintenance of water and wastewater treatment plants and ancillary facilities. The Group is committed to enhancing long-term shareholders' value and to ensure sustainability of a steady income stream. As such, the Group had previously diversified into property development, technology services, transportation and renewable energy services.

The Group's latest venture into the Glove Business is intended to incorporate a new recurring income stream as it provides the Group with immediate access to the gloves business. Currently, the Group is exploring setting up a new glove manufacturing plant to increase the existing production capacity in order to capitalise on the surge in global demand for rubber gloves.

The Group will continually monitor and assess the global demand trend for gloves and will formulate its business strategy accordingly, which may include embarking on future capacity expansion to suit the market environment while aiming to achieve sustainable growth.

6. RISK FACTORS IN RELATION TO THE PROPOSED DIVERSIFICATION

6.1 Business and industry risks related to glove manufacturing and trading activity

The Proposed Diversification will expose the Group to risks inherent to the gloves industry. These may include, amongst others, global and regional economic downturns, competition from existing players and entry of new players, socio-political instability, changes in the legal and environmental framework within which the industry operates as well as changes in the global demand for gloves.

Presently, the global demand for gloves is driven by factors associated with the COVID-19 pandemic such as the severity and contagion of various COVID-19 strains, the availability of vaccines and its efficacy as well as the commercial viability to make available these vaccines to the mass population. Meanwhile, in the medium term, the global demand for rubber gloves could be affected by the fundamental shift in the demand for gloves, an ageing demography who are more susceptible to disease and the need of better healthcare equipment given the rising awareness on hygiene.

Although the Group will seek to limit these risks by monitoring global trends and developments, implementing effective management and cost-control policies as well as undertaking prudent business strategies, there can be no assurance that any changes to these risks factors will not have a material adverse effect on the Group's business and earnings in the future.

6.2 No prior experience in the glove industry

The Group is primarily involved in water and wastewater engineering and therefore does not have any past experience in the gloves industry. In this regard, the Group may face difficulties in managing the production processes and business strategies required to succeed in the gloves industry as Glove Business is unique and differs from the Group's existing business. Hence, the Group will have to rely on the key senior management of JREMT to run the Glove Business. Further discussion on the dependency of key management to manage the Glove Business is set out in Section 6.5 of this announcement.

6.3 Competition and threat of new entrants

The Group's venture into the Glove Business may face competition from existing manufacturers and/or new entrants operating in the gloves industry both locally and regionally. Nevertheless, the Group will take proactive measures to remain competitive in this industry by keeping abreast with the latest market conditions and developments, maintaining effective cost-control measures and ensuring operational efficiency in its production processes through investment in automation to improve overall productivity.

However, there can be no assurance that the Group will be able to compete effectively with existing manufacturers and new entrants in the gloves industry.

6.4 Development, availability and efficacy of COVID-19 vaccines

Since the onset of the COVID-19 outbreak, several pharmaceutical companies have been researching and developing a vaccine against the virus. These COVID-19 vaccines had undergone rigorous testing and in December 2020, the first approved COVID-19 vaccines were administered to frontline workers and subsequently made available to the mass population across the United States of America and the United Kingdom. In Malaysia, the COVID-19 vaccination program started in March 2021 and is currently still ongoing.

The Group noted that various governments across the world had indicated that it would require several years to achieve herd immunity through these vaccination programs. Amongst the key issues faced are insufficient supply of vaccines and anti-vaccine sentiments from certain segment of the population. In this regard, the Group believes that the demand of rubber gloves will continue to increase in the near to medium term.

However, there can be no assurance that the Group's expectation will be met, particularly if there is a new and significant development relating to the COVID-19 vaccines, which may affect the overall demand for gloves.

6.5 Reliance on the key senior management of JREMT for business continuity

The day-to-day operations of JREMT will continue to be managed by Ganesan for the next 3 years from the date of completion of the SSA (i.e. 12 March 2021). Ganesan is the incumbent Managing Director of JREMT and also a substantial shareholder of JREMT. He has over 30 years of experience in the glove industry. He will be assisted by a team of skilled senior management who have over 4 years of working experience in the Glove Business. The profiles of Ganesan and the other senior management are set out in Section 2.2 of this announcement.

The Group is confident that it has taken proactive steps to identify and retain the necessary talent who possess the skills and expertise required to effectively manage JREMT, namely Ganesan and Hamen. The details of Ganesan's and Hamen's respective employment arrangements are set out in Section 2.3 of this announcement.

Nevertheless, the Board acknowledges that the success and growth of JREMT in the future will depend on the Group's ability to effectively retain the services of these key professionals. The loss of services from any of the key professionals without suitable and timely replacements may materially and adversely affect the Group's future financial performance.

6.6 Non-fulfillment of profit guarantee

As set out in Section 3(d) of this announcement, Ganesan has provided a profit guarantee of at least RM10.00 million in profits after tax for JREMT for 3 financial years ending 31 December 2021 to 2023. In the event that the target profit after tax is not achieved, Ganesan will compensate NJSB the profit guarantee shortfall by 30 June of the following year.

In the event of a shortfall, there is no assurance that Ganesan will be able to make good the shortfall. However, the payment of the shortfall may be taken from Ganesan's portion of dividends declared by JREMT for the relevant financial year, if so assigned to him.

7. APPROVAL REQUIRED

The Proposed Diversification is subject to the approval of the shareholders of Salcon at an EGM to be convened.

The Proposed Diversification is not conditional upon any other proposals undertaken or to be undertaken by Salcon.

8. INTEREST OF DIRECTORS, MAJOR SHAREHOLDERS, CHIEF EXECUTIVE AND/OR PERSONS CONNECTED WITH THEM

None of the Directors, major shareholders and/or chief executive of Salcon and/or persons connected with them have any interest, whether direct or indirect, in the Proposed Diversification.

9. DIRECTORS' STATEMENT

The Board, having considered all aspects of the Proposed Diversification, including but not limited to the rationale, financial effects and prospects, is of the opinion that the Proposed Diversification is in the best interest of the Company.

10. ESTIMATED TIMEFRAME FOR IMPLEMENTATION

Barring any unforeseen circumstances and subject to receipt of the required approval, the Board expects the Proposed Diversification will take immediate effect upon obtaining the approval of the shareholders of Salcon at an EGM to be convened.

11. PRINCIPAL ADVISER

Affin Hwang IB has been appointed as the Principal Adviser to Salcon for the Proposed Diversification.

12. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the SHA and SSA are available for inspection at the registered office of Salcon at 15th Floor, Menara Summit, Persiaran Kewajipan, USJ1, 47600 UEP Subang Jaya, Selangor Darul Ehsan from Monday to Friday (except public holidays) for a period of 3 months commencing from the date of this announcement.

This announcement is dated 12 May 2021.

OTHER SALIENT TERMS OF THE SHA

A. Company Secretary, Auditors, Registered Address and Financial Year

NJSB shall have the right to appoint the Company Secretary and Auditors, and to determine the registered address and financial year of JREMT.

B. JREMT Board Meetings

- (1) The quorum for any JREMT Board meeting shall be 3 Directors, which shall include at least 1 Director from each NJSB and the Ganesan Group. If a quorum is not present within 30 minutes of the time appointed for the JREMT Board meeting, the JREMT Board meeting shall automatically stand adjourned to the same day in the next week at the same time and place. In the absence of a quorum within 30 minutes of the time appointed for such adjourned meeting, the adjourned meeting shall be dissolved.
- (2) Unless otherwise required under the Companies Act, 2016, all matters arising at any JREMT Board meeting shall be decided by the majority of the Directors present and voting at that meeting.

D. General Meetings

- (1) The quorum for any general meeting shall require the presence of a representative from the Ganesan Group and a representative from NJSB.
- (2) If a quorum is not present within 30 minutes from the time appointed for a general meeting, such meeting will be adjourned to the same time next week and the quorum for such adjourned meeting shall be a shareholder or shareholders holding at least 51.00% of the share capital of JREMT.
- (3) The chairman of the meeting shall be the Chairman of the JREMT Board.
- (4) Voting of Reserved Matters

Unless otherwise required by law, "Reserved Matters" shall require the approval of at least 75% of the shareholders entitled to vote on such matters set.

- (5) Reserved Matters

The following shall require the approval of at least 75% of the shareholders entitled to vote:

- i. Any decision to dilute the Agreed Ratio of shareholding in JREMT;
- ii. Any payment or declaration of dividend other than for cash or any other distributions of capital by JREMT;
- iii. Any amalgamation, restructuring of capital, contractual obligation of any kind in cash or kind, merger or amalgamation, liquidation or dissolution of JREMT;
- iv. Any increase of the share capital of JREMT;
- v. Any sale of all or substantially all of the assets, tangible and/or intangible, of JREMT;
- vi. Any decision to proceed with a listing of JREMT on any stock exchange;
- vii. Any action which results in a change of effective control of JREMT;

OTHER SALIENT TERMS OF THE SHA (CONT'D)

- viii. Any increase in the number of Directors of JREMT beyond 5;
- ix. Any issuance of shares whether ordinary, preference shares or loan stock in JREMT including option of shares or convertible loan stock; and
- x. Any change in the current building and/or infrastructure of JREMT or any attempt to demolish or renovate any part of the infrastructure or building of the ground of JREMT, including any shrine, or place of worship, existing thereon.