

GENERAL ANNOUNCEMENT

TRANSACTIONS (CHAPTER 10 OF LISTING REQUIREMENTS) NON RELATED PARTY TRANSACTIONS

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

PROPOSED DISPOSAL OF 40,345,802 SHARES OF HK\$1.00 EACH FULLY PAID IN SALCON LINYI (HK) LIMITED, REPRESENTING 100% OF THE TOTAL ISSUED AND PAID-UP SHARE CAPITAL OF SALCON LINYI (HK) LIMITED BY SALCON AND SALCON WATER (ASIA) LIMITED, A 60%-OWNED SUBSIDIARY OF SALCON, TO ORIENT HARMONY HOLDINGS LIMITED

1. Introduction

Pursuant to Paragraphs 9.19(24) and 10.06 of the Bursa Malaysia Securities Berhad Main Market Listing Requirements, the Board of Directors of Salcon wishes to announce that Salcon, together with Salcon Water (Asia) Limited (Company No. 1039087) (“SWA”), a 60%-owned subsidiary of the Company, had on 26 April 2016 entered into a Share Sale and Purchase Agreement (“SSA”) with Orient Harmony Holdings Limited (Company No. 2311851) (“OHHL”) for the disposal by Salcon and SWA of 40,345,802 shares of HK\$1.00 each fully paid up in Salcon Linyi (HK) Limited (Company No. 945149) (“SLHK”), representing 100% of the total issued and paid-up share capital of SLHK (“Sale Shares”) to OHHL for a total cash sale consideration of RMB98,000,000.00 only [*equivalent to approximately RM58,936,733**] (“Sale Consideration”) (hereinafter referred to as “the Proposed Disposal”).

(hereinafter, Salcon, SWA and OHHL referred as “the Parties”)

2. Information on SLHK and SLHK Group of Companies

2.1 SLHK

SLHK was incorporated in Hong Kong on 11 January 2005 as a private limited company under the Companies Ordinance and having its registered office at 11A, Yue On Commercial Building, 385-387 Lockhart Road, Wanchai, Hong Kong.

The present issued and paid-up share capital of SLHK is HK\$40,345,802.00 divided into 40,345,802 shares of HK\$1.00 each. SLHK is an investment holding company.

The existing directors of SLHK are as follows:-

Name of Directors

- i. Tan Sri Dato’ Tee Tiam Lee
- ii. Dato’ Leong Kok Wah
- iii. Law Woo Hock

The shareholders of SLHK as at todate are SWA and Salcon with shareholdings of 99.99% and 1 share of the total paid up capital respectively.

2.2. Linyi Salcon Water Company Limited (“LSWC”)

LSWC was incorporated on 7 November 2005 in the People’s Republic of China (“PRC”) under the laws of the PRC.

The present issued and paid-up share capital of LSWC is USD7,400,000. The principal activity of LSWC is management and operation of water production and distribution of water in Linyi City, installation and maintenance of tap water facilities.

The existing directors and shareholder of LSWC are as follows:-

Name of Directors

- i. Ooi Cheng Swee
- ii. Law Woo Hock
- iii. Zhang Song
- iv. Dai Jing Qing
- v. Zhang Xingye
- vi. Sun Chao
- vii. Xu Li Hua

<u>Name of Shareholders</u>	<u>Percentage of Shareholding</u>
i. SLHK	60.00%
ii. Linyi Municipal Water Supply Company	40.00%
TOTAL	100.0%

2.3 Linyi Salcon Water Supply Facilities Company Limited (“LSWS”)

LSWS was incorporated on 11 July 2011 in PRC under the laws of the PRC.

The present issued and paid-up share capital of LSWS is RMB10,000,000. The principal activity of LSWS is repair and maintenance of municipal water supply pipeline, equipment, water supply equipment.

The existing director of LSWS is Xu Lihua.

LSWS is a wholly-owned subsidiary of LSWC.

2.4 Linyi Runcheng Water Supply Project Company Limited (“LRWS”)

LRWS was incorporated on 3 July 1993 in PRC under the laws of the PRC.

The present issued and paid-up share capital of LRWS is RMB120,000. The principal activity of LRWS is repair and maintenance of municipal water supply pipeline, equipment and water supply equipment.

The existing director of LRWS is Xu Lihua.

LRWS is a wholly-owned subsidiary of LSWC.

2.5 Financial information on SLHK

The following financial information was extracted from the consolidated audited financial statements of SLHK for the financial year ended 31 December 2014:-

Financial year ended 31 December 2014	RM'000 SLHK	RM'000 LSWC Group
Net Profits/(Loss)	(18)	(5,600)
Net Assets/(Liability)	17,546	36,176

Upon completion of the Proposed Disposal, SLHK and its subsidiaries will cease to be indirect subsidiaries of Salcon.

3. Information on OHHL

OHHL was incorporated on 25 November 2015 as a private limited company incorporated in Hong Kong under the Companies Ordinance and having its registered office at Flat D, 10F, Tower A, Billion Centre, 1 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong.

The present issued and paid-up share capital of OHHL is HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. The principal activity of OHHL is investment in water and wastewater facilities, advance oxidation technology used for water and wastewater treatment, advance Nano sensing technology for pipeline.

Yan Choy Chiang is the sole director and shareholder of OHHL.

4. Information on SWA

SWA was incorporated on 20 April 2006 as a private limited company incorporated in Hong Kong under the Companies Ordinance and having its registered office at 11A, Yue On Commercial Building, 385-387 Lockhart Road, Wan Chai, Hong Kong.

The present issued and paid-up share capital of SWA is HK\$315,621,509 divided into 315,621,509 shares of HK\$1.00 each. The principal activity of SWA is investment holding.

The directors and shareholders of SWA are as follows:-

Name of Directors

- i. Tee Tiam Lee
- ii. Leong Kok Wah
- iii. Ooi Cheng Swee @ Wee Kwee Swee
- iv. Motoki Kinoshita
- v. Sajidharan Anantakrishnan (Alternate: Liam Trevor Tierney)

<u>Name of Shareholders</u>	<u>Number of Shares</u>	<u>Percentage of Shareholding</u>
Salcon	189,372,906	60%
Challenger Emerging Market Infrastructure Fund Pte Ltd	126,248,603	40%
TOTAL	315,621,509	100%

5. Salient terms of the SSA

5.1 The Sale Shares will be acquired by OHHL free from all encumbrance(s) and with all the rights attaching to the Sale Shares.

5.2 The Parties agree that the Proposed Disposal is being carried out without any due diligence exercise conducted on the SLHK and LSWCL by OHHL.

5.3 Sale Consideration

5.3.1 OHHL shall pay the Sale Consideration in United States Dollars (“USD”) currency of USD15,051,682.56^ to SWA’s bank account maintained in Hong Kong.

5.3.2 OHHL shall deduct from the Sale Consideration, the account payables amounting to HK119,407 (equivalent to USD15,393.05@) which remained outstanding in the books of SLHK and the estimated stamp duties amounting to USD15,051.68 (being 0.1% of the Sale Consideration) to be paid by Salcon and SWA for the Proposed Disposal.

5.3.3 The Sale Consideration, after deducting the accounts payables and stamp duties as stated above, shall be USD15,021,237.83 and it shall be paid by OHHL on the Completion Date (“Completion Payment”).

5.4 Completion Date

Completion shall take place at the date of execution of the SSA or such other dates as the Parties may agree in writing (provided that it shall not later than 29 April 2016), the Completion Payment shall be paid by OHHL to Salcon and SWA within 2 days from the date of execution of the SSA.

For the avoidance of doubt, unless all of the Completion Payment has been effectively deposited in the SWA’s bank account on the Completion Date and has been successfully cleared, the completion cannot take place and the SSA shall be terminated without prejudice to the rights of any parties to the SSA to make a claim against the other party for any liabilities arising from the breach of the SSA accrued before its termination.

6. Basis of arriving at and justification for the sale consideration

The Sale Consideration of RMB98,000,000.00 [*equivalent to approximately RM58,936,733**] was arrived at on a willing-buyer willing-seller basis after taking into consideration the earnings potential of the concession held by SLHK and the aggregate carrying value of each individual assets to be acquired and current liabilities to be assumed by OHHL.

7. Rationale and Benefit for the Proposed Disposal

The Proposed Disposal provides an opportunity to the Salcon to continue to realise and unlock the value of its investments in SLHK and allow the Group to strengthen its financial position. With the proceeds from the Proposed Disposal, Salcon will be able to re-mobilise its capital and resource for expansion of its other core business including property development, fiber optic and/or investment in new income stream.

8. Original Cost of Investment

The original cost and date of investment for SLHK are as follows:-

Date of Investment	Cost of Investment (RM)
17 February 2005	- ⁽¹⁾
12 January 2011	15,891,122

Note:

(1) Transfer of 1 subscriber share of HK\$1.00 to Salcon.

9. Risk Factors

The Company does not expect any material risk arising from the Proposed Disposal other than normal economic risk associated with the Proposed Disposal which the Group would take appropriate measures to minimise them.

10. Assumption of liabilities

There are no liabilities, including contingent liabilities and guarantees to be assumed by OHHL arising from the Proposed Disposal, save for the existing shareholder's loan of RMB18.0 million which was provided by SLHK to LSWC.

11. Expected gain from the Proposed Disposal

Upon completion of the Proposed Disposals, the Salcon Group is expected to realise a net gain attributable to owners of the Company of approximately RM31.96 million based on the latest audited financial statements of the Salcon Group for the Financial Year Ended 31 December 2014.

12. Proposed utilisation of proceeds from the Proposed Disposal

Details of utilisation	Amount allocated (RM)	Intended timeframe for utilisation upon the Completion
Future Investments	RM24,753,427	Within 24 months
Working Capital	RM10,608,612	Within 24 months
TOTAL	RM35,362,039	

13. Effects of the Proposed Disposal

13.1 Share capital and substantial shareholders' shareholding

The Proposed Disposal does not have any effect on the share capital and substantial shareholders' shareholdings of the Company.

13.2 Earnings per share, net assets per share and gearing

The Proposed Disposal will increase the earning per share of Salcon Group for the financial year ending 31 December 2016 by approximately RM0.05.

The Proposed Disposal will decrease the net assets per share of Salcon Group for the financial year ending 31 December 2016 by approximately RM0.08.

The Proposed Disposal will not have any significant effect on the gearing of Salcon Group for the financial year ending 31 December 2016.

14. Estimated time frame for completion

SWA had on the 26 April 2016, received USD15,021,231.37 from OHHL, being the Completion Payment. As such, the Proposed Disposal is deemed to be completed on 26 April 2016.

15. Percentage ratio

The highest percentage ratio applicable to the Proposed Disposal pursuant to Paragraph 10.02(g) of the Bursa Malaysia Securities Berhad Main Market Listing Requirements computed based on Salcon's latest audited consolidated financial statements for the financial year ended 31 December 2014 is 14.95%.

16. Interest of Directors, Major Shareholders and/or persons connected to them

None of the directors, major shareholders of Salcon, its holding company and subsidiaries and/or persons connected to them has any interest, direct or indirect, in the Proposed Disposal.

17. Directors' Statement

The Board of Directors of Salcon, after having considered the Proposed Disposal, is of the opinion that the Proposed Disposal is in the best interest of Salcon Group.

18. Approvals required

The Proposed Disposal is not subject to the approval of the shareholders of the Company or any government authorities.

19. Documents for inspection

The SSA is available for inspection at the registered office of the Company at 15th Floor, Menara Summit, Persiaran Kewajipan USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan during normal office hours from Mondays to Fridays (except public holidays) for a period of three (3) months from the date of this announcement.

This announcement is dated 26 April 2016.

Notes:

* Based on the exchange rate of RM1.00:RMB1.6628 on 25/4/2016 as set out in the Bank Negara's website, subject to rounding.

[^] Based on the exchange rate of USD1:RMB6.5109 on 25/4/2016 as set out in the Treasury Markets Association's website, subject to rounding.

[@] Based on the exchange rate of USD1:HKD7.7572 on 25/4/2016 as set out in the Treasury Markets Association's website, subject to rounding.