

CONCESSION AGREEMENT BETWEEN CHANGZHOU CITY TIAN NING DISTRICT DIAO ZHUANG STREET OFFICE AND SALCON CHANGZHOU (HK) LIMITED (“SCHK”), A WHOLLY-OWNED SUBSIDIARY OF SALCON BERHAD

ASSET TRANSFER AGREEMENT BETWEEN CHANGZHOU SOUTHEAST INDUSTRIAL WASTEWATER TREATMENT PLANT (“CSIWTP”) AND SCHK

1. INTRODUCTION

Salcon Berhad (“Salcon” or “Company”) is pleased to announce that SCHK, a wholly-owned subsidiary of the Company had on 21 March 2011 entered into a Concession Agreement (“CA”) with Changzhou City Tian Ning District Diao Zhuang Street Office (“CCTNDDZSO”) of No. 700, Wu Zhong Boulevard, Changzhou City, Jiangsu Province, People’s Republic of China (“PRC”) to acquire, upgrade, operate and maintain the Changzhou Southeast Industrial Wastewater Treatment Plant at Tian Ning, Changzhou, Jiangsu Province, PRC (“Project”) on Transfer-Operate-Transfer (“TOT”) basis (“Concession”). The Project will be carried out through a wholly-owned subsidiary of the Company to be incorporated in China later (“Newco”).

SCHK had also on even date entered into a Asset Transfer Agreement (“ATA”) with CSIWTP, a division under the Economic Development Zone of CCTNDDZSO where CSIWTP will transfer its wastewater treatment plant mentioned above to SCHK for a total cash consideration of RMB60.0 million (equivalent to approximately RM27,702,110.00, which was converted based on the exchange rate as at 9 March 2011 of RM1 vs RMB2.1659) (“Acquisition”).

2. DETAILS OF CONCESSION

2.1. Parties to the CA

(i) Information on CCTNDDZSO

CCTNDDZSO is the People’s Government of Jiangsu Province.

(ii) Information on SCHK

SCHK is a company incorporated in Hong Kong with the registered address at Room 813, 8/F, Hollywood Plaza, 610 Nathan Road, Kowloon, Hong Kong. It is now a dormant company.

The authorized share capital of SCHK is HKD10,000 while the paid up capital is HKD1.00.

SCHK is a wholly-owned subsidiary of Salcon.

2.2 **Nature of concession**

SCHK has been granted a concession right by CCTNDDZSO, the People's Government of Jiangsu Province to acquire, upgrade, operate and maintain a wastewater treatment plant ("WWTP") on TOT basis for the purpose of carrying out wastewater treatment in Changzhou.

SCHK shall be responsible to upgrade the facilities of the WWTP for meeting the treated water quality standards of "Tai Hu Wastewater Treatment Plant and Key Industry Main Water Pollutant Discharge Limit" or the new discharge standards stipulated by the superior authorities pursuant to the upgrading plan. Thereafter, to operate and maintain the WWTP within the concession area and period with an agreed wastewater treatment service fee of RMB3.8/m³ chargeable to the People's Government of Jiangsu Province. The cost to be incurred for the upgrading is approximately RMB3.0 million (equivalent to approximately RM1,385,105.50 based on the exchange rate as at 9 March 2011 of RM1 vs RMB2.1659).

Upon expiry of the concession period, SCHK shall transfer the WWTP back to the party to be identified by CCTNDDZSO without cost.

CCTNDDZSO and SCHK have agreed that SCHK shall transfer all its obligations and responsibilities to the Newco upon its incorporation.

The Newco shall be responsible for the upgrade, own, operate and maintain the WWTP during the concession period.

2.3 **Concession Period**

The concession period is 30 years commencing from the date of signing of the CA.

The concession period when expired may be extended subject to mutual agreement of CCTNDDZSO and SCHK.

2.4 **Location and Capacity of WWTP**

The WWTP is located at Tian Ning District, Changzhou City, Jiangsu Province, PRC.

The WWTP has a treatment capacity of approximately 30 million liter per day ("MLD").

2.5 **Minimum Guarantee Volume**

SCHK has also been guaranteed a minimum water volume of 17.8MLD based on 320 days for first 5 years, 13.4MLD based on 320 days for 6th year to 10th year.

3. **DETAILS OF ACQUISITION**

The ATA involves the transfer of the WWTP by CSIWTP to SCHK for a total cash consideration of RMB60.0 million (“Consideration”). Details of the WWTP were mentioned in item 2.4 above.

3.1 **Basis of Arriving the Consideration**

The Consideration of RMB60.0 million was through an open tender exercise and awarded by the People’s Government of Jiangsu Province.

The Company is unable to obtain the financial information of WWTP, as such information is not privy to the Company.

3.2 **Justification of the Consideration**

The Consideration was arrived after taking into the consideration the intense competition in water and wastewater business in PRC to secure a reasonable concession.

3.3 **The salient terms of the ATA are as follows:-**

(i) **Terms of Payment**

(a) SCHK shall within 15 working days from the date of signing of CA, pay to CSIWTP RMB30.0 million.

(b) The remaining of RMB30.0 million shall be paid to CSIWTP within 15 working days from the date of completion of asset transfer.

3.4 **Liabilities to be Assumed by SCHK**

There are no liabilities (including contingent liabilities and guarantees) to be assumed by the SCHK, arising from the Acquisition.

3.5 **Sources of Fund**

SCHK will fund the Acquisition through internally generated funds and bank borrowings at the proportion of 54% and 46% respectively.

3.6 **Financial Effects of the Acquisition**

(i) **Share Capital and Substantial Shareholders**

The Acquisition will not have any effect on the issued and paid-up share capital and substantial shareholding structure of the Company.

(ii) **Earnings per Share**

The Acquisition will not have any significant effect on the earnings per share of Salcon Group for the financial year ending 31 December 2011. The Acquisition is however expected to contribute positively to the future earnings of Salcon Group.

(iii) **Net Assets per Share**

The Acquisition will not have any significant effect on the net assets per share of Salcon Group for the financial year ending 31 December 2011.

(iv) **Gearing**

The Acquisition will increase the gearing of Salcon Group to 0.4 times from 0.36 times based on the latest audited consolidated financial statements of the Company for the financial year ended 31 December 2009.

4. **RATIONALE AND PROSPECTS**

The Concession is an integral part of the water integration scheme of Salcon and is in line with the expansion plan of core business activities of Salcon Group.

The Concession and Acquisition are expected to contribute to the medium and long term profitability and growth of Salcon Group.

5. **RISK FACTORS**

The risk factors for both the Concession and Acquisition include but not limited to those associated with changes in the economic, political and regulatory conditions in the PRC such as changes to government policies and administration, interest rates, taxes and exchange control regulations.

6. **INTEREST OF DIRECTORS AND/OR MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED WITH THEM**

None of the Directors and/or major shareholders of the Company and/or persons connected with them, has any interest, direct or indirect, in the Concession and Acquisition.

7. APPROVALS OF SHAREHOLDERS AND AUTHORITIES

The Concession and Acquisition are not subject to the approval of shareholders and any authorities.

8. STATEMENT BY DIRECTORS

The Directors of the Company, having taken into consideration the rationale and all relevant aspects of the Concession and Acquisition, are of the opinion that both the Concession and Acquisition are in the best interest of the Company and its shareholders.

9. ESTIMATED TIME FRAME FOR COMPLETION

Barring any unforeseen circumstances the Acquisition is expected to be completed within 90 days from the date of the ATA, unless otherwise extended.

10. HIGHEST PERCENTAGE RATIO APPLICABLE

The highest percentage ratio applicable to the Acquisition based on the latest audited consolidated financial statements of the Company for the financial year ended 31 December 2009 pursuant to Chapter 10 of the Bursa Malaysia Securities Berhad Main Market Listing Requirements is 9.01%.

11. DOCUMENTS FOR INSPECTION

A copy each of the CA and ATA is available for inspection at the Company's registered office at 15th Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP, Subang Jaya, Selangor during normal office hours from Mondays to Fridays (except public holidays) for a duration of 3 months from the date of this announcement.