

Corporate Governance Statement

The Board of the Company continues to uphold its commitment to the highest standard of corporate governance in managing the affairs of the Group. This statement describes how the Group has applied the principles and best practices set out in the Malaysian Code on Corporate Governance (the Code) in protecting the interests of and enhancing shareholders' value throughout the financial year ended 31 December 2010.

PRINCIPLE A – BOARD OF DIRECTORS

Membership and Balance

The Board began the year with eight (8) members, including four (4) Executive Directors and four (4) Non-Executive Directors, led by a Non-Executive Chairman. During the year, there were changes in the composition of the Board, which include the unfortunate demise of one (1) of its Executive Director, resignation of two (2) Directors, i.e. the Chief Executive Officer and an Independent Non-Executive Director and subsequent appointment of a new Independent Non-Executive Director, bringing the current number of Board members to six (6). The number of Independent Directors is in compliance with the Bursa Malaysia Securities Berhad (Bursa Securities) Main Market Listing Requirements (Main LR) which requires one third of the Board to comprise of Independent Directors. The profiles of the Directors are set out in Pages 16 to 18 of this Annual Report.

The Board's main roles are to create value for shareholders, provide leadership to the Group through the consideration and adoption of the Group's strategic objectives. The Board also ensures that all necessary financial and other resources are made available to enable those objectives to be achieved. Other key functions of the Board include responsibilities as prescribed under the Best Practices Provision AA 1 in Part 2 of the Code. The Board's composition brings together a diverse wealth of business and financial experience and expertise to effectively discharge its stewardship responsibilities in spearheading the Group's growth and future direction.

There is clear segregation of responsibilities between the Non-Executive Chairman and the Executive Management to ensure necessary checks and balances whilst ensuring the independence of the Board from Management.

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.

Appointments and Re-election

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.

At the 7th Annual General Meeting held on 23 June 2010, Dato' Seri (Dr.) Goh Eng Toon and Dato' Dr Freezailah bin Che Yeom, who are over the age of seventy (70), retired in pursuant of Section 129(6) of the Companies Act, 1965. They offered themselves for re-appointment and were re-appointed to the Board.

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

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On 3 January 2011, Dato' Choong Moh Kheng was appointed as the Independent Non-Executive Director and as required, his appointment shall be subjected to re-election at the 8th Annual General Meeting scheduled on 23 June 2011.

Board Meetings

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. The proceedings and resolutions reached at each Board Meeting are recorded in the minutes of the meeting which are kept in the minutes book at the Company's registered office.

For the financial year ended 31 December 2010, five (5) Board meetings were held and the attendance of the Directors is listed below:

Directors	Number of Meetings Attended
Dato' Seri (Dr.) Goh Eng Toon (Chairman)	5/5
Dato' Tee Tiam Lee	5/5
Dato' Leong Kok Wah	5/5
Dato' Dr Freezailah bin Che Yeom	5/5
Ho Tet Shin	5/5
Dato' Choong Moh Kheng (Appointed on 3 January 2011)	-
Ir. How See Hock (Resigned on 1 January 2011)	5/5
Tan Sri Dato' Seri Megat Najmuddin bin Datuk Seri Dr Haji Megat Khas (Resigned on 16 July 2010)	1/3
Jaggit Singh a/l Tara Singh (Demised on 27 June 2010)	3/3

Directors' Trainings

All Directors are provided with the opportunity, and are encouraged, to attend training to keep them updated on relevant new legislations, best practices, financial reporting requirements and/or other relevant courses to further enhance their skills and knowledge to enable them to discharge their responsibilities more effectively. The Directors are also updated by the Company Secretary on any changes to legal and governance requirements of the Group. The training programmes attended by the Directors, with exception to Dato' Seri (Dr.) Goh Eng Toon, during the year, collectively or individually, included the following:

1. 6th Tricor Tax & Corporate Seminar
2. The National Water & Utilities Summit 2010
3. SWOT Analysis / Company Objectives, Goals & KPI
4. 2nd Annual Corporate Governance Summit 2010
5. Fire Prevention Talk

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Dato' Seri (Dr.) Goh Eng Toon has not attended any training during the financial year 2010 due to unavailability of a suitable training programme in the year under review. A suitable training programme for all Directors has been identified for the financial year 2011. All Directors have attended the Mandatory Accreditation Programme conducted by Bursatra Sdn Bhd.

As provided in the Best Practices AAXIII of the Code, the newly appointed Director shall be provided with appropriate orientation and education program. The Company's orientation also includes briefing on the corporate structure, business and policies of the Group as well as the roles and responsibilities of the Board.

Access to Advice and Information

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

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.

Board Committees

The Board has delegated specific responsibilities to six (6) committees, which operate within approved terms of reference, to facilitate their work. Notwithstanding the above, the ultimate responsibility for the final decision lies with the full Board. These committees are:

a) Audit Committee

The Audit Committee was established to assist the Board in fulfilling its responsibilities relating to the accounting and reporting practices of the Group. The Board considers that the membership of the Audit Committee is in compliance with the Bursa Securities Main LR and the Code's recommendations. The terms of reference as well as the members of the Audit Committee are set out in Pages 53 to 58 of the Annual Report.

b) Executive Committee

The Executive Committee is responsible for implementing the decisions and policies approved by the Board.

The members of the Executive Committee are as follows:

Dato' Seri (Dr.) Goh Eng Toon (Chairman)
Dato' Tee Tiam Lee
Dato' Leong Kok Wah
Ir. How See Hock (Ceased as member on 1 January 2011)
Jaggit Singh a/l Tara Singh (Demised on 27 June 2010)

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c) *Nomination Committee*

The Nomination Committee meets at least once a year. It was set up to review the optimal mix of qualifications, skills and experience of the Board, evaluation on the effectiveness of the whole Board, the various committees and each individual Director's contribution to the effectiveness of the Board's decision making process and nominate and assess the candidates for appointment as Directors. The members of the Nomination Committee are as follows:

Dato' Seri (Dr.) Goh Eng Toon (Chairman)
Dato' Dr Freezailah bin Che Yeom
Ho Tet Shin

The Board considers that the membership of the Committee is in compliance with the Code's recommendation.

d) *Remuneration Committee*

The Remuneration Committee was set up to deliberate on the remuneration framework and its members meet at least once a year to make recommendations to the Board on structuring Executive Director's remuneration packages.

The members of the Remuneration Committee are as follows:

Dato' Seri (Dr.) Goh Eng Toon (Chairman)
Dato' Dr Freezailah bin Che Yeom
Ho Tet Shin

The Board considers that the membership of the Remuneration Committee is in compliance with the Code's recommendation.

e) *Risk Management Committee*

The Risk Management Committee is established to be the forefront of Enterprise-wide Risk Management Programme and ensure consistent adoption of risk management structure throughout the Group. The Risk Management Committee is responsible to the Board and assists the Board in overseeing all risks management activities within the Group. In addition, it reviews the efficacy of internal controls within the Group. The Risk Management Committee meets twice a year or as required.

The members of the Risk Management Committee are as follows:

Ho Tet Shin (Chairman)
Dato' Leong Kok Wah (*Appointed as member on 20 December 2010*)
Jamiluddin Amini bin Sulaiman (*Appointed as member on 20 December 2010*)
Ir. How See Hock (*Ceased as member on 1 January 2011*)
Jaggit Singh a/l Tara Singh (*Demised on 27 June 2010*)

f) *ESOS Committee*

The Employees' Share Option Scheme (ESOS) Committee was established on 7 July 2010 and is responsible to administer the ESOS in accordance with By-Laws.

The members of the ESOS Committee are as follows:

Dato' Tee Tiam Lee (Chairman)
Dato' Leong Kok Wah
Law Woo Hock
Ir. How See Hock (*Ceased as member on 1 January 2011*)

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PRINCIPLE B - DIRECTORS' REMUNERATION

The remuneration policy of the Company is to ensure competitive remuneration, thereby enabling the Company to attract and retain high calibre 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 should reflect the experience and level of expertise and responsibilities undertaken by the particular non-executive director concerned.

Level and Make-up of Remuneration

Details of the remuneration of Directors of the Company for the financial year ended 31 December 2010 are as follows:

- Aggregate remuneration of the Directors categorised into appropriate components:

Directors' Remuneration	Executive Directors (RM'000)	Non-Executive Directors (RM'000)
Salary	1,555	-
Bonus	216	-
Fees	-	136
Meeting Allowances	-	18
Benefits-In-Kind	97	-
Statutory Contribution	217	-
ESOS	123	-
Others	40	-
Total	2,248	154

- It is not the Board's policy to disclose the remuneration of each individual director due to the Company's concerns for the sensitivity and confidentiality of such information. However, it has resolved to disclose their salaries into bands of RM50,000, as shown below, only for purposes of complying with the Code, differentiating the numbers between executive and non-executive directors.

Directors' Remuneration	Number of Directors
Executive Directors	
Less than RM500,000	2
RM500,001 - RM550,000	2
Non-Executive Directors	
Less than RM50,000	3
RM50,001 - RM100,000	1

Remuneration Procedures

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

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In determining the remuneration package, the Executive Directors shall abstain from the deliberations and voting decisions in respect to their remuneration. The Board as a whole will decide the non-executive directors' remuneration with the director concerned abstained from participating on decision in respect of his individual remuneration.

In financial year 2010, the Remuneration Committee has reviewed and proposed to the Board, the remuneration package for year 2010 for the Executive Directors. The proposed remuneration packages for the Executive Directors have been approved by the Board whilst the proposed remuneration for the Non-Executive Directors shall be subjected to the shareholders' approval at the 8th Annual General Meeting.

PRINCIPLE C - RELATIONSHIP WITH SHAREHOLDERS

Shareholders Communication and Investors Relationship Policy

The Group recognises the need and importance of establishing a direct line of communication with shareholders and investors through timely dissemination of information on the Group's performance and major developments via appropriate channels of communication.

The Annual General Meetings (AGM) is the forum to communicate with shareholders. Dissemination of information also includes the distribution of Annual Reports, relevant circulars, issuance of press releases and giving press conferences. The financial performance of the Group is communicated to the public via its quarterly report to the Bursa Securities.

To further enhance transparency and communication with shareholders and all concerned, the Company established an internet website at www.salcon.com.my for the timely and wide dissemination of business related information for the benefit of all interested parties. As an alternate channel to reach out to a broader range of the public, shareholders and interested parties may also connect to Salcon via Facebook.

The Board had appointed Dato' Dr Freezailah bin Che Yeom as the Senior Independent Non-Executive Director to whom shareholders' concerns may be conveyed.

Annual General Meeting

The AGM is the principal forum for communicating with shareholders. Shareholders are encouraged to attend the AGM 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 question that is not readily answered at the AGM.

Shareholders who are unable to attend are allowed to appoint not more than two (2) proxies, who need not be shareholders, to attend and vote on their behalf. Shareholders are given the opportunity to seek clarification on any matters pertaining to the affairs of the Company.

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PRINCIPLE D - ACCOUNTABILITY AND AUDIT

Financial Reporting

In preparing the financial statements, the Directors have complied with Section 169(15) of the Companies Act, 1965 and applicable accounting standards in Malaysia so as to give a true and balanced view of the state of affairs and the result of the Company and the Group.

The Group presents its financial statements on an annual basis through its annual report and its interim results, every quarter via its submissions to the Bursa Securities. The Audit Committee assists the Board in reviewing the information disclosed to ensure accuracy and adequacy.

Internal Control

The Internal Control Statement furnished on Pages 59 to 60 of the Annual Report provides an overview of the state of internal controls within the Group.

Relationship with Auditors

The Board through the establishment of an Audit Committee maintains a formal and transparent arrangement with the Company and the Group's auditors, both internal and external.

Compliance with the Code

The Group has complied with the best practices of the Code throughout the financial year ended 31 December 2010, except for Principle BIII - Disclosure on remuneration of Directors.

OTHER INFORMATION REQUIRED BY THE BURSA SECURITIES MAIN LR

Utilisation of Proceeds

The Renounceable Rights Issue was completed and the shares were granted listing and quotation on the Main Board of Bursa Securities on 23 May 2007. The status of the utilisation of the proceeds as at 4 May 2011 is as follows:

	Proposed Revised Utilisation RM'000	Utilised RM'000	Unutilised/ (Over) RM'000
Working capital for the Sabah sewage system project	20,000	(16,131)	3,869
General working capital for the Group	79,978	(83,822)	(3,844)
Repayment of bank borrowings	19,000	(19,000)	-
Estimated expenses relating to the Rights Issue with Warrants	1,888	(1,913)	(25)
Total	120,866	(120,866)	-

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The Group disposed 40% of its holdings in six (6) China concessions (Disposal). The status of the utilisation of the proceeds as at 4 May 2011 is as follows:

	Proposed Revised Utilisation RM'000	Utilised RM'000	Unutilised/ (Over) RM'000
Future investments	84,380	-	84,380
Repayment of bank borrowings	10,000	(4,514)	5,486
Defraying estimated expenses relating to the Disposal	1,200	(1,200)	-
Total	95,580	(5,714)	89,866

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 2010.

Non-audit Fee

Other than the following, there was no non-audit fees paid to the external auditors for the financial year ended 31 December 2010.

Auditor	Services	Amount Paid (RM)
KPMG	Professional Services in connection with the review of the Internal Control Statement	10,000
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 2010, contained in this Annual Report does not deviate by more than 10% from the unaudited results of the Group announced on 28 February 2011.

Share Buybacks

The Company did not enter into any share buyback transactions during the financial year ended 31 December 2010.

Options or Convertible Securities

The Company has allocated 32,783,700 share options under ESOS and out of this total, 5,827,500 share options were exercised during the financial year ended 31 December 2010. Further details in regards to the Company's ESOS is available in the Directors' Report in the Financial Statements on Pages 62 to 67 of this Annual Report.

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Depository Receipt Programme

The Company did not sponsor any depository receipt programmes during the financial year ended 31 December 2010.

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

Revaluation Policy on Landed Properties

The Group revalue its property comprising land and building every 5 years and at shorter intervals whenever the fair value of the revaluated assets is expected to differ materially from their carrying value.

ESOS

There were no options offered to and exercised by non-executive directors pursuant to the Company's ESOS for the financial year ended 31 December 2010.

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 2010, 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.