

GENERAL ANNOUNCEMENT

SUBJECT: MATERIAL LITIGATION

DESCRIPTION: SALCON BERHAD (“SALCON” OR “THE COMPANY”)
MATERIAL LITIGATION PURSUANT TO PARAGRAPH 9.04(F) OF THE BURSA MALAYSIA
SECURITIES BERHAD MAIN MARKET LISTING REQUIREMENTS

Pursuant to Paragraph 9.04(f) of the Bursa Malaysia Securities Berhad Main Market Listing Requirements, the Board of Directors of Salcon wishes to announce the following litigations involving Linyi Salcon Water Co. Ltd (“LSWC”), a 60% owned subsidiary of Salcon Linyi (HK) Ltd, which in turn is a 99.9% owned subsidiary of Salcon Water (Asia) Ltd, which in turn is a 60% owned subsidiary of the Company:-

1. *Linyi Water Group Ltd (“the Plaintiff”) Vs LSWC (“the Defendant”) (“Litigation 1”)*

On 20 November 2013, the Plaintiff filed a legal claim against the Defendant for a total outstanding consideration amounting to RMB27,445,261 (equivalent to approximately RM14,985,113*), inclusive of an interest of RMB6,406,120 (equivalent to approximately RM3,497,742*) related to the acquisition of assets owned by Linyi Water Supply Co. Ltd.

The Defendant contested that the outstanding consideration was supposed to be RMB11,574,425 (equivalent to approximately RM6,319,636*) without any interest imposed.

The Defendant had on 14 November 2014 received Paper of Civil Judgement from the Linyi City Civil Court against the Defendant for a judgement sum of RMB10,820,542 (equivalent to approximately RM5,908,016*).

2. *Linyi Water Group Ltd (“the Plaintiff”) Vs LSWC (“the Defendant”) (“Litigation 2”)*

On 9 December 2013, the Plaintiff filed a legal claim against the Defendant for a total amount of RMB26,694,826 (equivalent to approximately RM14,575,375*), being the rental of the raw water pipelines for the period from 1 January 2006 to 30 November 2013.

The Defendant contested to strike off the legal claim on the ground that there is non-existence of the binding agreement in respect of the rental claimed.

The Defendant had on 14 November 2014 received Paper of Civil Judgement from the Linyi City Civil Court against the Defendant for a judgement sum of RMB26,694,826 (equivalent to approximately RM14,575,375).

3. LSWC (“the Plaintiff”) Vs Linyi Water Group Ltd (“the Defendant”) (“Litigation 3”)

On 12 January 2014, the Plaintiff filed a legal claim against the Defendant for a total amount of RMB18,325,078 (equivalent to approximately RM10,005,493*) in relation to the retirement benefits paid on behalf of the Defendant in respect of the early retired employees.

The Defendant had on 14 November 2014 received Paper of Civil Judgement from the Linyi City Civil Court that the legal claim against the Defendant was rejected.

Estimated potential liability, financial and operational impact to the Group

A total of RMB11,574,425 (equivalent to approximately RM6,319,636*) has been provided for in the audited financial statements for the financial year ended 31 December 2013 in respect of Litigation 1.

Based on the judgments for Litigation 2 and Litigation 3 and the Group’s effective ownership of 36% in LSWC and subject to the execution of the judgments, the Group is expected to assume a total liability of RMB16,207,165.44 (equivalent to approximately RM8,849,112.33*) and the financial effects on the Group for the financial year ending 31 December 2014 is a loss of RMB16,207,165.44 (equivalent to RM8,849,112.33*) in the event that the appeals on the Litigation 2 and Litigation 3 are not successful. There is no operational impact to the Company and the Group.

LSWC is taking the necessary steps to file appeal applications against the Judgments for the Litigation 2 and Litigation 3 above.

This announcement is dated 18 November 2014.

** Based on the exchange rate of RM0.546:RMB1.00 on 17 November 2014 as set out in the Bank Negara website, subject to rounding.*