

Corporate Governance Statement

The Board of Directors ("the Board") of SALCON BERHAD ("Salcon") continues to uphold its commitment to the highest standard of corporate governance in managing the affairs of the Company and its subsidiaries ("the Group") guided by the Principles and Recommendations of the Malaysian Code on Corporate Governance 2012 (the "MCCG 2012"). This statement describes how the Group has applied the Principles and Recommendations of the MCCG 2012 throughout the financial year ended 31 December 2014. The reasons for non-observance of the Recommendations of 3.2 and 3.5 in the MCCG 2012 during the financial year under review are included in this Statement.

1. Establish clear roles and responsibilities

1.1. Clear functions of the Board and Management

The Board is responsible for strategy planning, oversight and overall management of the Group. To ensure the Board members are aware of their duties and responsibilities, the Board had established a governance model via the Board Charter which sets out the roles, composition and responsibilities of the Board. The Board has also delegated specific matters to various Board Committees which operates within their respective approved Terms of References.

The Chief Operating Officer ("COO") had been delegated to oversee and support the day-to-day operations and is responsible for the achievement of the Group's mission, goals and objectives.

1.2. Clear roles and responsibilities

The Board assumes, amongst others, the following responsibilities:

a. Reviewing and adopting a strategic plan for the Company

The Board plays a vital role in developing a strategic plan for the Company. The Management presents its recommended strategy and business plans to the Board for review and decision.

In 2014, while the Company continued to focus on improving market penetration of the Company's core businesses of water and wastewater systems and management, the Company had diversified into property development and technology services. During the financial year under review, the company had acquired 200,001 ordinary shares of RM1.00 each, representing 50.0001% of the paid-up capital in Volksbahn Technologies Sdn. Bhd. ("VBT"), a company which provides integrated fibre optic network services and other ancillary businesses by leveraging on fibre optic infrastructure. VBT had entered into a fifteen (15) years exclusive concession and right of way with Prasarana to lay 108km of fibre optic on monorails and LRT tracks in Klang Valley. Such diversifications are to mitigate and offset volatility in Company's core businesses. The Board is confident that the diversified range of business activities will further enhance and improve on the Group's financial position and stability.

b. Overseeing the conduct of the Company's business

The COO is responsible to oversee the daily management of the Company's businesses and operations. The COO is assisted by the various divisional heads in monitoring daily activities. The COO is further supported by the Management and other Committees established within the Company's management framework.

The performance of the Management is monitored and assessed by the Board through status reports which are tabled to the Board on a periodic basis. These reports include a comprehensive summary of business operations and financial performance. The Board is also kept informed of key strategic initiatives and operational issues within the Group.

c. Identifying principal business risks and ensuring the implementation of appropriate systems to manage risks

A Risk Management Committee ("RMC") has been established by the Board to oversee the Enterprise Risk Management ("ERM") framework of the Company. The RMC reviews and identifies areas of potential high risks faced by the Company and advises the Audit Committee ("AC") in establishing adequate compliance and controls over the Company. The RMC also reviews risk management policies and makes recommendations to the Board for approval. Details on the RMC and the Company's ERM framework are set out in the Statement on Risk Management and Internal Control of this Annual Report.

Corporate Governance Statement

(cont'd)

d. Succession planning

The Board has entrusted the Nomination Committee ("NC") with the responsibility to ensure an appropriate framework and plan for succession within the Group are in place. The Board has also entrusted the COO with the responsibility to evaluate potential candidates and determine compensation packages for the key management positions.

e. Overseeing the development and implementation of a shareholder communication policy for the Group

The Group emphasizes the importance of communication with shareholders and all stakeholders of the Company. Adequate communication generates and builds public confidence towards the Company.

The Company, through the Corporate Affairs Department ("CAD"), conducts Investor Relationship ("IR") activities as indicated in the Company's website detailing and giving various information including the Chairman's Message, Financial Information, announcements to Bursa Malaysia Securities Berhad ("Bursa Securities"), Corporate Governance, Stock Information and Information Request which includes email alerts and IR contact details.

f. Reviewing the adequacy and integrity of management information and internal controls system of the Company

The Board has to ensure that there is a sound framework of reporting on internal controls and regulatory compliance. Details relating to the internal control system and review of its effectiveness are available in the Statement on Risk Management and Internal Control as set out on pages 73 to 74 of this Annual Report.

1.3. Code of Ethics and Conduct

The Board has adopted and implemented a Code of Ethics and Conduct ("COEC") which reflects the Group's vision and mission. The Board expects the behaviors of all employees, officers and directors are adhered to a high standard of ethics and to comply with all laws and regulations that govern the Group's businesses. The Board aims to promote an atmosphere in which ethical behavior is well recognized as a priority and practiced and to treat all persons fairly regardless of race, religion, gender, disability and age.

In addition, a Whistle-blowing Policy had been established in 2012 to encourage the Group's employees and stakeholders to report any wrongdoing on the part of employees, management, directors and vendors in particular with respect to their obligations to the Group's interest without any fear of repercussions. Any suspected wrongdoing could be reported to the Chairman of the AC via a phone line, fax and email address.

These COEC and Whistle-blowing Policy demonstrate the Board's commitment to integrity, transparency and good corporate governance practices in the Group. The COEC and Whistle-blowing Policy are available on the Company's website, www.salcon.com.my.

1.4. Strategies promoting sustainability

The Board recognises the importance of sustainability in everything Salcon does. The Board promotes the application of sustainability practices for the Group through environmental and social activities organised by the Company's CAD.

Details of the activities that had been organised in 2014 are presented in the Corporate Responsibility Report on pages 34 to 50 of this Annual Report.

Corporate Governance Statement

(cont'd)

1.5. Access to information and advice

Board meetings are organised with a pre-set agenda, providing the Directors with relevant and timely information to enable them to discharge their fiduciary duties and responsibilities. Board papers which provide updates on operational, financial and corporate developments are circulated in sufficient time to enable Directors to obtain further explanation, where necessary, to facilitate informed decision-making.

Senior Management officers and/or external advisers may be invited to attend Board meetings when necessary, to furnish the Board with explanations and comments on the relevant agenda items tabled at the Board meetings or to clarify on any issue raised by the members of the Board.

Directors have access to all information within the Group and direct access to the advice and services of the Company Secretary, whether as a full Board or in their individual capacity. In addition, Directors are also empowered to seek external and independent professional advice at the Company's expense, in the exercise of their duties and responsibilities, should such advisory services be considered necessary.

1.6. Qualified and Competent Company Secretaries

The Company Secretaries (CS) have rendered necessary advisory services to the Board in relation to the Company's formation, compliances to local regulatory requirements, codes, guidelines and relevant legislation.

The Board is regularly updated and apprised by the CS who are experienced, competent and knowledgeable, on new and updated statutes and directives issued by the regulatory authorities. The CS oversee adherence with board policies and procedures, briefing the Board on the proposed contents and timing of material announcements to be made to regulators. The CS also serve notice to the Directors and Principal Officers to notify them of closed periods for trading in Salcon's shares pursuant to Chapter 14 of the Bursa Securities Main Market Listing Requirements.

The CS work closely with the Management to ensure that there are timely and appropriate information flows within and to the Board and Board Committees, and between the Non-Executive Directors and Management. The key role of the CS is to provide advice and services to the Directors as and when the need arises, to enhance the effective functioning of the Board and to ensure regulatory compliance.

1.7. Board Charter

The Board Charter is to promote high standards of corporate governance and is designed to provide guidance and clarity to Directors and Management with regards to the roles and responsibilities of the Board and its committees, the requirements of Directors in carrying out their stewardship role and in discharging their duties towards the Company as well as the processes and procedures for convening Board/Committee meetings.

The Board Charter is reviewed, as and when necessary, to update with changes in regulatory requirements and best practices in the market thereby ensuring its effectiveness and relevance to Board/Company's objectives. The Board Charter is available on the Company's website, www.salcon.com.my.

Corporate Governance Statement

(cont'd)

2. Strengthen Composition

2.1. Nomination Committee ("NC")

The principal responsibility of the NC is to assist the Board in nominating new nominees for appointment to the Board and to ensure the Board has the required mix of skills and competencies. The NC shall also assess the directors of the Company on an on-going basis. The NC comprises exclusively 3 Non-Executive Directors ("NED"), with the majority of them as independent Directors. The NC is chaired by Dato' Dr. Freezailah bin Che Yeom who is the Senior Independent Non-Executive Director of the Company.

The duties and responsibilities of NC are as follows:

- Identify and recommend to the Board, candidates to fill the seats on the Board. The candidates must have integrity of character and time in addition to being skillful, knowledgeable and possess expertise and experiences relevant to the Company's principal activities;
- Recommend to the Board, directors to fill the seats on Board Committees;
- Establish procedures and criteria for director nomination/selection process and annual assessment of directors;
- Review annually the required mix of skills and experience of the Board, including the core competencies which directors should bring to the Board;
- Evaluate the effectiveness of the Board and Board Committees (including its size and composition) and the contribution of each individual director, including independent non-executive directors as well as the Principal Officer. All assessments and evaluations carried out by the NC in the discharge of all its functions shall be properly documented;
- Evaluate and determine appropriate training and orientation needs for Directors, review the fulfilment of such training needs and disclose details in the annual report as appropriate, in accordance with the Bursa Securities Main Market Listing Requirements;
- Consider and recommend the Directors for re-election / re-appointment at each Annual General Meeting ("AGM");
- Ensure an appropriate framework and plan for Board and senior management succession for the Group;
- Develop criteria to assess independence of directors;
- Consider and examine such other matters as the NC considers appropriate; and
- Consider other matters as referred to the NC by the Board.

2.2. Develop, maintain and review criteria for recruitment and annual assessment of Directors

a. Recruitment or Appointment of Directors

The NC is responsible to ensure that the procedure for appointing new Directors are focused on creating a good mix of skills, knowledge, expertise, experience, professionalism and integrity to enable the Board to discharge its responsibilities effectively. Other factors considered include the candidates' ability to commit sufficient time to the Company, their character and level of independence.

The Company's Articles of Association provides that at least one third (1/3) of the Board of Directors shall retire from office provided always that all Directors shall retire from office once at least in each three (3) years. All retiring Directors shall be eligible for re-election. Directors over the age of seventy (70) years may be re-appointed in accordance with Section 129 of the Companies Act, 1965.

Corporate Governance Statement

(cont'd)

Pursuant to Article 103 of the Company's Articles of Association, all new Directors who are appointed by the Board are subject to re-election at the next AGM subsequent to their appointment.

The NC assesses and recommends to the Board those Directors who are eligible to stand for re-election/re-appointment. The recommendation is based on formal reviews of the performance of the Directors, taking into consideration their latest Board Effectiveness Evaluation, contribution to the Board through their skills, experience, strengths and qualities, level of independence and ability to act in the best interest of the Company in decision making as well as time commitment, character and integrity.

During the financial year, NC had recommended to the Board for Mr. Chan Seng Fatt to be appointed as an Independent Non-Executive Director of the Company to fill the casual vacancy of the Company. The NC had discussed his curriculum vitae in detailed and his qualification, skills, knowledge, expertise, experience, character, competency, integrity, time commitment, professionalism and independence had satisfied the requirements of the Company. An induction programme comprises a combination of written materials such as corporate information, governance framework and management information; and meetings with existing directors and senior management has been provided to the newly appointed Director, Mr. Chan Seng Fatt. The induction programme would enable him to understand the history and culture of the Company and also foster constructive relationships between him and the existing directors and senior management.

b. Annual assessment

The Board's performance and effectiveness are assessed on an annual basis. The Board's performance evaluation is supported with assessment carried out on each individual Director's performance and contribution in respect of their individual contribution, interaction and quality of input to the Board's effectiveness.

The Board Committees are also subjected to annual assessment and the evaluation processes take due consideration of each committee's contribution and effectiveness in discharging its delegated duties and responsibilities in supporting the Board.

The NC is tasked to carry out the evaluation of the effectiveness of the Board and individual Directors annually, including independent non-executive directors. All assessments and evaluations carried out by the NC in the discharge of all its functions shall be properly documented.

Following the evaluation process, the NC identifies areas for improving the effectiveness of the Board and actions to be taken based on such feedback.

The NC had on 25 February 2015 reviewed and assessed the mix of skills, expertise, composition, size and experience of the Board, including core competencies of the Directors, the contribution of each individual director as well as their character, integrity and time commitment, independence of the Independent Directors, effectiveness of the Board as a whole, and the Board Committees; and also the retirement of Directors eligible for re-election.

The policy and nomination process is stated in the Board Charter which is available on the Company's website, www.salcon.com.my.

c. Diversity policy

The Board selects the members of the Board focused largely on creating a good mix of skills, knowledge, talent, experience and strengths in relevant areas to enable the Board to discharge its responsibilities in an effective and competent manner irrespective of gender, age and ethnicity.

Corporate Governance Statement

(cont'd)

2.3. Remuneration policies and procedures

The remuneration policy of the Company is to ensure competitive remuneration, thereby enabling the Company to attract and retain high caliber executives and at the same time protect the interest of the shareholders. The remuneration package of the executive directors is structured so as to link rewards to corporate and individual performance. In the case of the non-executive directors, the level of remuneration reflects the experience and level of expertise and responsibilities undertaken by the particular non-executive director concerned.

The Remuneration Committee, which consists of wholly non-executive directors, reviews and recommends for Board's approval, the remuneration packages of the Executive Directors.

In determining the remuneration package, the Executive Directors abstain from the deliberations and voting decisions in respect to their own remunerations. The Board, as a whole, will decide on the Non-Executive Directors' remuneration packages. Each of the Non-Executive Directors concerned shall abstain from deliberating and voting on their own remuneration.

Details of the remuneration of Directors of the Company for the financial year ended 31 December 2014 are as follows:

- a) Aggregate remuneration of the Directors categorized into appropriate components:

Directors' Remuneration	Executive Directors (RM'000)	Non-Executive Directors (RM'000)
Salary	1,260.0	-
Bonus	170.0	-
Fees	-	190.1
Meeting Allowances	-	22.5
Benefits-In-Kind	40.8	-
Statutory Contribution	171.6	-
ESOS	-	60
Total	1,642.4	272.6

- b) Similar to other companies, the Board has resolved to disclose their remunerations into bands of RM50,000 as shown below; distinguishing between executive and non-executive directors to avoid sensitivities:-

Range of Directors' Remuneration	Number of Directors
Executive Directors	
Less than RM700,000	-
RM700,001 – RM750,000	1
RM900,001 – RM950,000	1
Non-Executive Directors	
Less than RM50,000	1
RM50,001 – RM100,000	3

Corporate Governance Statement

(cont'd)

3. Reinforce Independence

3.1. Annual assessment of independence

The Board, through the NC conducts annual assessment on the independence of the Company's Independent Directors. The assessment takes into consideration the Directors' ability to exercise independent judgment and contribute effectively to the Board.

Based on the above assessment for the financial year 2014, the Board is satisfied with the level of independence and acknowledged the contribution by the respective Independent Directors that they had acted in the best interest of the Company. The number of Independent Directors of the Company is in compliance with the Bursa Securities Main Market Listing Requirements which requires at least one third (1/3) of the Board to comprise Independent Directors.

3.2. Tenure of Independent Directors

Salcon does not have term limits for Independent Directors as the Board believes that the experience with the Company's business operations provides benefits to the Board. The Board is of the view that significant advantages could be gained from the long-serving Directors who provide invaluable insight and possess knowledge of Salcon's affairs.

3.3. Shareholders' approval for the re-appointment of Independent Directors who served more than nine (9) years

Dato' Dr. Freezailah bin Che Yeom was appointed to the Board as an Independent Non-Executive Director on 21 July 2003. Dato' Dr. Freezailah bin Che Yeom had served the Board for a cumulative term of more than nine (9) years. The NC had assessed his independence and recommended him to continue to act as an Independent Non-Executive Director of the Company based on the following justifications:-

- i) He fulfills the criteria of an Independent Director pursuant to the Bursa Securities Main Market Listing Requirements;
- ii) He is familiar with the Company's business operations as he has been with the Company for a period of more than nine (9) years;
- iii) His long tenure with the Company has neither impaired nor compromised his independent judgement. He continues to remain objective and is able to exercise independent judgement in expressing his views and in participating in deliberations and decision making of the Board and Board Committees in the best interest of the Company.
- iv) He has devoted sufficient time and attention to his responsibilities as an Independent Non-Executive Director of the Company; and
- v) He has exercised due care during his tenures as an Independent Director of the Company and carried out his duties in the interest of the Company and shareholders.

Based on the recommendations of the NC, the Board is satisfied with the knowledge, contributions and independent judgments that Dato' Dr. Freezailah bin Che Yeom brings to the Board. Therefore, the Board recommends and supports Dato' Dr. Freezailah bin Che Yeom's re-appointment as an Independent Non-Executive Director of the Company.

Corporate Governance Statement

(cont'd)

3.4. Separation of positions of the Chairman and COO

The Chairman of the Board and COO are held by two (2) different individuals. The separation of the positions ensures accountability and facilitates division of responsibilities between the two positions while ensuring a balance of power and authority since no one individual has unfettered power during decision making.

The Chairman is responsible for the leadership, effectiveness, conduct and governance of the Board whereas the COO manages the day-to-day operations and businesses and implements the Board's decision. Detailed responsibilities of the Chairman and the COO are stated in the Board Charter which is available on the Company's website.

3.5. Composition of the Board

The Board is led by a Non-Executive Chairman and comprises six (6) members, two (2) of whom are Executive Directors and the remaining four (4) are Non-Executive Directors.

The Board has appropriate mix of relevant skills, knowledge and experience necessary to govern Salcon. Generally, the Executive Directors and Management, under the overall guidance of the Executive Committee, is responsible for implementing operational strategies and corporate decisions made by the Board.

Non-Executive Directors play a pivotal role in corporate accountability by providing unbiased and independent views in the sharing of knowledge and experience, towards the formulation of policies and in the decision-making process. Where a potential conflict of interest may arise, it is mandatory for the Director concerned to declare his interest and abstain from the decision-making process.

MCCG 2012 recommends that the Board must comprise a majority of independent directors when the Chairman of the Board is not an independent director, in order to ensure balance of power and authority on the Board.

The Chairman, Dato' Seri (Dr.) Goh Eng Toon is a Non-Independent Non-Executive Director. The Board believes that he is the most appropriate person for the role, given his vast experience in various industries. Furthermore, Dato' Seri (Dr.) Goh Eng Toon has and continues to play an effective role as Chairman as set out in the Board Charter.

4. Foster Commitment

4.1. Time commitment

Meetings for the year are scheduled at the end of the remain as preceding year to enable the Directors to plan ahead and ensure that the Board and its committee meetings are accounted in their respective schedules. The Board meets every quarter to consider the quarterly financial results and operational performance of the Group. Additional meetings are convened as and when necessary with due notice of issues to be discussed.

Directors devote sufficient time to carry out their responsibilities. It is the Board's policy for Directors to notify the Chairman before accepting any new directorships notwithstanding that the Bursa Securities Main Market Listing Requirements allow Director to sit on the board of 5 listed issuers.

The Board is satisfied with the level of time commitment contributed by the Directors towards the Company in discharging their duties and responsibilities.

Corporate Governance Statement

(cont'd)

The attendance of Board members at Board meetings and various Committees meetings held during the financial year ended 31 December 2014 is as set out below:

#	Name	Designation	Number of meetings attended				
			BD	AC	NC	RMC	RC
1	Dato' Seri (Dr.) Goh Eng Toon	Non-Independent Non-Executive Director/Chairman	6/6	6/6	2/2	N/A	1/1
2	Tan Sri Dato' Tee Tiam Lee	Executive Deputy Chairman	6/6	N/A	N/A	N/A	N/A
3	Dato' Leong Kok Wah	Executive Director	6/6	N/A	N/A	1/1	N/A
4	Dato' Dr. Freezailah bin Che Yeom	Independent Non-Executive Director	6/6	6/6	2/2	N/A	1/1
5	Ho Tet Shin (resigned on 17 December 2014)	Independent Non-Executive Director	6/6	6/6	2/2	1/1	1/1
6	Dato' Choong Moh Kheng	Independent Non-Executive Director	6/6	N/A	0/0 ⁽¹⁾	N/A	0/0 ⁽¹⁾
7	Chan Seng Fatt (appointed on 17 December 2014)	Independent Non-Executive Director	0/0	0/0 ⁽²⁾	N/A	0/0 ⁽²⁾	N/A

Notes:

⁽¹⁾ Appointed as a member of NC and RC on 2 January 2015.

⁽²⁾ Appointed as a member of AC and RMC on 17 December 2014 and 2 January 2015 respectively.

BD - Board of Directors

AC - Audit Committee

NC - Nomination Committee

RMC - Risk Management Committee

RC - Remuneration Committee

N/A - Not Applicable

4.2. Training

The Board emphasises the importance of continuing education programmes or training for Directors. Continual improvement allows the Directors to equip themselves with updated knowledge and skills to enable them to actively participate in board deliberation and meet future challenges. The Board evaluates and determines the training needs of its members on a continuous basis to assist them in the discharge of their duties as Directors. The CS update the applicable changes to the Directors on any revisions or changes to new/existing legislations and regulatory requirements. The Board had via the NC undertaken an assessment of the training needs of each Director through the Annual Assessment.

During the financial year, all the Directors have attended training programmes and seminars. They have attended the following training programmes / seminars / conferences, collectively or individually:

#	Training programmes / seminars / conferences	Date
1	Briefing Session On Corporate Governance Guide : Towards Boardroom Excellence (2nd Edition)	26-Mar-14
2	Risk Management & Internal Control Workshops For Audit Committee Members	28-May-14
3	Appreciation & Application of ASEAN Corporate Governance Scorecard	29-Sept-14
		7-Oct-14
4	Nominating Committee Programme	16-Oct-14
5	GST Training	20-Oct-14
6	Board Chairman Series: The Role of the Chairman	12-Nov-14

The Board of Directors will undergo relevant training programmes and seminars from time to time as and when necessary to update themselves with the relevant knowledge and skills to discharge their duties effectively.

Corporate Governance Statement

(cont'd)

5. Uphold integrity in financial reporting

5.1. Compliance with applicable financial reporting standards

The Board is committed to providing a balanced, clear and comprehensive financial performance and prospects in all the disclosures made to the stakeholders and the regulatory authorities.

Timely release of announcements to Bursa Securities on quarterly results, financial statements and annual report reflects the Board's commitment to provide transparent and up-to-date disclosures to the public. The Board is assisted by the AC in overseeing the Group's financial reporting process and the quality of its financial reporting.

Mr. Chan Seng Fatt who was appointed as Chairman of the AC on 17 December 2014 to replace Mr. Ho Tet Shin, is a Chartered Accountant of the Malaysia Institute of Accountant while the remaining AC members have accounting and financial experience.

Prior to the presentation of the Company's Financial Statements to the Board for approval and issuance to stakeholders, AC meetings were conducted to review the integrity and comprehensiveness of the Company's Financial Statements in the presence of external auditors and the Group and Company's Financial Controller.

The Board will obtain assurance from the AC to ensure that the preparation and fair presentation and disclosure in the financial statements are in accordance with applicable Malaysian Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia.

The Statement of Responsibilities by Directors in respect of the preparation of the annual audited financial statements is set out on page 66 in the Financial Statements section of this Annual Report.

5.2. Assessment of suitability and independence of external auditors

The AC conducts reviews on the suitability and independence of external auditors. The AC is satisfied with the performance of the external auditors and recommended their re-appointment to the Board, upon which the shareholders' approval will be sought at the 12th AGM.

The external auditors provide mainly audit-related services to Salcon. The external auditors also provide certain non-audit services such as, regulatory reviews and reporting and other services. The AC will consider the provision of non-audit services by external auditors before recommending for the Board's approval. The AC will ensure that provision of these services do not compromise the external auditors' independence.

The AC has obtained confirmation from the external auditors that they are independent in providing both audit and non-audit services up to the date of this statement.

6. Recognise and manage risks

6.1 Sound framework to manage risks

The RMC, assisted by the Risk Management Working Group ("RMWG"), oversees the Enterprise Risk Management framework for the Company. The RMC is at the forefront of the enterprise wide program and ensures that a risk management structure is embedded and consistently implemented within Board's established parameters throughout the Company while ensuring compliance with regulatory requirements.

The RMC is assisted by the Internal Audit and Risk Management Department ("IARMD") in its role as a facilitator in the implementation of risk management i.e. coordinating and reporting (risk management function) and reviewing of risks statuses (internal audit function).

Corporate Governance Statement

(cont'd)

The RMWG conducts reviews and enterprise wide risk assessments on all entities, including subsidiaries, projects, concessions and other operational units of the Group at least once a year. These risk assessments are complemented by appropriate testing on the accuracy and verification of the integrity of controls and verification of controls on applicable entities via internal audit reviews; with recommendations to overcome any weaknesses noted. These internal audit reviews will also identify any new potential risk that could affect the operational processes and goodwill of the Company. Adequate disclosures on the status of implementation and performances of the Risk Management system are also provided on pages 73 to 74 of this Annual Report.

The RMC takes note that no RMC meeting was convened for year 2013 and for the first half of 2014 due to resources and prioritization matters. A RMC meeting was conducted on 20th November 2014. Nevertheless, the risks which were detrimental to the Salcon Group as well as those which require Management's attention had been flagged out, identified and addressed. There were no new risks identified for 2013 and first half of 2014 for Salcon Group.

For the year 2014, after due review and analysis of the Enterprise Risk Management (ERM) report during the RMC meeting, the RMC had directed the RMWG to review and where necessary, make recommendations for the Management's consideration:

- Review of risk categories, factors, weights tables to accommodate new divisions;
- Revise weights as per financial, operational and strategic impacts;
- Revise company-wide objectives to act as a KPI or as guidelines for formulating KPI.

6.2 Internal audit function

The Board had established an internal audit function under the IARMD, which reports directly to AC. IARMD presents periodic reports to the AC on the results of conducted audit reviews with evaluation of the effectiveness of governance, risk management and internal control processes within the Group via unbiased and independent validation checks on applicable entities.

Details of the internal control system and framework are set out in the Statement on Risk Management and Internal Control in this Annual Report.

7 Ensure timely and high quality disclosure

7.1 Corporate Disclosure Policy

The Company recognises the need and importance of communication with shareholders and investors through timely and accurate dissemination of information of the Group's performance and major developments via appropriate channels of communication.

The Board has in place, internal corporate disclosure policies and procedures, which are in compliance with the disclosure requirements as set out in the Bursa Securities Main Market Listing Requirements.

7.2 Leverage on information technology for effective and timely dissemination of information

To enhance transparency and communication with shareholders and all stakeholders, the Company's website, www.salcon.com.my, provides updated information on the business operations of the Company, Directors' profile, financial statements inclusive of quarterly results and annual report, investors' relationship, corporate responsibilities activities, corporate governance, Board Charter and applicable contact persons.

The Company's website also serves as a platform to allow shareholders, stakeholders or potential investors to channel any enquiries with regards to the Company. An alternate channel to reach out to a broader range of the public, shareholders and interested parties is via Facebook. The Company's CAD monitors the website and Facebook on a daily basis and direct all enquiries to relevant departments to ensure that all enquiries are replied as soon as practicable.

Corporate Governance Statement

(cont'd)

8 Strengthen relationship between Company and shareholders

8.1 Encourage shareholder participation at general meetings

Salcon sends Notice of AGM to all shareholders at least twenty-one (21) days prior to the date of the scheduled AGM together with the Annual Report and Circular/Statement to shareholders (if any). The Notice of the AGM is also advertised in a major local newspaper. This advance notice would allow shareholders to make necessary arrangements to either be present in the meeting or to appoint a proxy to act on their behalf.

The shareholders are encouraged to attend and participate in an open discussion during the AGM. The Directors respond to shareholders' questions during the AGM. The Chairman and where appropriate, the Executive Directors will provide a written answer after the AGM for significant questions that are not readily answered at the AGM.

8.2 Encourage poll voting

The Board encourages shareholders to put forth substantive resolutions for shareholders' approval by poll voting at the general meetings.

8.3 Effective communication and proactive engagements with shareholders

At the 11th AGM, all Directors were present to demonstrate their commitment and stewardship of the Company. The Chairman encouraged all shareholders to raise enquiries pertaining to Company's performance, proposed resolutions or future direction, prior to the commencement of the voting process. The Directors, COO, and Financial Controller of the Company were present to provide clarifications on issues/questions raised by the shareholders.

Other Information Required By Bursa Securities Main Market Listing Requirements

Status of Utilisation of Proceeds

Proposed Disposals of the Entire Equity Interests Held in the followings: -

- i) Salcon Darco Environmental Pte Ltd
- ii) Salcon Jiangsu (HK) Limited
- iii) Salcon Fujian (HK) Limited
- iv) Salcon Zhejiang (HK) Limited
- v) Salcon Linyi (HK) Limited
- vi) Salcon Shandong (HK) Limited

Salcon had on 12 September 2013 entered into the following agreements:

- a) conditional sale and purchase agreement between Salcon and Beijing Enterprises Water Group Limited ("**BEWG**") for the proposed disposals by Salcon of the entire equity interests held in Salcon Darco Environmental Pte Ltd and Salcon Jiangsu (HK) Limited to BEWG ("**SPA-A**"); and
- b) conditional sale and purchase agreement between Salcon, Salcon Water (Asia) Limited, a 60%-owned subsidiary of Salcon ("**Salcon Water**") and BEWG for the proposed disposals by Salcon and Salcon Water of the entire equity interests held in Salcon Fujian (HK) Limited, Salcon Zhejiang (HK) Limited, Salcon Linyi (HK) Limited and Salcon Shandong (HK) Limited to BEWG ("**SPA-B**")

for a total cash consideration of RMB955.0 million (equivalent to approximately RM518.28 million) ("**Proposed Disposals**").

The Company had obtained shareholders' approval pertaining to the above Proposed Disposals at the Extraordinary General Meeting ("**EGM**") held on 27 November 2013.

The Proposed Disposals of the entire issued and paid-up share capital of Salcon Darco Environmental Pte. Ltd. and Salcon Jiangsu (HK) Limited pursuant to the SPA-A were deemed completed on 23 December 2013. While for the Proposed Disposals pursuant to SPA-B, Salcon and BEWG had mutually agreed to an extension to 25 May 2015 for the fulfilment of the conditions of the SPA-B.

Corporate Governance Statement

(cont'd)

The status of the utilisation of the proceeds as at 29 April 2015 arising from the Proposed Disposals in respect of SPA-A is as follows:

Purpose	Proposed Utilisation RM'000	Utilised RM'000	Unutilised/ (Over) RM'000
Future investments	230,000	(34,000)	196,000
Repayment of borrowings	97,540	(97,540)	-
Distribution to shareholders	30,000	(20,230)	9,770
Working capital	10,397	(6,976)	3,421
Defraying expenses incidental to the Proposed Disposals	1,437	(1,501)	(64)
Total	369,374	(160,247)	209,127

Material Contracts

There were no material contracts entered into by the Company or its subsidiaries involving Directors and major shareholders for the financial year ended 31 December 2014.

Non-audit Fee

Other than the following, there was no non-audit fees to the external auditors for the financial year ended 31 December 2014:

Auditor	Services	Amount (RM)
KPMG	Professional Services in connection with the review of the Statement on Risk Management and Internal Control	25,000
KPMG	Extended audit scope on the process of compilation of the disclosure of realised and unrealised profits or losses	15,000

Variation in Results for the Financial Year

The audited financial statements for the financial year ended 31 December 2014, contained in this Annual Report does not deviate by more than 10% from the unaudited results of the Group announced on 25 February 2015.

Corporate Governance Statement

(cont'd)

Shares Buy-Back

During the financial year ended 31 December 2014, the Company bought back a total of 7,125,000 ordinary shares of RM 0.50 each from the open market and these shares were retained by the Company as treasury shares. None of the treasury shares were resold or cancelled during the financial year.

Details of the shares bought back were as follows:

Month of Purchase(s)	No. of Shares Purchased	Highest Price per Share RM	Lowest Price per Share RM	Average Price per Share RM	Total Consideration Paid RM
October 2014	20,000	0.730	0.715	0.728	14,556.04
December 2014	7,105,000	0.655	0.555	0.607	4,312,552.02
Total	7,125,000				4,327,108.06

Subsequent to 2014 financial year end, the Company acquired an additional total of 1,049,500 ordinary share of RM 0.50 each, from the open market. Subsequently, the Company disposed a total of 8,000,000 treasury shares in February 2015.

Month of Purchase(s)	No. of Shares Purchased	Highest Price per Share RM	Lowest Price per Share RM	Average Price per Share RM	Total Consideration Paid RM
January 2015	1,017,100	0.605	0.580	0.599	609,619.11
March 2015	32,400	0.730	0.730	0.735	23,825.01
Total	1,049,500				633,444.12

Month of Disposal	No. of Shares Sold	Highest Price per Share RM	Lowest Price per Share RM	Average Price per Share RM	Total Consideration Received RM
February 2015	8,000,000	0.750	0.745	0.744	5,955,875.00
Total	8,000,000				5,955,875.00

Corporate Governance Statement

(cont'd)

Options or Convertible Securities

The Company did not issue any options or convertible securities during the financial year ended 31 December 2014.

The Company has one (1) Employees Share Option Scheme ("ESOS") currently in existence. The ESOS was approved at Extraordinary General Meeting held on 23 June 2010, for a period of five (5) years up to 6 July 2015.

During the financial year under review, 17,125,600 options under the ESOS were exercised.

Disclosure of information in relation to ESOS pursuant to Appendix 9C (27) of Bursa Securities Main Market Listing Requirements are as follows:

i) ESOS offered to all employees

The Company's ESOS was approved at EGM held on 23 June 2010, for a period of five (5) years up to 6 July 2015. As at financial year ended 31 December 2014, four (4) offers have been made to the employees as detailed below:

Date of Allocation	Exercise Price	Granted ('000)	Total Number of ESOS	
			Exercised/ Lapsed ('000)	Outstanding ('000)
9 July 2010	RM0.57	27,299	(25,623)	1,676
1 July 2011	RM0.52	1,647	(1,555)	92
2 July 2012	RM0.50	348	(318)	30
14 May 2013	RM0.50	23,610	(23,104)	506
		52,904	(50,600)	2,304

ii) ESOS to Executive Directors and Senior Management

As at financial year ended 31 December 2014, ESOS allocations to Executive Directors are as follows:

No	Name of Director	Amount of ESOS granted	Amount of ESOS exercised	Amount of ESOS outstanding
1	Tan Sri Dato' Tee Tiam Lee	3,600,000	(3,600,000)	-
2	Dato' Leong Kok Wah	3,600,000	(3,600,000)	-
	Total	7,200,000	(7,200,000)	-

A total of 1,975,000 ESOS were granted to the Senior Management at the exercise price of RM0.50 per share.

The aggregate maximum and actual ESOS allocations to Executive Directors and Senior Management during the financial year 2014 and since the commencements of the ESOS are as follows:

	Financial Year 2014		Since the Commencement of the ESOS	
	Maximum Allowable Allocation (%)	Actual Allocation (%)	Maximum Allowable Allocation (%)	Actual Allocation (%)
Executive Directors and Senior Management	-	-	50	13%

Corporate Governance Statement

(cont'd)

iii) ESOS to Non-Executive Directors

As at financial year ended 31 December 2014, ESOS allocations to Non-Executive Directors are as follows:

No	Name of Director	Amount of ESOS granted	Amount of ESOS exercised	Amount of ESOS outstanding
1	Dato' Seri (Dr.) Goh Eng Toon	2,300,000	(2,300,000)	-
2	Dato' Dr. Freezailah bin Che Yeom	1,700,000	(1,700,000)	-
3	Ho Tet Shin (resigned on 17 December 2014)	1,700,000	(1,700,000)	-
4	Dato' Choong Moh Kheng	1,700,000	(1,700,000)	-
	Total	7,400,000	(7,400,000)	-

Further details in regards to the Company's ESOS are available in the Directors' Report in the Financial Statements on pages 76 to 81 of this Annual Report.

Depository Receipt Programme

The Company did not sponsor any depository receipt programmes during the financial year ended 31 December 2014.

Impositions of Sanctions / Penalties

There were no sanctions and / or penalties imposed on the Company and its subsidiaries, Directors or management by the relevant regulatory bodies.

Profit Guarantee

During the financial year, there were no profit guarantees given by the Company.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE AUDITED FINANCIAL STATEMENTS

The Directors are legally required to prepare financial statements which present a true and fair view of the state of affairs of the Company and the Group and are pleased to announce that in preparing the financial statements for the financial year ended 31 December 2014, the Group has:

- ensured compliance with applicable accounting standards enforced in Malaysia;
- adopted and consistently applied appropriate accounting policies; and
- made judgements and estimates that are prudent and reasonable.

The Directors are responsible for ensuring that proper accounting records are maintained, which disclose with reasonable accuracy, the financial position of the Group and also to ensure that the financial statements comply with the Companies Act, 1965. In addition, the Board is responsible for the proper safeguarding of the assets of the Group and to take reasonable steps for the prevention and detection of fraud and other irregularities.