

EXECUTION OF SALE AND PURCHASE AGREEMENT AND SHAREHOLDERS' AGREEMENT BETWEEN SALCON BERHAD AND DARCO WATER TECHNOLOGIES LTD

1. INTRODUCTION

The Board of Directors of Salcon Berhad ("**Salcon**" or "**the Company**") is pleased to announce that the Company has on even date entered into the following agreements:-

- (i) A Sale and Purchase Agreement with Darco Water Technologies Ltd (Registration No. 200106732C) ("**Darco Water Technologies**") for the acquisition of 15,461,076 ordinary shares of S\$1.00 each ("**Sale Shares**") in Darco Environmental Pte Ltd (Registration No. 200107899E) ("**Darco Environmental**") representing 60% of the issued and paid up share capital of Darco Environmental for a cash purchase consideration of RMB95,830,690.00 (equivalent to RM47,474,524) ("**SPA**"); and
- (ii) A Shareholders' Agreement with Darco Water Technologies to regulate their relationship as shareholders of Darco Environmental and the management and operation of Darco Environmental .

("Proposed Acquisition")

Subsequent to the Proposed Acquisition, Darco Environmental shall be a subsidiary of Salcon.

2. INFORMATION ON DARCO WATER TECHNOLOGIES

Darco Water Technologies (Registration No. 200106732C) was incorporated in 1999 in Singapore and listed on the Singapore Exchange (SGX) in 2002.

Darco Water Technologies is a provider of integrated engineering and knowledge based water treatment solutions and its Board of Directors comprise Thye Kim Meng, Heather Tan Chern Ling, Teo Sin Yng and Joshua Siow Chee Keong.

The substantial shareholders of Darco Water Technologies and their respective shareholdings as at 30 November 2011 are as follows:

Name of Substantial Shareholder	Number of Shares (Direct Interest)	Number of Shares (Deemed Interest)	Total	Percentage
Thye Kim Meng	36,795,711	27,000,000	63,795,711	23.06%
Stone Robert Alexander	36,297,000	-	36,297,000	13.12%

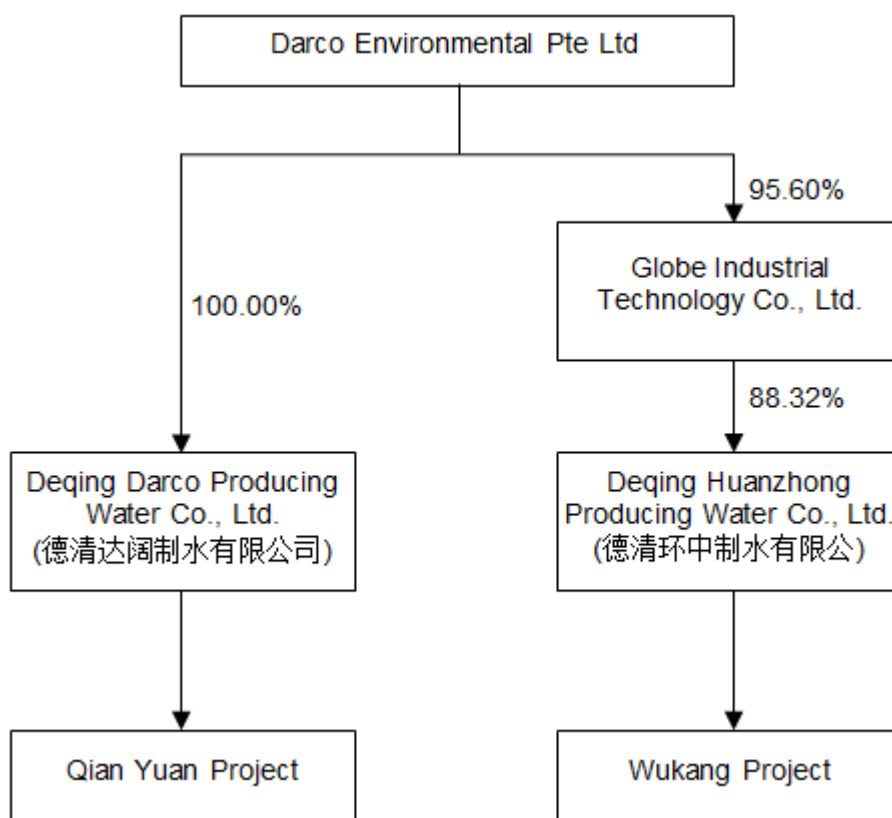
3. INFORMATION ON DARCO ENVIRONMENTAL AND ITS GROUP OF COMPANIES

3.1 Darco Environmental

Darco Environmental (Registration No. 200107899E) was incorporated on 8 December 2001 in Singapore. The present issued and paid up capital of Darco Environmental is S\$25,768,459 divided into 25,768,459 ordinary shares of S\$1.00 each. Darco Environmental is wholly-owned by Darco Water Technologies.

Darco Environmental is an investment holding company and its subsidiaries (collectively known as “**the Group**”) (as per the Group structure below) are principally engaged in the business of operating and managing water treatment plants and sale of treated water:-

Group Structure



Further details of Darco Environmental are contained in Schedule 1.

3.2 Deqing Darco Producing Water Co Ltd

Deqing Darco Producing Water Co Ltd (Company Registration No.: 330500400007391) ("**Deqing Darco**") is a wholly foreign owned enterprise incorporated under the laws of People's Republic of China ("**PRC**"), the particulars of which are set out in Schedule 1.

Deqing Darco owns and operates the water treatment plant of 100MLD located in Deqing County Zhejiang, Province of China in the PRC ("**Qian Yuan Project**") pursuant to a concession granted to Darco Environmental. Darco Environmental has also entered into a water purchase agreement with Deqing County Water Co. Ltd. ("**Deqing Water Co.**") pursuant to which Deqing Water Co. agreed to purchase treated water from Darco Environmental for a period of 25 years.

3.3 Deqing Huanzhong Producing Water Co Ltd

Deqing Huanzhong Producing Water Co Ltd (Company Registration No.: 330500400006876) ("**Deqing Huanzhong**") is a Sino-foreign contractual joint venture duly established under the laws of the PRC, the particulars of which are set out in Schedule 1.

Globe Industrial Technology Co., Ltd., which is 95.60% owned by Darco Environmental, holds approximately 88.32% of the equity interest in Deqing Huanzhong while the remaining equity of approximately 11.68% is held by Deqing Water Co.

Deqing Huanzhong owns and operates the water treatment plant of 60MLD located in Deqing County Zhejiang, Province of China in the PRC ("**Wukang Project**"). Deqing Huanzhong had entered into a water purchase agreement with Deqing Water Co, pursuant to which Deqing Water Co agreed to purchase treated water from Deqing Huanzhong for a period of 22 years.

3.4 Globe Industrial Technology Company Limited

Details of Globe Industrial Technology Company Limited is set out in Schedule 1.

3.5 Financial information on Darco Environmental

The net profits and net assets of Darco Environmental are RM2,182,658 and RM44,201,221 respectively based on the consolidated audited financial statements for the financial year ended 31 December 2010.

4. DETAILS OF THE PROPOSED ACQUISITION AND SALIENT TERMS OF THE SPA

4.1 Consideration and Payment

The Sale Shares are to be purchased by Salcon free from all encumbrances together with all rights, benefits, dividends and entitlements attaching thereto as at the Completion Date (as hereinafter defined), upon and subject to the terms and conditions of the SPA for a total sum of RMB95,830,690.00 (equivalent to RM47,474,524) ("**Purchase Consideration**"), subject to adjustments in accordance with the terms and conditions of the SPA.

A refundable deposit of RMB15,000,000.00 (equivalent to RM7,431,000) ("**Deposit**") was paid to Darco Water Technologies as security for an exclusivity period during which Salcon will conduct due diligence on the Group

The balance Purchase Consideration, being an amount equivalent to the difference between the Purchase Consideration and Deposit, shall be paid by Salcon to Darco Water Technologies on the Completion Date.

4.2 Conditions Precedent

The SPA is conditional upon the following :-

- (i) Darco Water Technologies passing at the Extraordinary General Meeting of a valid resolution(s) to approve the sale of the Sale Shares and the transactions contemplated under the SPA.
- (ii) The written notification to United Overseas Bank Limited in relation to Salcon's acquisition of the Sale Shares under the SPA upon satisfaction of Clause (i) above.
- (iii) The occurrence of the following events:
 - (a) the provision of evidence reasonably satisfactory to Salcon that the inter-company loan agreement between Deqing Darco and Deqing Huanzhong has been duly executed on terms and conditions that are acceptable to Salcon; and
 - (b) the provision of evidence reasonably satisfactory to Salcon that the inter-company loan agreement between Deqing Darco and Shanghai Darco Engineering Co. Ltd has been duly executed on terms and conditions that are acceptable to Salcon.
 - (c) the provision of evidence reasonably satisfactory to Salcon that all debts owing from Globe Industrial Technology Co., Ltd to Darco

Water Technologies has been duly assigned to Darco Environmental and all debts have been capitalized and Darco Environmental legally owns 95.6% of the total paid-up share capital in Globe Industrial Technology Co., Ltd.

- (iv) No Termination Event having occurred or subsisting in relation to Darco Water Technologies or Salcon (as the case may be) at Completion.
- (v) The delivery of a certificate:
 - (a) signed by or on behalf of Darco Water Technologies addressed to Salcon; and
 - (b) signed by or on behalf of Salcon addressed to Darco Water Technologies,

dated on or immediately prior to Completion certifying that no Termination Event in relation to Salcon or Darco Water Technologies, as appropriate, has occurred or is subsisting as at the date of such certificate.

4.3 Completion

Completion shall take place at the offices of Darco Water Technologies or such other places as the parties may agree on the Completion Date (or such other date and time as the parties may agree in writing), being a date falling fourteen (14) business days after the satisfaction or waiver of the last of the conditions precedent of the SPA ("**Completion Date**"). Fulfillment of the conditions precedent must take place on or before the 90th day following the signing of the SPA (or such other date as Darco Water Technologies and Salcon shall agree in writing).

Upon completion of the Proposed Acquisition, the shareholding of Darco Environmental shall be as follows:-

Name	No. of ordinary shares of S\$1.00 each held	Shareholding Percentage
Salcon	15,461,076	60%
Darco Water Technologies	10,307,383	40%
Total	25,768,459	100%

5. **SHAREHOLDERS' AGREEMENT (SHA)**

The SHA between Salcon, Darco Water Technologies and Darco Environmental is to regulate their relationship as shareholders of Darco Environmental and the management and operation of Darco Environmental accordingly.

6. BASIS OF ARRIVING AT THE PURCHASE CONSIDERATION AND JUSTIFICATION OF THE PURCHASE CONSIDERATION

The total Purchase Consideration of RMB95,830,690.00 (equivalent to RM47,474,524) was arrived based on the discounted cashflows of projected earnings of Darco Environmental at 11%.

7. SOURCE OF FUND

The Purchase Consideration will be funded through internally generated funds and bank borrowings, the actual breakdown of which could not be quantified at this juncture.

8. LIABILITIES TO BE ASSUMED

There will be no liabilities, including contingent liability or guarantee, to be assumed arising from the Proposed Acquisition.

9. RATIONALE AND PROSPECT OF THE PROPOSED ACQUISITION

The Proposed Acquisition is in line with the expansion plan of core business activities of Salcon Group.

The Proposed Acquisition is expected to bring the following benefits to the Group:

- (i) Increase a medium to long term stable recurring income to the Group;
- (ii) Enable Salcon to build a bigger and stronger platform to further expand its presence in the large PRC market, on top of its current presence.
- (iii) Further improve penetration into the Chinese industrial wastewater market.

10. RISK FACTORS

The risk factors for the Proposed 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.

11. EFFECTS OF THE PROPOSED ACQUISITION

11.1 Share Capital and Substantial Shareholder's shareholding

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

11.2 Earnings per share

The Proposed Acquisition will not have any significant effect on the earnings per share of Salcon Group for the financial year ending 31 December 2012. The Proposed Acquisition is however expected to contribute positively to the future earnings of Salcon Group.

11.3 Net Assets

The Proposed Acquisition will not have any significant effect on the net assets per share of Salcon Group for the financial year ending 31 December 2012.

11.4 Gearing

The Proposed Acquisition will increase the gearing of Salcon Group to 0.23 times from 0.16 times based on the latest audited consolidated financial statements of the Company for the financial year ended 31 December 2011.

12. PERCENTAGE RATIOS

The highest percentage ratio applicable to the Proposed Acquisition is 14.90% pursuant to paragraph 10.02 (g) of the Main Market Listing Requirements of the Bursa Malaysia Securities Berhad.

13. DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

None of the Directors and Major Shareholders of Salcon and/or persons connected with them have any interest, direct or indirect, in the Proposed Acquisition.

14. DIRECTORS' STATEMENT

After having taken into consideration the rationale of the Proposed Acquisition, the Board is of the opinion that the Proposed Acquisition is in the best interests of Salcon.

15. APPROVALS REQUIRED

The Proposed Acquisition is not subject to approval of the shareholders of Salcon or any government authority.

16. ESTIMATED TIMEFRAME FOR COMPLETION

The Proposed Acquisition is expected to be completed 90 days from 21 May 2012.

17. DOCUMENTS FOR INSPECTION

The SPA and SHA are 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 office hours from Monday to Friday (except public holidays) for a duration of three (3) months from the date of this announcement.

This Announcement is dated 21 May 2012

SCHEDULE 1

1. Darco Environmental Pte Ltd

Date and place of incorporation : 8 December 2001/Singapore
Registered number : 200107899E
Registered office : 123 Woodlands Industrial Park E5, Woodlands E-Terrace, Singapore 0757498
Issued share capital as at the date of the SPA : S\$ 25,768,459.00 divided into 25,768,459 shares of S\$1.00 each

Shareholder(s) as at the date of the SPA	: <u>No. and class of shares</u>	<u>Registered holder</u>
	25,768,459 ordinary shares	Darco Water Technologies Ltd
Directors	: Thye Kim Meng Heather Tan Chern Ling	

2 .Deqing Darco Producing Water Co Ltd

Date and place of incorporation : 31 December 2006, PRC
Registered number : 330500400007391
Registered office : Deqing Administration of Industry and Commerce
Registered Capital : US\$11,960,000
Total Investment : US\$29,900,000
Shareholder(s) : No. of shares : Registered holder
100 % . Darco Environmental Pte Ltd
Directors : Thye Kim Meng
Thye Ze Pin
Zhang Jue

SCHEDULE 1

3. Deqing Huanzhong Producing Water Co Ltd

Date and place of incorporation : 12 June 2008, PRC
Registered number : 330500400006876
Registered office : Deqing Administration of Industry and Commerce
Registered capital : US\$8,939,000
Outstanding Registered Capital : NIL
Total Investment : US\$8,939,000

Shareholder(s)	<u>No. of shares</u>	<u>Registered holder</u>
	88.32 %	Globe Industrial Technology Company Limited
	11.68%	Deqing County Water Co. Ltd.

Directors : Thye Kim Meng
Teo Sin Ying
Thye Ze Pin
Zhang Jue
Chen Xin Nian
Hu Xiang Lan
Xuan Hai Jiang

4. Globe Industrial Technology Company Limited

Date and place of incorporation : 17 July 2002/Hong Kong
Registered number : 806446
Registered office : Room D, 11/F, 8 Hart Avenue, 8-10 Hart Avenue, Tsim Sha Tsui, Kwoloon, Hong Kong
Authorised share capital as at the date of the SPA : HK\$226,353 divided into 226,353 ordinary shares of HK\$1 each
Issued share capital as at the date of the SPA : HK\$226,353 divided into 226,353 ordinary shares of HK\$1 each

Shareholder(s) as at the date of the SPA	<u>No. and class of shares</u>	<u>Registered holder</u>
	226,353 ordinary shares	Darco Environmental Pte Ltd

Directors : Thye Kim Meng
Yeoh Ah Luan Joan
Teh Eu Gene