salcon

Dynamic Diversification

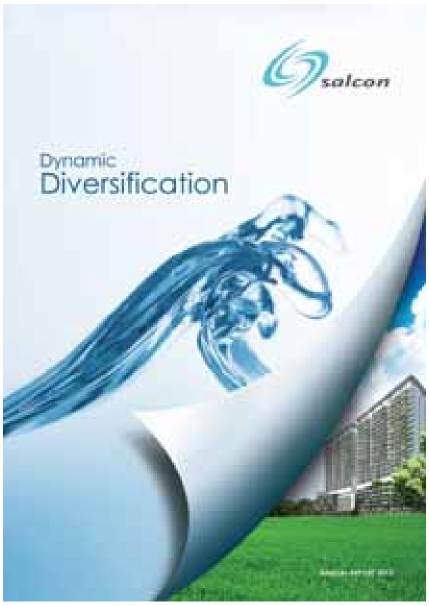
ANNUAL REPORT 2013

Enhancing Quality, Enriching Life

We enrich the lives of families by providing clean water as well as well-planned communities

Contents

The theme, Dynamic Diversification, highlights the bold transformation that our company has undergone in recent times. By diversifying into property development, we have started a new chapter in our corporate history. We have commenced a new era of expansion and our future is brimming with promise.



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COMPANY PROFILE

Salcon Berhad ("Salcon") is a leading water and wastewater engineering company established in Malaysia, with focus on the investment, design, construction, commissioning, operation and maintenance of water and wastewater treatment plants and ancillary facilities across Asia. In 2003, Salcon was listed on the Main Board of Bursa Malaysia Securities Berhad.

Over the past 40 years, Salcon has built an excellent track record in water and wastewater solutions. To date, the Group has completed more than 900 water and wastewater projects in Malaysia, Thailand, Sri Lanka, Vietnam and China. With a strong foothold and solid reputation in the water and wastewater market, Salcon envisions itself to be in the forefront of future projects in other parts of Asia which has tremendous growth for expansion.

In response to an everchanging market and to diversify its income stream, Salcon ventured into a new business sector ie Property Development in 2012. In 2013, our first property project namely rés 280 was launched comprising a 21-storey commercial building and 12 units of two storey shop office in Selayang, Malaysia. It is estimated to complete in 2016. Besides this, two parcels of land totaling 51,476 sqm were acquired in Johor for the purpose of developing mixed residential and commercial buildings and a shopping mall. With a group of strategic partners and relevant expertise in property development sector, Salcon endeavors to secure new development projects within the next few years to ensure the sustainability of its financial performance.

As a water and wastewater engineering specialist and an emerging player in property development, Salcon's core values remain as a guide for the Group to achieve excellence in every business undertaking.

VISION

To be a world leader in water and sanitation services.

MISSION

To provide quality water and sanitation services through innovation and capable human resource whilst upholding our corporate social responsibilities.

CORE VALUES

Commitment

We are committed to delivering consistent and high quality products and services through the most efficient and optimum use of available resources.

Teamwork

We believe that mutual accountability and unified efforts bring about greater synergy and productivity in our pursuit for excellence.

Professionalism

We believe in the highest level of competence, integrity and thoroughness in achieving distinction in all aspects of our work.

Respect

We respect our employees regardless of gender, race or religion and inspire them to be the best they can be.

Results

We strive towards maximizing stakeholders' values and returns.

BOARD OF DIRECTORS

Dato' Seri (Dr.) Goh Eng Toon
Chairman, Non-Independent Non-Executive Director

Tan Sri Dato' Tee Tiam Lee
Executive Deputy Chairman

Dato' Leong Kok Wah
Executive Director

Dato' Dr. Freezailah bin Che Yeom
Independent Non-Executive Director

Ho Tet Shin
Independent Non-Executive Director

Dato' Choong Moh Kheng
Independent Non-Executive Director

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

EXECUTIVE COMMITTEE

Dato' Seri (Dr.) Goh Eng Toon (Chairman)
Tan Sri Dato' Tee Tiam Lee
Dato' Leong Kok Wah

RISK MANAGEMENT COMMITTEE

Ho Tet Shin (Chairman)
Dato' Leong Kok Wah
Jamiluddin Amini Bin Sulaiman
Ooi Cheng Swee @ Wee Kwee Swee

ESOS COMMITTEE

Tan Sri Dato' Tee Tiam Lee (Chairman)
Dato' Leong Kok Wah
Law Woo Hock

COMPANY SECRETARIES

Wong Wai Foong (MAICSA 7001358)
Joanne Toh Joo Ann (LS 0008574)

REGISTERED OFFICE

15th Floor, Menara Summit
Persiaran Kewajipan, USJ 1
47600 UEP Subang Jaya
Selangor Darul Ehsan
Tel : 603-8024 8822
Fax : 603-8024 8811

HEAD OFFICE

15th Floor, Menara Summit
Persiaran Kewajipan, USJ 1
47600 UEP Subang Jaya
Selangor Darul Ehsan
Tel : 603-8024 8822
Fax : 603-8024 8811

AUDITORS

KPMG (AF 0758)
Chartered Accountants
Level 10, KPMG Tower
8 First Avenue, Bandar Utama
47800 Petaling Jaya
Selangor Darul Ehsan

PRINCIPAL BANKERS

Hong Leong Bank Berhad
Malayan Banking Berhad
Standard Chartered Bank Malaysia Berhad
United Overseas Bank (Malaysia) Berhad

SHARE REGISTRAR

Tricor Investor Services Sdn Bhd
Level 17, The Gardens North Tower
Mid Valley City, Lingkaran Syed Putra
59200 Kuala Lumpur
Tel : 603-2264 3883
Fax : 603-2282 1886

STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia Securities Berhad
(Listed since 3 September 2003)
Sector: Trading/Services
Stock Name: SALCON
Stock Code: 8567

WEBSITE

www.salcon.com.my

Unique Innovations, Precise Solutions

We develop creative and effective solutions by emphasizing technology and innovation

Corporate Structure
as at 30 April 2014

salcon

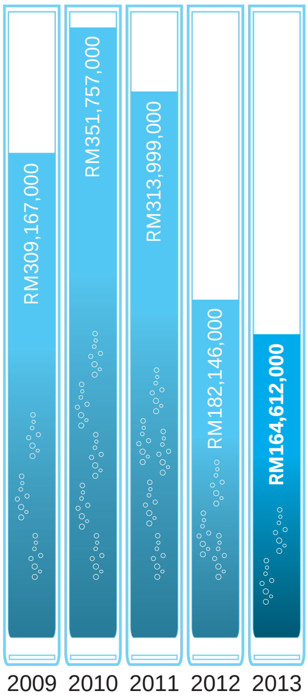
- 60% Salcon Water (Asia) Limited
  - 1 share
  - 99.99% Salcon Zhejiang (HK) Limited
    - 60% Haining Salcon Water Company Limited
  - 99.99% Salcon Fujian (HK) Limited
    - 65% Nan An Salcon Water Company Limited
  - 99.99% Salcon Shandong (HK) Limited
    - 100% Shangdong Changle Salcon Water Company Limited
    - 100% Changle Salcon Raw Water Company Limited
  - 99.99% Salcon Linyi (HK) Limited
    - 60% Linyi Salcon Water Company Limited
  - 99.99% Salcon Services (HK) Limited
    - 100% Salcon Alliance Corporate Management & Consultancy (Shanghai) Pte. Ltd.
- 100% Salcon Power (HK) Limited
- 99% Salcon Water (HK) Limited
  - 1%
- 100% Salcon Engineering Berhad
- 100% Salcon Changzhou (HK) Limited
  - 100% Changzhou Salcon Wastewater Treatment Company Limited
- 100% Salcon Water International Limited
  - 100% Salcon Investment Consultation (Shanghai) Company Limited
- 100% Salcon Development Sdn Bhd
  - 50% +1 share Azitin Venture Sdn Bhd
  - 50.01% Nusantara Megajuta Sdn Bhd
- 100% Salcon Capital Sdn Bhd
  - 51.3% Eco-Coach & Tours (M) Sdn Bhd
    - 100% Eco Tours Asia Sdn Bhd
- 51% Integrated Water Services (M) Sdn Bhd
- 70% Kencana Kesuma Sdn Bhd
- 70% Salcon Utilities Sdn Bhd (formerly known as Gerbang Mawar Sdn Bhd)
- 100% Satria Megajuta Sdn Bhd

Operating Companies

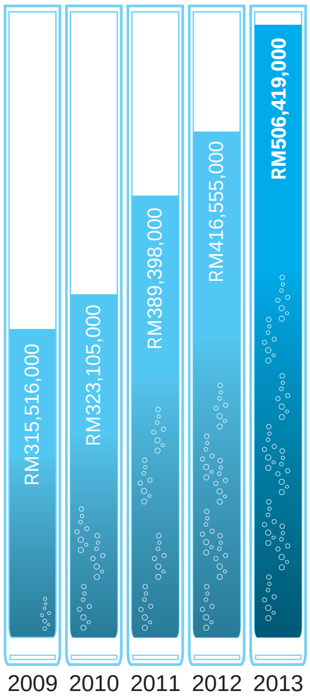
Dormant Companies

- 100% Linyi Salcon Water Supply Facilities Company Limited
- 100% Linyi Runcheng Water Supply Project Company Limited

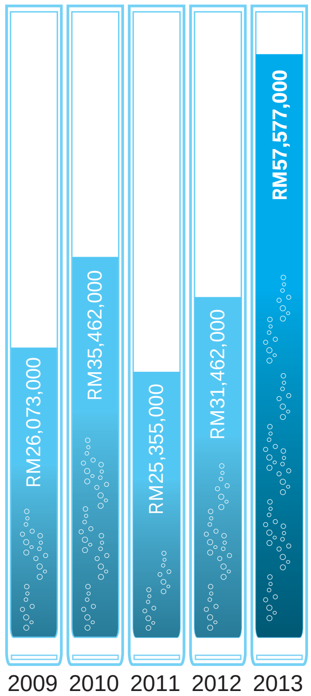
- 100% Salcon Holdings (Mauritius) Limited
  - 99% Salcon Engineering (India) Pte Ltd (1%)
- 40% Salcon (Perak) Sdn Bhd
- 100% Tanjung Jutaria Sdn Bhd
- 100% Precise Metal Sdn Bhd
- 100% Bumi Tiga Enterprise Sdn Bhd
  - 60% Eagle Metalizing Coatings Company Sdn Bhd
  - 100% Skeel Engineering Sdn Bhd
  - 100% Salcon Building Services Sdn Bhd
- 100% Salcon Corporation Sdn Bhd
- 100% Salcon (Sarawak) Sdn Bhd
- 50% Gliterria Sdn Bhd
- 100% Salcon Power Sdn Bhd
  - 100% Salcon Green Energy (UK) Limited
- 100% Salcon Engineering Vietnam Company Limited
- 60% Envitech Sdn Bhd
- 100% Salcon Resources Sdn Bhd
- 100% Salcon Environmental Services Sdn Bhd
- 40% Emas Utilities Corporation Sdn Bhd
  - 90% Binh An Water Company Limited
- 100% Salcon-Centrimax Engineering Sdn Bhd
- 36% Salcon MMCB AZSB JV Sdn Bhd



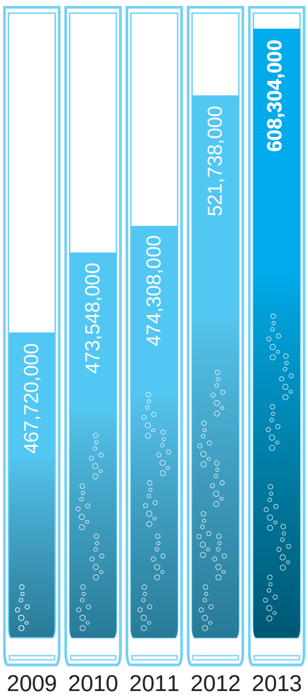
RM165m
Revenue



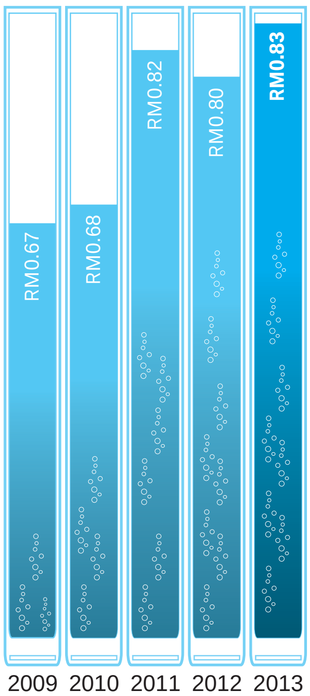
RM506m
Total Equity Attributable to Owners of the Company



RM58m
Profit After Tax



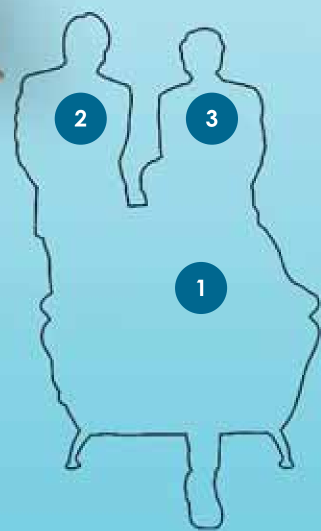
608m
Number of Shares Issued



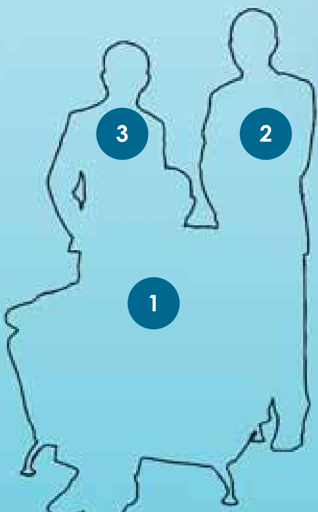
RM0.83
Net Assets Per Share

	2009 (restated)	2010 (restated)	2011 (restated)	2012 (restated)	2013
Revenue (RM '000)	309,167	351,757	313,999	182,146	164,612
Profit Before Tax (RM '000)	22,645	24,686	9,667	(1,411)	(30,756)
Profit After Tax (RM '000)	26,073	35,462	25,355	31,462	57,577
Profit Attributed to Owners of the Company (RM '000)	22,053	26,793	14,645	11,282	24,944
Total Assets (RM '000)	755,808	858,989	1,081,508	1,227,276	1,206,580
Total Liabilities (RM '000)	365,063	446,522	533,078	585,231	486,224
Total Equity Attributable to Owners of the Company (RM '000)	315,516	323,105	389,398	416,555	506,419
No. of Shares Issued	467,720	473,548	474,308	521,738	608,304
Net Assets per Share Attributable to Owners of the Company (RM)	0.67	0.68	0.82	0.80	0.83
Basic Earnings per Share (sen)	4.72	5.72	3.09	2.21	4.50
Dividend per Share (sen)	1.5	1.5	1.5	1.0	3.0
Return on Equity (%)	6.99	8.29	3.76	2.71	4.93
Share Price (Min) (RM)	0.325	0.605	0.390	0.405	0.395
Share Price (Max) (RM)	0.690	0.875	0.740	0.640	0.725

Board of Directors



1. **Tan Sri Dato' Tee Tiam Lee**
2. **Dato' Choong Moh Kheng**
3. **Dato' Dr. Freezailah bin Che Yeom**



1. **Dato' Seri (Dr.) Goh Eng Toon**
2. **Ho Tet Shin**
3. **Dato' Leong Kok Wah**

Dato' Seri (Dr.) Goh Eng Toon
Chairman, Non-Independent Non-Executive Director

Dato' Seri (Dr.) Goh Eng Toon, aged 80, was appointed to the Board of Salcon Berhad ("Salcon") on 15 June 2005 as the Vice Chairman. He was appointed the Chairman of Salcon on 18 October 2007.

He holds a Cambridge General Certificate of Education and is a Fellow of the Institute of Bankers Malaysia.

Dato' Seri (Dr.) Goh started his banking career with Midland Bank in the United Kingdom in the early fifties and Malayan Banking Berhad from 1960 to 1973. In 1973, he was appointed the Chief Executive Officer ("CEO") of Ban Hin Lee Bank Berhad, Director and CEO in 1978, Acting Chairman and CEO in 1986 and became its Chairman and CEO from 1990 until the merger of Ban Hin Lee Bank Berhad and Southern Bank Berhad in July 2000. He was a Director of Southern Bank and its Group: Southern Finance Berhad, SBB Mutual Berhad (formerly known as BHLB Pacific Trust Management Berhad), BHLB Asset Management Sdn Bhd and BHL Venture Berhad until 2004, when he retired from the Bank and the Group. He was also the Chairman of BHLB Trustee Berhad until December 2005.

He also served on the Board of Aviva Insurance Berhad ("Aviva") as its Chairman. He was also the Chairman of the Audit, Risk Management, Nomination and Remuneration Committees of Aviva. He retired from Aviva in September 2006 when it merged with MSIG Insurance Berhad.

Dato' Seri (Dr.) Goh was a Director and Chairman of Rockwills Trustee Berhad until 5 May 2011.

He presently serves on the Board and as the Chairman of Pulau Pinang Clinic Sdn. Bhd. (Gleneagles, Penang). He is also a Director of Heng Lee & Co. Sdn Bhd and its Group of Companies. He also serves as trustee in many charitable homes, institutions and associations.

In recognition of Dato' Seri (Dr.) Goh's contribution to nation building in economic, social and education sector, he was conferred the Doctor of Laws, honoris causa from Wawasan Open University on 23 October 2010.

Dato' Seri (Dr.) Goh is currently the Chairman of the Executive Committee and Remuneration Committee and a member of the Audit Committee and Nomination Committee of the Company.

Tan Sri Dato' Tee Tiam Lee
Executive Deputy Chairman

Tan Sri Dato' Tee Tiam Lee, aged 57, was appointed to the Board of Salcon on 1 January 2010.

Tan Sri Dato' Tee has an extensive career and has vast experience in various industries including insurance, water engineering/treatment, hotel management, property investment and oil palm plantation business.

He began his career in insurance in 1976 after finishing his secondary education and has more than 30 years experience in this industry to-date.

Tan Sri Dato' Tee was a Director, members of Remuneration Committee, Risk Management Committee and Underwriting Committee of MUI Continental Insurance Berhad.

He is also a Director of several private limited companies including Hotel Sri Hoover Sdn Bhd which deals in hotel management, and Tabir Arena Sdn Bhd, Jouta Plantation Sdn Bhd and Evergreen Comfort Sdn Bhd, which deal in oil palm plantation business in the east coast of West Malaysia.

He is the Chairman of The Mines Residents Association (MRA) and is also a Director of the Chinese Chamber of Commerce in Terengganu since 1995.

Tan Sri Dato' Tee is the Chairman of ESOS Committee and a member of the Executive Committee and a major shareholder of the Company. He was a senior adviser of the Company.

Dato' Leong Kok Wah
Executive Director

Dato' Leong Kok Wah, aged 60, was appointed to the Board of Salcon on 1 January 2010.

He holds a Master's degree in Business Administration (MBA) from University of Hull, United Kingdom ("UK") and is a member of Institute of Bankers (UK), Institute of Credit Management (UK), Institute of Marketing (UK) and Institute of Bankers Malaysia.

Dato' Leong has an extensive career and held senior positions in the banking industry. He has vast experience in stock broking, asset management and options and futures trading. He sits on the Board of various companies in Malaysia. He was an Independent Non-Executive Director and a member of Audit Committee, Nomination Committee and Remuneration Committee of S P Setia Berhad until 28 February 2013.

Dato' Leong is a Non-Independent & Non-Executive director of Eco-World Development Group Berhad (formerly known as Focal Aims Holdings Berhad). He also sits on the Board of MUI Continental Berhad (formerly known as MUI Continental Insurance Berhad) and is a member of its Audit Committee, Risk Management Committee and Investment Committee.

He is a member of the Executive Committee, Risk Management Committee and ESOS Committee of the Company.

Dato' Dr. Freezailah bin Che Yeom
Independent Non-Executive Director

Dato' Dr. Freezailah bin Che Yeom, aged 74, was appointed to the Board of Salcon on 21 July 2003.

He holds a First Class Honours degree in Forestry and a Doctor of Philosophy in Ecology from the University of Edinburgh, United Kingdom.

Dato' Dr. Freezailah has more than 40 years of experience in various fields of the forestry sector including holding several senior management positions. In 1987, he was elected to serve as the founding Executive Director of the UN-Sponsored International Tropical Timber Organisation ("ITTO") based in Yokohama, Japan with the rank of Assistant Secretary-General on the UN-Scale. He provided leadership to the 57-member-country ITTO and nurtured its growth and development into a respected global body to promote the conservation, sustainable management and utilisation of the world's tropical forests. In recognition of his contributions to the forestry sector, the ITTO created the "Freezailah Fellowship Fund" on his retirement in 1999 and he was conferred "Award of Excellence" by the Commonwealth Forestry Association.

He was also conferred the "Order of the Rising Sun, Gold Rays with Neck Ribbon" by His Majesty the Emperor of Japan. He is a Fellow of the Institute of Foresters Malaysia and Honorary Member of the Society of American Foresters. He has also addressed many important forestry fora. He was a council member of Wawasan Open University College.

Dato' Dr. Freezailah was bestowed with the 2013 Chinese Government Friendship Award – the Chinese government's highest honor for foreigners who have made exceptional contributions to China's economic and social progress on 29 September 2013.

Dato' Dr. Freezailah is currently the Chairman of the Malaysian Timber Certification Council. He is also a member of the Board of Trustees of Yayasan Tunku Abdul Rahman and Yayasan Salam. Dato' Dr. Freezailah is active in various national and international organisations and initiatives dealing with forestry, conservation, environmental issues and related technological advances.

Dato' Dr. Freezailah is the Chairman of Nomination Committee and a member of the Audit Committee and Remuneration Committee of the Company.

Ho Tet Shin
Independent Non-Executive Director

Mr. Ho Tet Shin, aged 63, was appointed to the Board of Salcon on 5 August 2005.

He is a member of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Accountants, as well as a Fellow of the Institute of Chartered Accountants in England and Wales.

Mr. Ho started his accountancy career with KPMG London and qualified as a Chartered Accountant in 1974. He then joined KPMG Kuala Lumpur and played a leading role in its Receivership and Insolvency Department for two years before he left to pursue a career in commerce and industry. He has since held senior management positions in a wide range of businesses, including manufacturing, banking, telecommunications and stock broking.

His current interests are centered on deploying climate change mitigating technologies for sustainable development, including biologically active filtration, and the use of microalgae in waste water treatment, production of renewable transport fuels and animal feed.

Mr. Ho is the Chairman of the Audit Committee and Risk Management Committee. He is also a member of the Nomination Committee and Remuneration Committee of the Company.

Dato' Choong Moh Kheng
Independent Non-Executive Director

Dato' Choong Moh Kheng, aged 58, was appointed to the Board of Salcon on 3 January 2011.

He holds a Bachelor of Science (Honors) Civil Engineering from Manchester University, United Kingdom and obtained his post-graduated degree in Master of Business Administration from Golden Gate University, San Francisco, United States of America.

Dato' Choong has an extensive working experience in both Civil and Building works include Astrid Meadows luxurious Condominium Project, Singapore ($55.1 million), Gleneagles Hospital Extension, Singapore ($150 million) and North-South Interurban Toll Expressway, Sungkai to Slim River, Perak (RM332 million).

Dato' Choong is currently the Managing Director of Pembinaan Punca Cergas Sdn Bhd ("PPC"). He is also the founder director and Joint Managing Director of PPC group of companies. His active involvement in the industry includes being the Honorary Treasurer of the Road Engineering Association of Malaysia (REAM).

Notes:-

1. *All Directors are Malaysian.*

2. *There is no family relationship between the Directors and/or major shareholders of the Company except the following:-*

   (a) Datin Goh Phaik Lynn, who is a major shareholder of the Company by virtue of her interest in Naga Muhibah Sdn Bhd, is the spouse of Dato' Leong Kok Wah and a daughter of Dato' Seri (Dr.) Goh Eng Toon; and

   (b) Dato' Leong Kok Wah is a son-in-law of Dato' Seri (Dr.) Goh Eng Toon.

3. *None of the Directors has entered into any transaction, whether directly or indirectly, which has a conflict of interest with the Company.*

4. *None of the Directors has been convicted for offences (other than traffic offences) within the past 10 years.*

Continuing to grow, Inspired by tomorrow

We are expanding rapidly as we progress into the future

Dato' Seri (Dr.) Goh Eng Toon
Chairman

Dear Shareholders,

On behalf of the Board of Directors, I am delighted to present to you the Annual Report and Audited Financial Statements of Salcon Berhad ("Company") and its group of companies ("Group") for the financial year ended 31 December 2013. Despite a challenging environment, I believe 2013 marked another year of progress for Salcon Berhad in the implementation of our strategy and in generating more sustainable returns to shareholders.

FINANCIAL PERFORMANCE

The Group achieved commendable results, amidst the challenging global economic backdrop. In particular, the Group registered profit after tax of RM57.6 million, representing an increase of 83% from RM31.5 million compared to the previous year. The profit growth was attributed to higher profitability enjoyed from the partial completion of the Group's China asset's disposal.

It was a good and encouraging period under review for Salcon as the Group secured several new projects totaling RM577.0 million to replenish its order book. The Group, via its wholly-owned subsidiary, Salcon Engineering Berhad, together with its joint venture partners, MMC Corporation Berhad and Ahmad Zaki Sdn. Bhd. was awarded the Langat 2 Water Treatment Plant Project. The contract, valued at RM993.9 million, involves the construction and completion of a water treatment plant with a capacity of 1,130 Million Litres per Day (MLD). This is expected to provide treated water to meet the supply needs for Selangor, Kuala Lumpur and Putrajaya up to year 2025.

Winning this project is indeed an honour for the Group as it is not only the largest water contract in the Group's corporate history but also the largest single water contract in the history of the Malaysian water industry.

During the year, the Group was also awarded a contract by Kementerian Tenaga, Teknologi Hijau & Air (KeTTHA) ie Package D55 – Construction of Sewage Pipes Network at Lot 130, Klang, Selangor Darul Ehsan, valued at RM110 million. Subsequently, the overseas construction division remains firm as the Group secured the RM59 million contract of the Kandana water treatment plant extension under the Kalu Ganga Water Supply Scheme in Sri Lanka.

The Group foresees an increase in revenue contribution from the construction division due to the commencement of work of the projects that we have successfully procured during the year. Its current outstanding orderbook of RM645.0 million is expected to be completed within the next 3 years.

The Group's financial position remains healthy; the total equity attributable to owners of the company increased by 22% to RM506.4 million whilst cash equivalents total RM147.4 million as at 31 December 2013.

Most importantly, a positive financial outcome from the disposal of the Group's China assets is the substantial strengthening of its balance sheet by paring down debt. Total borrowings have dropped below RM 31.3 million as at 31 December 2013, most of which is made up of short term and operational funding for various subsidiaries.

Salcon was crowned winner of the Green Leadership Award at the AREA 2013 Southeast Asia at Marina Bay Sands, Singapore

The awards have further inspired the Group to continue its education programme for our young generations on the value of our precious water resources.

REWARDING OUR SHAREHOLDERS

For the financial year ended 2013, in line with the Group's ongoing commitment towards shareholder's interest, the Group announced a Special Final Dividend of 3 sen (single tier tax exempt) per ordinary share of RM0.50 each equivalent to RM18.2 million. The consistent dividend distribution to the shareholders demonstrate the Group's commitment and ability to deliver growth over the long term.

AWARDS & RECOGNITION

CSR recognitions

During the year under review, the Group's commitment and hard work in educating youths on the importance of environmental conservation through the Salcon River and Water Awareness Educational programme received recognition and awards from two (2) international Corporate Responsibility bodies namely Asia Responsible Entrepreneurship Award (AREA) and Asia-Pacific Enterprises Leadership Awards (APELA). The awards have further inspired the Group to continue its education programme for our young generations on the value of our precious water resources. Moving forward, the Group has since expanded the reach of this program to teachers who in turn, can organize their own river programmes so as to benefit more children. To date, the programmes have benefited more than 500 students and 54 teachers in Klang Valley.

The Edge Malaysia-Best M&A

Salcon was also recognized by The Edge Malaysia for securing the best Mergers & Acquisitions deal for 2013. The Group's disposal of its China assets valued at RM518.3 million is an amount that exceeds its market capitalization of RM414.3 million at the time the deal was clinched. The award takes into consideration the size of the transaction, benefits to its minority shareholders and performance of the Group after the completion.

Salcon was awarded a regional recognition by Enterprise Asia for its contribution on environmental conservation

Signing Ceremony between Salcon & Beijing Enterprise Water Group Limited on the disposal of China water assets

MILESTONE DEVELOPMENT

Unlocking value of China Assets

In the final quarter of financial year 2013, the Group and its venture company Salcon Water (Asia) Ltd entered into two (2) Sale and Purchase Agreements (SPA) with Beijing Enterprises Water Group Limited (BEWGL) for the disposal of 100% shares of six (6) water companies for a total consideration of RMB955 million (approximately RM506.3 million). The disposal involves 6 water concessions, 1 wastewater concession and 2 raw water concessions located in Fujian, Zhejiang, Jiangsu and Shandong province with a total design capacity of 1,245 MLD.

The disposal of concessions under SPA–A involving Salcon Darco Environmental Pte. Ltd. and Salcon Jiangsu (HK) Limited were deemed completed on 23 December 2013. The Group has received a total of RMB 309.2 million (approximately RM 167.2 million) from BEWGL. The disposal of the other four companies ie Salcon Fujian (HK) Ltd, Salcon Zhejiang (HK) Ltd, Salcon Linyi (HK) Ltd and Salcon Shandong (HK) Ltd under SPA-B is expected to be completed on 29 June 2014.

Upon full completion, the disposal of the Chinese water assets bring to the Group total cash of RM271.8 million (net of liabilities) and resulted in a disposal gain of RM78.0 million and at the same time improved its earnings per share from 2.21 sen to 15.2 sen and net assets per share from 80 sen to 95 sen.

The exercise unlocks the value of the Group's China assets and allows the Group to focus on water and wastewater engineering, construction and property development. The Group expects to continue its efforts to bid for engineering and construction projects for water and wastewater contracts in Malaysia, Sri Lanka, Indonesia, and Vietnam.

Property Development

In early 2013, the Group marked an exciting milestone with the launch of its maiden project in the fast growing township of Selayang, Selangor Darul Ehsan, which has a total gross development value (GDV) of RM154 million. This maiden project is a joint-venture between Salcon Berhad and Mepro Holdings Berhad to develop a 21-storey building comprising 12 units of 2-storey shop/office and 280 Units of Small Office Home Office (SOHO) together with all the facilities. Construction of the project started in the fourth quarter of 2013.

Subsequently, Salcon through its 50.01%-owned Nusantara Megajuta Sdn Bhd (NMSB), had signed a Letter of Intent with Eco World Development Sdn Bhd to jointly develop 2 pieces of land, measuring 51,457 sqm in Johor. With an estimated GDV of RM1.2 billion, this will be Salcon's second property venture , which will comprise mixed residential and commercial development, strategically located within the Flagship Zone A of the Iskandar Malaysia and approximately 2 km north of the central business district of Johor Bahru. The Johor project is targeted to be launched in the second half of 2014.

The Group is aggressively looking forward to secure a good landbank and strategic partners to further strengthen the property development division.

Aerial view of Kelani Right Bank water treatment plant in Sri Lanka.

BUSINESS OUTLOOK & PROPECTS

The global economy is expected to grow by 3.7% in 2014. The ASEAN economies have shown resilience in growth performance during the last two years, supported by strong domestic consumption and investment, particularly in Indonesia, Malaysia, Thailand and the Philippines.

The Malaysian economy is expected to grow at a stronger pace of between 5% and 5.5% in 2014 on firm domestic demand and recovery in exports whilst growth in construction and services sectors are expected to continue to lead the economic growth in FY2014. The Construction sector which has significant multiplier effects on economic growth with the budgetary allocations of RM46.5 billion, is expected to record a growth of 9.6%.

Water and Wastewater Construction

Water and wastewater engineering and construction are the mainstay of the Group's activities and we continue to focus on expanding our presence in Malaysia as well as to strengthen our position in key markets in the Asean region.

Manhole construction at Kota Kinabalu for the Kota Kinabalu Sewerage Project.

In Malaysia, the Group is confident of water and wastewater construction opportunities with its strong track record, experience and expertise. In the recently announced Budget 2014, a total of RM1.2 billion is allocated for the building and upgrading of dams and water treatment plants. Other than this, the development of regional economic corridors, such as Iskandar in southern Johor (IRDA), the Northern Corridor Economic Region (NCER), the East Coast Economic Region (ECER), the Sabah Development Corridor (SDC) and the Sarawak Corridor of Renewable Energy (SCORE), the RM60 billion Refinery and Petrochemical Integrated Development (RAPID) and various flood mitigation programmes provide good opportunities for the Group to deliver water and wastewater infrastructure facilities in these areas.

Artist impression of proposed mixed residential & commercial property development in Johor Bahru, Johor.

In the Group's overseas markets, Sri Lanka, Indonesia and Vietnam remain the Group's focus with their vast opportunities and strong demand for clean water and wastewater solutions. In Sri Lanka, in particular, where the Government of Sri Lanka's plan is to achieve 47.5% coverage of piped water supply and 2.6% coverage of piped sewerage for the total population by 2014. The Group's commendable track record in successfully completing 3 water projects will stand in good stead and position the Group to take on more projects there. Currently, the Group has an on-going project in Sri Lanka, the Kalu Ganga Water Supply project. Other than water and wastewater projects, the Group is currently tendering for Non Revenue Water (NRW) projects which are funded by multilateral agencies such as Asia Development Bank (ADB).

The Group has also participated in various tenders and proposals in Indonesia and Vietnam. We look forward to securing projects in these growing markets in the coming years by leveraging on our excellent track record and technological know-how.

Property development

The Group looks to grow the property development business steadily and cautiously in the coming year. With the cooling measures introduced by the government in the recent Budget 2014, we anticipate a challenging period especially in the first half of 2014.

Nevertheless, we are positive with the growth of the property development industry in the medium term, as once the market has adjusted to these measures and when people realise that property prices will not come down, demand will return and be largely driven by the need to hedge against future cost-push factors. Furthermore, infrastructure projects in the pipeline such as light rail transit (LRT) extension, MRT project and not to forget the rising catalytic project in the Iskandar region will boost the demand for properties. Hence, we remain cautiously optimistic and look to strengthen our existing core business and processes to ensure delivery of good quality and desired product mix to our customers.

In the meantime, the Group is on a constant look out for opportunistic acquisitions of landbanks or to form strategic joint ventures with partners to further expand its presence in the industry.

We are positive with the growth of the property development industry in the medium term

Dato' Eddy Leong giving his speech during the ground breaking ceremony of res280 in Selayang.

Ground Breaking Ceremony of res280 on 6th Oct 2013.

ACKNOWLEDGEMENT

We ended the year on a stronger footing, both financially and in terms of meeting our strategic objectives. This would not have been possible without the invaluable advice of my fellow Board of Directors, hard work, commitment and efforts by the management and staff and the support of our financiers, business partners and the relevant approving authorities.

I wish to thank each and every one of you and look forward to your continuous support to embrace and overcome the many new challenges that the year brings in taking the Group to greater heights in our business transformation process.

Last but not least, I would like to take the opportunity to congratulate Dato' Dr. Freezailah bin Che Yeom for being conferred the 2013 Chinese Government Friendship Award – the Chinese government's highest honour for foreigners who have made exceptional contributions to China's economic and social progress. We are indeed proud of Dato' Freezailah and this is a fitting tribute to a man who was instrumental in setting up international trade standards for certification of tropical timber for sustainability.

Seeking perfection, Meticulous execution

We plan meticulously to ensure that all our endeavours are highly successful and very rewarding

Pipe jacking works for D55 project at Klang, Selangor

The Group's financial statements for financial year ended (FYE) 2013 takes into account the disposal of its China assets. In line with this, the Group's financial performance for financial year ended 2012 has also been restated. This analysis is based on the Group's restated results after taking into account the impact of the disposal which was partially completed with the disposal of Salcon Darco Environmental Pte Ltd and Salcon Jiangsu (HK) Limited as at 31 December 2013.

During the period under review, the Group has strategically grown and diversified its business model into two core businesses which are the long established Engineering & Construction division and the new Property Development division in order to build synergies to generate consistent returns for its shareholders.

The Group recorded total revenue of RM164.6 million in FYE 2013, a drop of 9.6% compared with FYE 2012. The Engineering & Construction division is the major contributor which accounts for 90% of the total revenue.

Gains from the disposal of the China assets has led to an increase in the Group's profit after tax from RM31.5 million in FYE 2012 to RM57.6 million in FYE 2013, an increase of 82.9%.

ENGINEERING & CONSTRUCTION DIVISION

In the Engineering & Construction division, the Group registered 4.5% growth in revenue from RM141.9 million to RM148.3 million during the period under review due to replenishment of order books as well as variation orders received from various projects. However, the division recorded losses after tax at RM27.2 million, mainly due to higher operating expenses incurred in the division of which RM18.0 million are non-recurring.

The Group expects better results in the coming financial years as it is busy with its current order books of RM930.0 million. During the period under review, the Group has clinched a few notable water and wastewater projects. These projects include the Langat 2 Water Treatment Plant project which was awarded to Salcon MMC AZSB JV Sdn Bhd for a total contract value of RM993.9 million. The Group via its wholly-owned subsidiary, Salcon Engineering Berhad is the lead partner in Salcon MMC AZSB JV Sdn Bhd and owns 36% equity interests. Other projects secured include Package D55 – construction of sewage pipeline in Klang worth RM110.0 million as well as Kandana Water Treatment Plant extension under the Kalu Ganga Water Supply project in Sri Lanka which is worth RM59 million.

The Group has strategically grown and diversified its business model into two core businesses which are the long established Engineering & Construction division and the new Property Development division in order to build synergies to generate sustainable returns for its shareholders.

View of 25 MGD Sg. Dua water treatment plant in Pulau Pinang

Construction of ozone clarification in Pintu Geng, Kelantan

During the year, the Group also successfully completed the Sungai Dua Water Treatment Plant project in Penang as well as the rehabilitation and upgrading works of Water Treatment Plant project in Pintu Geng, Kelantan.

During the year, the Group also successfully completed the Sungai Dua Water Treatment Plant project in Penang as well as the rehabilitation and upgrading works of Water Treatment Plant project in Pintu Geng, Kelantan. The Kelantan Non Revenue Water ("NRW") reduction project for the whole state of Kelantan was also successfully completed in FYE 2013.

The Group's wastewater business is operating smoothly via its subsidiary, Envitech Sdn Bhd. The company is currently working on a total RM170.0 million worth of projects locally which will keep it busy for the next two years.

Overseas Market

Approximately 30% of the Group's engineering & construction projects on hand come from the overseas market which are mainly concentrated in Vietnam, Thailand and Sri Lanka. Apart from the Kalu Ganga Water Supply project in Sri Lanka, the Group is currently undertaking the construction of reservoirs for Phet Kasem and Rat Burana distribution pumping stations and related works in Bangkok, Thailand and raw water pumping mains laying and related ancillary works in Karnataka, India.

The Group is actively involved in tendering for overseas project and building strategic alliances with potential partners and associates to carve out win-win partnerships to gain market share in the overseas market.

Looking Forward

Looking forward, the Group will continue to seek suitable opportunities in the water and wastewater market both locally and overseas markets such as Sri Lanka, Indonesia and Thailand.

The Group has submitted tenders amounting to RM2.2 billion, both locally and overseas in Sri Lanka, Indonesia and Thailand. This includes the RAPID Pengerang water project in Johor with RM170.0 million contract value and various regional sewage treatment projects in Malaysia.

On-going construction works of the 64 mld Kalu Ganga project in Sri Lanka

In Sri Lanka, in particular, the Group has built a good reputation with the successful completion of 3 water projects in Hambantota, Batticaloa and Kelani Right Bank, apart from the on-going Kalu Ganga project. The Group seeks to capitalize on the tremendous opportunities in Sri Lanka to strengthen its presence there. Besides water construction projects, NRW reduction projects are also coming on-stream and the Group has tendered for such projects and are confident of securing a portion in the near future.

In addition, the Group's subsidiary, Envitech Sdn Bhd has also tendered for RM270.0 million worth of wastewater contracts.

CONCESSION INVESTMENTS DIVISION

As part of the Group's move into a diversified business model and to unlock the value of its investment in China, the Group has disposed all its China assets to Beijing Enterprises Water Group Limited ("BEWGL") for a total consideration of RMB955.0 million (approximately RM506.3 million). The disposal of the six (6) companies represents the disposal of all of the Group's concessions in the People's Republic of China which consist of six (6) water concessions, one (1) wastewater concession and two (2) raw water concessions located in Fujian Province, Zhejiang Province, Jiangsu Province and Shandong Province of China.

The disposal of the China assets under SPA–A involving Salcon Darco Environmental Pte. Ltd. and Salcon Jiangsu (HK) Limited were deemed completed on 23 December 2013. The Group has received a total of RMB309.2 million (approximately RM167.2 million) from BEWGL. The disposal of the four (4) companies i.e. Salcon Fujian (HK) Limited, Salcon Zhejiang (HK) Limited, Salcon Linyi (HK) Limited and Salcon Shandong (HK) Limited under SPA-B is expected to be completed on 29June 2014.

Upon full completion, the disposal of the Group's China assets will strengthen the Group's financial position and allow it to repatriate RM271.8 million (net of liabilities) in cash. The Group has earmarked the sales proceeds for future investments, which will focus primarily on the property development as well as water and wastewater market.

Upon full completion, the disposal of the Group's China assets will strengthen the Group's financial position and allow it to repatriate RM271.8 million (net of liabilities) in cash.

Showroom at Salcon's maiden SOHO project in Selayang

Although revenue contribution from the Concession Investment division would be affected by the disposal, the Group is confident of cushioning the decrease in revenue through replenishment of new contracts in the Engineering & Construction division as well as contributions from the Property Development division.

The Binh An water supply concession in Ho Chi Minh city, Vietnam with plant capacity of 100 million litres per day will continue also to provide a steady income stream for the Group. The concession segment contributed RM4.3 million in terms of profits to the Group in FYE 2013.

PROPERTY DEVELOPMENT DIVISION

The Property Development division has yet to contribute financially in FYE 2013 as it is still in the early stages of development. The division is expected to start contributing by the next financial year with the commencement of the Group's maiden foray into a small office home office ("SOHO") development project in Selayang and mixed property development project in Johor Bahru.

Backed by the directors' experience in property development, the Group is confident of building its capabilities to stay ahead in the property development market and gain growth momentum by continuing to engage in new property development projects in the next few years to expand its market reach and depth as well as build a strong market reputation.

The Group's strategic direction in its Property Development division is to establish distinctive boutique and niche property developments. The Selayang SOHO and Johor Bahru projects signal the Group's intention to tap into such opportunities. Moving forward, the Group seeks to leverage on the sales proceeds from the disposal of its China assets to acquire strategically located land banks with good value and to join venture with strategic partners to deliver niche products to meet market demands.

The Group is set to take its Property Development business to great heights and envisage that this division will become a core profit contributor in the next few years.

The Group is set to take its Property Development business to great heights and envisage that this division will become a core profit contributor in the next few years.

Maiden Foray on rés 280 SOHO, Selayang

The Group marked its first milestone in property development via the launching of its maiden project - rés 280 SOHO in Selayang, Selangor. rés 280, a joint venture project between Salcon and Mepro Holdings Berhad, is strategically located in the prime area of Selayang and has easy access to major development area such as Damansara, Kepong and Kuala Lumpur city centre.

The project, which is expected to generate a total gross development value (GDV) of RM154.0 million received robust take up rates on its launching and ground breaking ceremony on 6th October 2013. Construction commenced in the fourth quarter of 2013 and the project is expected to be completed in 2016.

Property Development in Johor Bahru

The Group, via its 50.01% owned subsidiary, Nusantara Megajuta Sdn Bhd acquired two parcels of land with a total land area of 12.72 acres in the city of Johor Bahru, Johor.

The project with total GDV of RM1.2 billion is a mixed development comprising retail outlets, serviced residences and strata shop-cum-apartments and is scheduled to be launched during the second half of 2014.

View of showroom during the launching of res280

Johor Land development comprising retail outlets, serviced residences and strata shop-cum-apartments and is schedule to be launched during the second half of 2014

Artist impression of Johor land residential tower

30-seater coach used for transporting staff of Intel in Penang

The Engineering and Construction division will continue to actively tender for water and wastewater projects to strengthen its core business and reinforce its leadership position in the water and wastewater market.

OTHERS DIVISION – TRANSPORTATION SERVICES

In line with the Group's green initiative, it has ventured into the transportation business via its subsidiary Eco-Coach & Tours (M) Sdn Bhd to provide transportation services to all staff of Intel Company in Penang.

The transportation services brought RM13.2 million in revenue, representing 8.0% of total revenue during the year under review. Though the contribution from this division is relatively small, the Group is looking forward to securing similar contracts with other multinational companies in the region.

BUSINESS OUTLOOK

Moving forward, the Group will continue to grow and strengthen its business model via a two pronged approach ie to focus on the region's water and wastewater market as well as the domestic property development market to contribute to the Group's bottom line.

The Engineering and Construction division will continue to actively tender for water and wastewater projects to strengthen its core business and reinforce its leadership position.

View of Kota Kinabalu Sewage Treatment Plant with Phase 1 capacity of 75,000 population equivalent.

View of water treatment plant in Pintu Geng, Kelantan

In the recent Budget 2014, RM1.2 billion has been allocated to implement 68 water supply projects in the country, which includes dam construction, wastewater treatment plant construction or upgrading, new pipeline installation and reduction of NRW. These allocations, coupled with the Group's track records and experienced management team, offer many opportunities for the Group's Engineering and Construction division.

The Group is also optimistic on growth in emerging key markets such as Sri Lanka and Indonesia where there is high demand for proven water and wastewater solutions. The Group's track records and experience position it well to secure new construction projects in our target markets.

In the property development sector, despite the cooling measurements taken by the Malaysian government, we are cautiously optimistic on the growth in the country in the long term due to the favourable domestic economic environment and high demand for properties as a hedge against inflationary pressures.

The Group will accelerate the implementation of its existing property development projects as well as leverage on its strong financial position for selective acquisitions of strategic land banks to further expand our offerings in the Property Development division.

With these strategic initiatives in place, the Group looks forward to strengthen and improve its financial performance for the benefit of our shareholders.

The Group will accelerate the implementation of its existing property development projects as well as leverage on its strong financial position for selective acquisitions of strategic land banks to further expand our offerings in the property development division.

Embracing Sustainability, Nurturing Greenery

We spearhead sustainability by preserving natural resources and creating evergreen property developments

Introduction

The Group strongly believes success is not only defined in financial terms but also in terms of enhancing customer satisfaction and employee engagement, maintaining strong governance practices and supporting the communities we operate in.

We are committed to enriching and improving the lives of people with our services through innovation and capable human resource whilst upholding our Corporate Responsibilities. As part of this commitment, the Group is pleased to release its Corporate Responsibility Report for FYE 2013.

In 2013, we strove to integrate Corporate Responsibility into our day-to-day business operations based on the four main pillars i.e. Marketplace, Workplace, Environment and Community. As the Group has divested its entire China water assets in 2013, this report covers our operations and includes data from the Group's subsidiaries in Malaysia, Sri Lanka and Vietnam only.

Our Corporate Responsibility Charter

Ethical Statement

We strive to act as a responsible corporate citizen in accordance with our CR policy and principles. This enables us to make positive contributions to the Group's efficiency, corporate profile, the interest of all stakeholders and the long-term performance and future of the Group. In dealings with our customers, suppliers and fellow employees, we:

- Conduct ourselves in a forthright and honest manner
- Are fair and considerate in all dealings
- Maintain professional behaviour in all relationships
- Only make commitments which we know we can deliver
- Respect the rights and dignity of all individuals
- Comply with all relevant laws and legislation

Code of Ethics and Conduct

We continue to observe the 'Code of Ethics and Conduct' as set out in the Group's policy to ensure that our employees perform their jobs in fair and honest manner and to ensure that stakeholders' interests are appropriately protected and preserved.

We practice a working environment with ethical behaviour and treat all persons fairly regardless of race, religion, gender, disability, age or national origin.

Kelani Right Bank Water treatment plant in Sri Lanka

Marketplace

We believe that integrity and commitment to the highest quality service are vital to our relationship with our stakeholders such as suppliers, community and clients, and we strive to constantly improve, by regular engagement and communication with them via different approaches. To maintain their trust and respect, we adhere strictly to the international standards of ISO 9001 certification so as to ensure the quality of our services.

Economic Data - Group Level

		2011 RM '000 (restated)	2012 RM '000 (restated)	2013 RM '000
Revenue		313,999	182,146	164,612
Other income and interest income		24,454	51,692	96,157
Gross Value Generated		**338,453**	**233,838**	**260,769**
Our suppliers	: operation costs	(286,904)	(174,302)	(174,019)
Our employees	: salaries & benefits	(22,011)	(23,685)	(26,049)
Our lenders	: payment to lenders (financial cost)	(4,137)	(5,772)	(7,281)
The Government	: payment to Governments			
	- Malaysia	(2,560)	(1,951)	1,077
	- Outside Malaysia	-	-	-
The Rakyat	: Community Investments	(378)	(149)	(93)
Net-value added		22,463	27,979	54,404
Our shareholders	: payment to shareholders	(7,115)	(7,826)	(5,393)
Our Future : Economic Value Retained		**15,348**	**20,153**	**49,011**

For FYE2013, the Group achieved a gross economic value of RM260.8 million, an increase of 11.5% compared to the previous year. Net value added came up to RM54.4 million, an increase of 94.4% compared to the previous year.

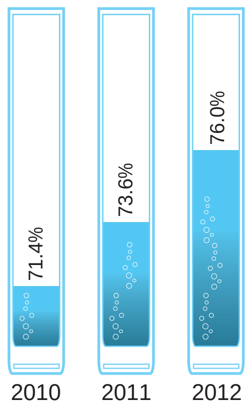
Revenue by Region

No	Revenue	2011 RM '000 (restated)	2012 RM '000 (restated)	2013 RM '000
1	Malaysia	288,626	156,415	139,063
2	Vietnam	(3,303)	1,136	-
3	China	8,396	7,143	-
4	Sri Lanka	20,066	5,779	16,595
5	Others	214	11,673	8,954
	TOTAL	**313,999**	**182,146**	**164,612**

The Group's revenue decreased by 9.6% in FYE 2013, mainly due to the slower replenishment of order books from Malaysia. However, an increase of revenue from Sri Lanka from RM5.78 million to RM16.6 million has helped to offset the revenue decrease from Malaysia.

Regular briefings on Quality Control is conducted for the employees to ensure the work quality for our customers

Customer Satisfaction Survey Results from 2010 to 2012



Note: *Latest survey result is as at 2012 as data for 2013 is not available as at the date of report.*

Customer Satisfaction

As a measurement of our strategic objective to enhance the quality of experience for our customers, we continuously review ways to improve our engagement with customers.

Our Customer Satisfaction Surveys cover all project worksites and are conducted annually. The survey is based on the following 10 criteria: Quality of Workmanship; Competence of personnel; Safety in Workplace; Works progress based on Schedule; Communication between Salcon and Clients; Environmental Management; Knowledge of Construction and/or operation technologies; Meeting project requirement specifications; Response to Customer request; and Project/operational management skill.

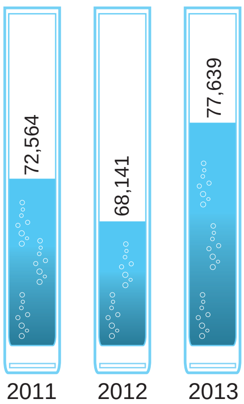
We are pleased to report that the customer satisfaction survey results has recorded 76% for year 2012, an increase of 2.4% compared to previous year due to the increase of overall customer satisfaction at our plants in Seremban Telemetry, NRW Sandakan, Sg. Labu and Sg. Muda in Malaysia. The Group is aware that there is much more to be done in bringing our service standards to a higher level. The Group views our customers' feedback as an important resource for further improvement.

Pengurusan Aset Air Berhad (PAAB) gave the thumbs up with a satisfaction level of 84% for the Sg. Labu Treatment Plant project.

Extraordinary General Meeting was held at Holiday Villa, Subang for the Group's China water assets disposal

Investor Relations

Part of our commitment to sustainability is our promise to stakeholders to be a transparent and responsible corporate citizen. We are committed to providing transparent, timely and accurate financial information and news about the Group to all our stakeholders. Through our official website, blog, Facebook Fan Page, investment briefings, timely press releases etc, the stakeholders are able to obtain up-to-date corporate information. Besides that, they are encouraged to give their feedback via email or during the Group's Annual General Meeting (AGM) or Extraordinary General Meetings (EGM), as the case may be.



Number of Unique Visitors to Salcon's Website

The total number of unique visitors at the Group's website, www.salcon.com.my , totalled 77,639 in 2013, which is an increase of 14% compared to the previous year.

Salcon has established a blog, namely Spotlight since year 2011 to replace the regular in-house newsletter of the company. It serves as an internal communication tool between the employees and the management by sharing articles and photo related to company directions and activities.

The Group has also created a Facebook page with the intention to interact with various stakeholders in an informal and leisurely manner. We are pleased to obtain an increase of 66.6% in the total 'likes' received for the past year.

Risk Management System

In Salcon, we are aware of the importance of adequately managing risks to comply with the planning strategy and achieve our business objectives. For that reason, we have a comprehensive risk management system which was implemented since 2006 to minimize strategic and operational risks.

Since its implementation, the Group has been able to identify threats and opportunities through internal and external reviews, analysis and adjustments of applicable risks and controls. The Group is then, able to take applicable preventive and/or corrective measures, to further mitigate the risks. Besides this, additional adjustments of risk factors as enhanced by implementation of new/additional controls were also facilitated.

Sandakan Customer Service Centre

Depending on the nature of applicable pertinent issues/findings, remedial actions that can be taken or that had been taken includes:

- Further SWOT analysis inclusive of risk factors adjustments;
- Adjustments and revisions to existing risk scorecards;
- Further audit/risks reviews and/or re-assessments;
- Revision to company's policies and procedures for implementation;
- Additional provisions of resources to enhance implementation of projects/works;
- Disciplinary actions to applicable staff/entities;
- Legal actions against applicable persons/entities.

Customer Service Center

The Customer Service Center in Sandakan, Sabah set up since 2007 serves as a portal in giving information and solutions to customers such as bill payment, inquiries, meter installation, handling complaints and receiving leakage reports. General lines were also set up for serving customers' enquiries, feedback and complaints efficiently.

We view customers' feedback and complaints as the key element to improve our services from time to time. In 2013, a total of 1,732 calls were received at the center, an increase of 1.7% compared to 1,703 calls received in the previous year. Notwithstanding the increase in the number of calls, the service centre has met its KPIs in which the average time for responding to a call is within 30 seconds, whilst the average time for handling a call is within 5 minutes.

The efficiency of attending to calls comes from strict adherence of proper procedures set by the Group. The key details of the caller will be recorded such as date, time, details of personnel including address, phone number. Thereafter the staff will inform technicians to take immediate action and investigate accordingly.

Procurement Policy

We work with suppliers who share our environmental and social values. We have a well-implemented procurement management, with expertise, resources and procedures designed to derive the best results from the thousands of suppliers we partner with. Together with our suppliers, we strive to be ethically, environmentally and economically responsible, at the same time, to improve the reputation and results for the Group.

A yearly evaluation is conducted as a benchmark to gauge the performance of suppliers and sub-contractors. Due to our stringent evaluation process on suppliers and sub-contractors' performance, the overall evaluation result in 2013 recorded a falling in the percentage of suppliers graded at Excellent level from 86.4% to 71.8%. We take steps to engage with our suppliers and sub-contractors and look forward to improve the quality of suppliers and sub-contractors through consistent quality control.

Workplace

Our employees are important to the company, and vital to the success of our business. Building an engaged, productive workforce provides significant opportunities to enhance our business performance, benefiting customers, shareholders and employees alike.

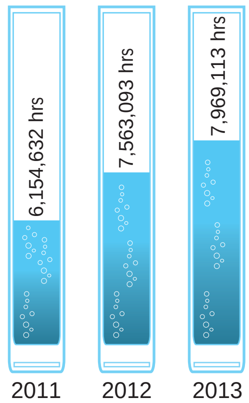
As an employer, our aim is to create a working environment, in which every individual can excel and encouraged to constantly improve themselves.

Safety & Health are our Greatest Responsibilities

As a construction and engineering based company, the safety and health of our employees are of paramount importance. To ensure that our employees have a safe and healthy workplace, we commit to the continuous improvement of our Safety and Health practices for all employees, customers, contractors, visitors and the community in all our business operations.

Our approach to safety follows a comprehensive program aligned with the internationally recognized Occupational Health and Safety Assessment Series standard OHSAS 18001 every year, which is a measure of Salcon's commitment in ensuring a healthy and safe workplace for our employees and the general public.

We are pleased to report that the Group has demonstrated a high level of commitment to health and safety standards at the workplace by achieving zero Lost Time Injuries (LTI) each year, which is a testament to our stringent Safety and Health management and control processes.



Total man hours without LTI from 2011 to 2013

Technical & skills training for employees are conducted from time to time

Training & Career Development

Training and career development within the Group are essential to maintaining and enhancing standards of our employees. We believe that by developing our employees we can create a strong workforce, helping each individual enrich their career path. In 2013, the Group spent RM88,916 in conducting training for employees in its local operation offices.

The Group requires all employees in certain departments to attend skill and technical training based on QA/QC quality standard policy every year.

This is to ensure that the employees are equipped with the best skill and knowledge to carry out their responsibilities and prepare them for the challenges in a knowledge-based and skill demanding industry.

A total of 63 different training courses were conducted in 2013. These include safety and health training, ISO 9001, Water and Wastewater Management Conference, Operational Auditing and Environmental Quality Act-related trainings etc. The average number of hours of training per year per employee in 2013 was 6.98 hours.

Fire Drill at Salcon Headquarters

Employees enjoyed fun time with each other during Salcon Family Day at Cherating

Performance Measurement

Performance of employees is reviewed by the Group every year. This is to ensure the quality of manpower is well monitored by every head of department.

In order to gauge the performance of our employees, appraisals are conducted for all confirmed employees at executive level annually. The appraisal process allows both appraisee and appraiser to communicate and discuss on work goals as well as personal enhancement in his or her career. Promotions may be recommended by the head of department based on the score of appraisal and the discretion of the management.

Rewards & Benefits

Competitive, simple and sustainable employees' rewards help to build trust and loyalty. We strive to provide a working environment with a variety of rewards and benefits for the employees, which include life and medical insurance, education assistance scheme, allowances, car loan interest subsidy scheme, medical examination etc.

On top of the benefits stated above, the Group established an Employees' Share Option Scheme (ESOS) for eligible directors and employees of Salcon and its subsidiaries in Malaysia in year 2010, 2011, 2012 and 2013 at different option prices. In these 4 years, the Group has issued new ordinary shares of RM0.50 each at the option price of RM0.57, RM0.52 and RM0.50 as below:

Option Price (RM)	New Ordinary Shares Issued since start of ESOS scheme
0.57	17,772,900
0.52	1,125,000
0.50	36,333,250

Work-life Balance

We recognize that we have a responsibility for the welfare of our employees. The Group is committed to attracting, developing and retaining the best talent. A healthy and high performing workforce is vital to the success of the business.

With this in mind, the Salcon Recreation Club (SRC) was formed in year 2004, with the objectives of providing sports and recreational activities and fostering strong and harmonious relationship among employees of the Group. Various events and activities have been organized for the employees as well as their family members such as Company Trip (local or oversea), Family Day, Movie Day, Sports Tournaments, Festive goodies giveaway, personal well-being talks, Stair Walking Competition, Fruity Monday etc. In 2013, we have spent RM122,642 for workplace leisure and sports activities for all employees.

Salcon Annual Trip at Krabi, Thailand

Diversity at the Workplace

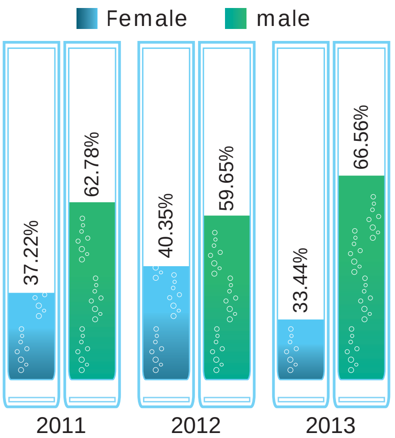
Total headcount of Salcon was reduced by 67.1% compared to the previous year as the Group divested all its China assets to Beijing Enterprises Water Group Ltd. As part of the sale, all Chinese employees at the concessions level were absorbed by the acquirer. As a result, the Group's staff force shrank to 320 as at 31 December 2013.

The total employment by gender ratio is approximately 2:1 (male: female). The Group does not tolerate any form of discrimination and we continue to empower our female employees by promoting equal opportunities and providing assistance to help them balance their role at work and at home.

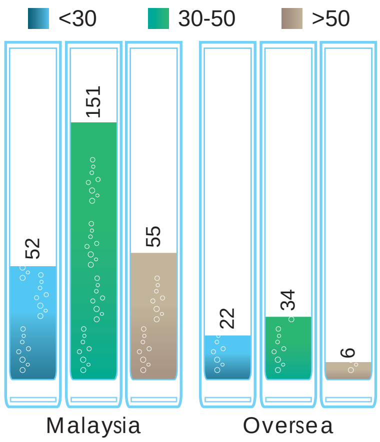
The majority of the Group's employees fall within the 30 to 50 year age group, representing a good combination of youth and experience.

In 2013, 45.0% of the Group's employees in Malaysia comprise of Malay, 40.7% Chinese, 9.3% Indian and the remaining 5.0% is other races.

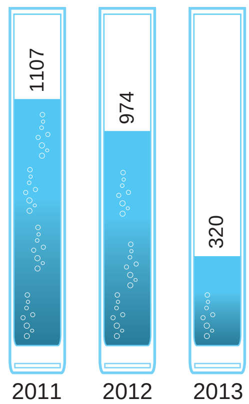
Breakdown by gender from 2011 to 2013



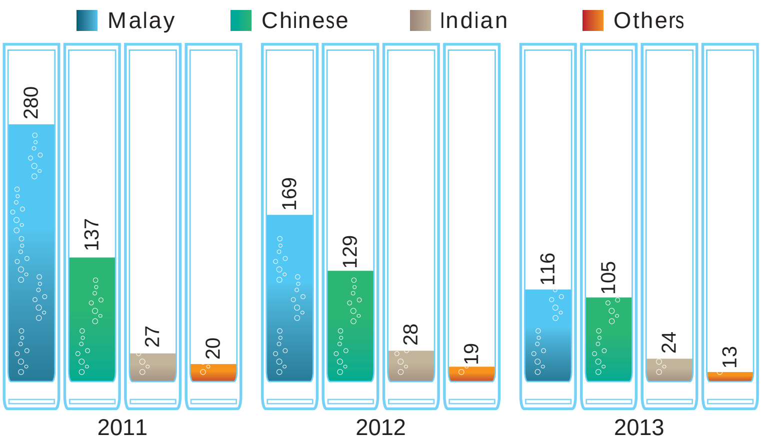
Age categories of workforce in 2013



Total headcount from 2011 to 2013



Diversity of Workforce from 2011 to 2013 in malaysia



Environment

We are committed to minimize negative environmental impacts and encourage environmental conservation by strictly adhering to the environmental legislation and regulations by the local authorities where we operate. We ensure that our operations and processes comply with relevant environmental legislations and regulations and the ISO 14001:2004 Standards, and continue to promote and educate our workforce and sub-contractors on environmental protections.

Besides this, employees are encouraged to conserve energy when using company vehicles, electrical items and computers. In 2013, the Group conducted its first Environmental Campaign Month with the objective to build a culture of energy conservation amongst its employees.

Energy Management

The Group launched a number of initiatives to reduce energy consumption throughout our business operations. Routine and timely maintenance has been introduced to detect and minimize inefficiencies. Scheduled maintenance improves the efficiency of machinery and old equipment is overhauled or replaced to reduce power consumption. For instance, at the Binh An Water Treatment Plant, Vietnam, the energy required to produce 1m3 of water is well maintained at 0.28kWh every year.

Noise Management

We aim to be proactive to ensure the noise level does not exceed the level recommended by Department of Environment Malaysia (DOE) through stringent environmental monitoring process, so as to avoid generating noise around the communities where we operate in. Should there be any plant or project sites identified as excessively noisy and outside of specifications, the source of noise pollution were identified and the offending machinery is to be overhauled or removed from the site.

Emission Management

Even though our operations do not release much emissions into the air, we recognize that our site vehicles would generate carbon footprint. As such, we service our site vehicles regularly to ensure minimal engine oil leaks and smoke emissions. Vehicles with high engine oil leaks or high smoke emission are serviced at a reputable workshop or replaced.

Waste Management

We ensure that all types of waste generated from site activities are controlled and disposed in a satisfactory manner. Generated waste includes scheduled waste such as spent solvent from painting works and chemical waste and non-scheduled waste consists of timber and general waste.

Scheduled waste is retained in sealed drums, labelled and stored at designated areas which are bunded, spill proof and covered. Scheduled waste disposal is undertaken by licensed contractors approved by the Department of Environment. Non-scheduled waste is recycled or disposed at approved landfills.

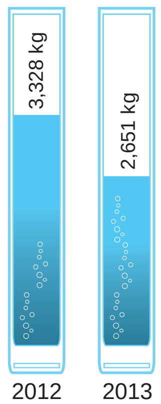
We do not permit any sewage and liquid effluent generated from site activities to flow from the site onto any adjoining land or allow any waste matter or refuse to be indiscriminately deposited anywhere within the site or any adjoining land. Proper control measures such as toilet facilities and sewage tanks are installed to provide an efficient and hygienic method of controlling sewage and effluent storage and discharge.

Aerator at Sg. Terip water treatment project

Recycling Efforts

In order to foster a company culture of environmental conservation, we encourage our employees to be environmentally aware and practice recycling at the workplace. Our employees are obliged to comply with the proper procedures when disposing of used papers and electrical products such as batteries and computer hardware.

In 2013, a total of 2,651 kg of paper was recycled, a reduction of 20% from 3,328 kg compared to the previous year. The drop in paper recycled is due to Group's effort in reducing paper consumption by promoting paper recycling, the dissemination of documents via email etc.



Total weight of paper recycled

Green Awareness for Young Generations

In celebration of World Environmental Day 2013, Salcon organized its inaugural 'Salcon Green Inventor Competition 2013' in collaboration with MPSJ's Karnival Zon Bersih at Komplex Puchong Perdana. The competition aims to promote awareness of the importance of recycling to preserve the environment, in addition to encouraging creativity amongst the youths to create something useful and practical using recycled materials.

Salcon Recycling Campaign aims to promote awareness of the importance of recycling to preserve the environment, in addition to encouraging creativity amongst the youths to create something useful and practical using recycled materials

Salcon Recycling Campaign is held yearly amongst the employees

1st Runner Up winner from SMK Tengku Ampuan Rahimah at the Salcon - MPSJ Green Inventor Competition

Community

28 teachers of 7 primary schools attended the TOT programme jointly organised by Salcon & WWP

In 2013, Salcon continued its effort in educating the younger generations to minimize environmental foortprints of the community with various collaborating parties such as Water Watch Penang, Monash University & Junglemama. This year, Salcon widened its target audiences and organized programmes catering for children from secondary schools, primary schools and kindergarten.

Educating the youth

Salcon River Awareness & Educational Programme

The Salcon River Awareness & Educational Programme has been established since 2010 with the objective of creating awareness and a caring spirit among the children to value our water resources since 2010. Todate, more than 500 students have benefited from the river programme in terms of knowledge and nature exploration through fun and practical hands-on activities.

To ensure the sustainability of the programme, Salcon has initiated the first Train-of-Trainers (TOT) Programme this year for the school teachers with the aim to guide and train selected teachers from primary schools in the Klang Valley to conduct their own river and water educational programme. The TOT programme was held successfully in collaboration with Water Watch Penang (WWP) involving 28 teachers from 7 primary schools. With the establishment of this programme, Salcon targets to guide at least 3 schools to conduct their own river programme every year, so that more and more children can benefit from this.

School children from SJKC Sin Ming Puchong enjoyed water activities during the river programme

In recognition of the Group's efforts in educating our younger generations on environment conservation and sustainability, the Group was awarded the Green Leadership Award, a regional recognition by Enterprise Asia during the Asia Responsible Entrepreneurship Awards (AREA) 2013. The Salcon River Awareness & Educational programme was also awarded Honorable Mention Award (Educational Service Award category) at the Asia-Pacific Enterprise Leadership Awards (APELA) in 2013.

Group photo of students from SMK Dato' Ahmad Razali, Monash and Salcon team at the dam, Ampang Forest Reserve

Salcon Jungle Classroom organized for children aged 3-9 years old

Salcon-Monash Water Watch Field Day

The inaugural Salcon-Monash Water Watch Field Day is a half-day programme jointly organized by Salcon Berhad and Monash University Malaysia with the objective of instilling awareness among teenagers to appreciate and preserve our precious natural resources.

Students enjoyed the fresh air and gentle breeze as they walked up to an old reservoir in the Ampang Forest Reserve. They were not only taught to study the aquatic fauna and flora, but also conducted physical and chemical testing under the guidance of Monash facilitators. This hands-on approach provides a good platform for the students to truly understand the water cycle and observe the human impacts on water quality.

Salcon Jungle Classroom with Q-dees Menjalara

38 six-year-old children from Q-dees Kindergarten, Bandar Menjalara together with the company employees' children aged 3 to 9 years old enjoyed their World Environment Day celebrations as they had an interesting outdoor learning on river and water through the first Salcon Jungle Classroom. This programme was organized in collaboration with Junglemama, a group of enthusiastic volunteers who came together with the objective of educating and instilling awareness amongst younger children to love the nature and its inhabitants via interesting hands-on activities.

The pre-schoolers became nature learners throughout the programme where they were taught facts about water, water cycling, acid rain as well as water pollution by facilitators in a fun and interesting manner. The children also enjoyed a story telling session which conveyed the message of the importance of appreciating and preserving our rivers. They turned into 'little scientists' to make water filters and conduct pH tests of different water samplings which they collected.

The Group was awarded the Green Leadership Award, a regional recognition by Enterprise Asia during the Asia Responsible Entrepreneurship Awards (AREA) 2013.

Salcon Blood Donation Campaign 2013

2 representatives from Salcon joined the Standard Chartered KL Marathon 2013 for good cause

Our operation office in Binh An, Vietnam visits poor people in Binh Thang Community and contribute necessary food and groceries to them every year.

Consultation by Breast Cancer Welfare Association during Salcon Safety & Health Campaign Month

Philanthropic Support

We strive towards our commitment to improve the quality of lives of the needy by giving philanthropic support to the local and overseas communities where we operate in. Throughout the year, we gave nearly RM89,956.25 in donations during FYE 2013 to numerous charity organizations.

Donation drive for Jakarta colleagues who suffer from flood

Floods in Jakarta seriously impacted Salcon Indonesia representative office colleagues where their houses were destroyed and most of the furniture were damaged by the terrible disaster in early February 2013. In order to ease their burden, Salcon employees gave generously to assist them. A total of RM5,000 was collected from the management and all staff and channelled to our 2 colleagues in Indonesia.

Charity Support from Binh An office

Our operation office in Binh An, Vietnam visits poor people in Binh Thang Community and contribute necessary food and groceries to them every year. Besides this, participation by our Vietnam staff in the Terry Fox Run is also in our to-do-list every year.

Standard Chartered KL Marathon 2013

Salcon participated in the Standard Chartered KL Marathon 2013 by sending representatives from the company to run for a good cause at Dataran Merdeka in September. Salcon is proud to be one of the charity fund contributors in this event to help others who are less fortunate. A total of RM18,000 was contributed to charity organizations such as Hospis Malaysia, Standard Chartered Foundation and the National Autism Society of Malaysia via this platform.

Blood Donation Drive

Salcon Berhad held its fourth annual Blood Donation Campaign in partnership with Pusat Darah Negara (PDN) once again this year to support nationwide shortage of blood supply. Over 60 pints of blood were donated by staff and the public on the day itself.

Books Donation Campaign

With the objective of sharing love, knowledge and pleasure of reading, Salcon conducted a Books Donation Campaign in January to encourage staff to contribute their books for a good cause. In support of Sin Chew and Fo Guang Malaysia. Numerous types of books were donated by the employees. Children's books were distributed to students in rural areas so that they have an opportunity to own a book of their own. As for adult books, they were sold at Dong Zen Temple Floral Art Exhibition for charity where the funds were used for Fo Guang Malaysia educational activities.

Conclusion

With our new diversified business in property development, we look forward to fulfilling our commitment and efforts in giving back to the communities and go beyond what is required to deliver sustainable value to our stakeholders.

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 outlines how the Group has applied the Principles and Recommendations of the MCCG 2012 during the financial year ended 31 December 2013. 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 also included in this Statement.

1. Establish clear roles and responsibilities

1.1. Clear functions of the Board and Management

The Board is responsible for strategic 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 discussion.

In 2013, while the Company continued to focus on improving market penetration of the Company's core business of water and wastewater systems and management, the Company diversified into property development to mitigate and offset volatility in the Company's core businesses. This diversification is spearheaded by the Company's Executive Director with his vast exposure and experiences in the property development business. The Board is confident that the diversified range of business activities will bring positive impact to the Group's financial position.

b. Overseeing the conduct of the Company's business

The COO is responsible to oversee the daily management of the Company's business 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 organisation. 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.

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 Executive Committee ("EXCO") which is assisted by the COO with the responsibility to review candidates and compensation packages for key management positions.

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

The Group emphasizes the importance of communication among shareholders, stakeholders and 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 effectiveness are available in the Statement on Risk Management and Internal Control as set out on pages 74 to 75 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 adhere 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 fairly all persons regardless of such factors as race, religion, gender, disability, age or national origin.

In addition, a Whistle-blowing Policy has been established in 2012 to encourage its 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 or 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 demonstrates 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 recognizes the importance of sustainability in everything Salcon does. The Board promotes the application of sustainability practices for the Group through environmental and social activities organized by the Company's CAD.

Details of the activities that had been organized in 2013 are presented in the Corporate Responsibility Statement on pages 36 to 49 of this Annual Report.

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 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, guidance or legislation.

The Board is regularly updated and apprised by the CS who is experienced, competent and knowledgeable, on new statutes and directives issued by the regulatory authorities. The CS oversees 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 serves notice to the Directors and Principal Officers to notify them of closed periods for trading in Salcon's shares in accordance with the black-out periods for dealing in the Company's securities 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 periodically to update with changes in regulatory 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.

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 also 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 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;
- 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 COO. 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 fulfillment of such training and disclose details in the annual report as appropriate, in accordance with the Main Market Listing Requirements of Bursa Securities
- 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.

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 by the shareholders 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.

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 April 2014 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 directors 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 at the Company's website, www.salcon.com.my.

c. Gender 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 areas relevant to enable the Board to discharge its responsibilities in an effective and competent manner irrespective of gender.

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 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 2013 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	1,020.0	-
Bonus	170.0	-
Fees	-	150.0
Meeting Allowances	-	19.5
Benefits-In-Kind	40.9	-
Statutory Contribution	142.8	-
ESOS	362.0	78.0
Total	**1,735.7**	**247.5**

b) Similar to other companies, the Board has resolved to disclose their remunerations into bands of RM 50,000 as shown below; differentiating the numbers between executive and non-executive directors to avoid sensitivities:-

Directors' Remuneration	Number of Directors
Executive Directors	
Less than RM750,000	-
RM750,001 – RM800,000	1
RM950,001 – RM1,000,000	1
Non-Executive Directors	
Less than RM50,000	2
RM50,001 – RM100,000	1
RM100,001 – RM150,000	1

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 year 2013, 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 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 years

Dato' Dr. Freezailah bin Che Yeom and Mr. Ho Tet Shin were appointed to the Board as Independent Non-Executive Director on 21 July 2003 and 5 August 2005 respectively. Dato' Dr. Freezailah bin Che Yeom had served the Board for a cumulative term of more than nine (9) years and Mr. Ho Tet Shin will reach a cumulative term of nine (9) years in August 2014. The NC had assessed their independence and recommended them to continue to act as Independent Non-Executive Directors of the Company based on the following justifications:-

i) They fulfill the criteria of an Independent Director pursuant to the Main Market Listing Requirements of Bursa Securities;

ii) They are familiar with the Company's business operations as they have been with the Company for a period of almost nine (9) years or more;

iii) Their long tenure with the Company have neither impaired nor compromised their independent judgment. They continue to remain objective and are able to exercise independent judgment in expressing their views and in participating in deliberations and decision making of the Board and Board Committees in the best interest of the Company.

iv) They have devoted sufficient time and attention to their responsibilities as Independent Non-Executive Directors of the Company; and

v) They have exercised due care during their tenures as Independent Directors of the Company and carried out their 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 and Mr. Ho Tet Shin brings to the Board. Therefore, the Board recommends and supports Dato' Dr. Freezailah bin Che Yeom and Mr. Ho Tet Shin's re-appointment/re-election as Independent Non-Executive Directors of the Company, which will be tabled for shareholder's approval at the forthcoming 11th AGM of the Company.

At the 10th AGM held on 20 June 2013, Dato' Dr. Freezailah bin Che Yeom had been re-appointed as an Independent Non-Executive Director.

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 facilitate division of responsibilities between the 2 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 operation and business 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 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 issued 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 Company in discharging their duties and responsibilities.

The attendance of Board members at Board meetings and various Committees meetings during the financial year ended 31 December 2013 is as set out below:

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

* BD - Board of Directors
AC - Audit Committee
NC - Nomination Committee
RC - Remuneration Committee

4.2. Training

The Board emphasises the importance of continuing education programmes or training for Directors. Continual improvement allows the Directors of the Company 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 updates the applicable changes the Directors on any revisions or changes to new/existing legislations and regulatory requirements. The Board has via the NC undertaken an assessment of the training needs of each Director through the Annual Assessment during the financial year.

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	Equity, Fixed Income And Private Equity Valuation - Master class 1	29 April 2013
2	Director Duties, Business Ethics And Governance Seminar For Directors Of PLCs 2013	27 June 2013
3	Advocacy Sessions On Corporate Disclosure For Directors	21 August 2013
4	Sustainability and Environmental Management Conference & Exhibition	22 & 23 October 2013

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.

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 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.

The Chairman of the AC, Mr. Ho Tet Shin, is a member of three (3) professional accounting organizations 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 Responsibility by Directors in respect of the preparation of the annual audited financial statements is set out on page 168 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 11th 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. Recognize 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).

The RMWG conducts reviews and enterprise wide risk assessments on all entities of the Group on a semi-annual basis. 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 74 to 75 of this Annual Report.

For the year 2013, semi-annual reviews and enterprise wide assessments on all entities were temporarily suspended. However, appropriate testing on the accuracy and verification of the integrity of controls and verification of controls were conducted on applicable entities via internal audits reviews with recommendations to overcome any weaknesses noted.

The temporary suspension of the semi-annual reviews and enterprise wide assessments arose from a need for the Company, via the RMWG and RMC; to re-evaluate and review the Company's entire Enterprise Risk Management framework in order to incorporate the following changes in the Company's core businesses and directions:

- The Company's diversification into property construction and development in order to provide the Company with additional core business;
- The Company's monetization of water and wastewater concessions in China to reflect changes and variances in China's operational environments while providing the Company with additional funds for diversifications and expansions;
- To review, evaluate and re-align Company's business plans and structures in order to ensure long term profitability, growth and development of the Company.

6.2 Internal audit function

The Board has established an internal audit function, that is, 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 controls 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 monitor 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.

8 Strengthen relationship between Company and shareholders

8.1 Encourage shareholder participate 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 Audited Financial Statements. 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.

At the Company's 10^{th} AGM held on 20 June 2013 and Extraordinary General Meetings ("EGM") held on 19 March 2013 and 27 November 2013, the Chairman informed shareholders of their rights to demand a poll vote at the commencement of the general meeting for the substantive resolutions. All resolutions for the 10^{th} AGM and EGMs put forth for shareholders' approval were voted by show of hands.

8.3 Effective communication and proactive engagements with shareholders

At the 10^{th} AGM and EGMs, 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

1) Private Placement

The Group had completed its listing of private placement comprising 47,430,780 new ordinary shares of RM0.50 each, representing 10% of the issued and paid-up share capital of Company, on 20 March 2012. The private placement, which was issued at RM0.50 each, had raised gross proceeds of RM23,715,390.00. The status of utilisation of the proceeds from the private placement as of 30 April 2014 is as follows:

	Proposed Utilisation RM'000	Utilised RM'000	Unutilised/ (Over) RM'000
Repayment of existing borrowings	23,515	(23,515)	-
Estimated expenses for the proposed private placement	200	(200)	-
Total	23,715	(23,715)	-

Another private placement of 54,025,268 new ordinary shares of RM0.50 was completed and the shares were granted listing and quotation on the Main Board of Bursa Malaysia Securities Berhad on 20 August 2013. The issue price was RM 0.585. The status of the utilisation of the proceeds as at 30 April 2014 is as follows:

	Proposed Utilisation RM'000	Utilised RM'000	Unutilised/ (Over) RM'000
Working capital	15,752	(15,752)	-
Repayment of existing borrowings	15,753	(15,753)	-
Estimated expenses for the placement	100	(100)	-
Total	31,605	(31,605)	-

2) Proposed Disposals of the Entire Equity Interests Held in the following: -

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 30 April 2014 for the fulfilment of the conditions of the SPA-B.

The status of the utilisation of the proceeds as at 30 April 2014 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	-	230,000
Repayment of borrowings	97,540	(97,540)	-
Distribution to shareholders	30,000	-	30,000
Working capital	10,397	(2,611)	7,786
Defraying expenses incidental to the Proposed Disposals	1,437	(1,501)	(64)
Total	369,374	(101,652)	267,722

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 2013.

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 2013:

Auditor	**Services**	**Amount Paid (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
KPMG	Report on the Compilation of the Pro Forma Consolidated Financial Information included In the Circular in Conjunction with the Proposed Disposals of Target Companies	230,000

Variation in Results for the Financial Year

The audited financial statements for the financial year ended 31 December 2013, contained in this Annual Report does not deviate by more than 10% from the unaudited results of the Group announced on 26 February 2014.

Share Buybacks

The Company did not enter into any share buyback transactions during the financial year ended 31 December 2013.

Options or Convertible Securities

The Company did not issue any options or convertible securities during the financial year ended 31 December 2013 save for Employees' Share Options Scheme (ESOS) as below:

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 2013, four (4) offers have been made to the employees as detailed below:

		Total Number of ESOS		
Date of Allocation	**Exercise Price**	**Granted ('000)**	**Exercised/ Lapsed('000)**	**Outstanding ('000)**
9 July 2010	RM0.57	27,299	(18,352)	8,947
1 July 2011	RM0.52	1,647	(1,136)	511
2 July 2012	RM0.50	348	(132)	216
14 May 2013	RM0.50	23,610	(18,874)	4,736
		52,904	(38,494)	14,410

ii) ESOS to Executive Directors and Senior Management

As at financial year ended 31 December 2013, 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 2013 and since the commencements of the ESOS are as follows:

	Financial Year 2013		Since the Commencement of the ESOS	
	Maximum Allowable Allocation (%)	Actual Allocation (%)	Maximum Allowable Allocation (%)	Actual Allocation (%)
Executive Directors and Senior Management	50	14	50	13

iii) *ESOS to Non-Executive directors*

As at financial year ended 31 December 2013, 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	(1,800,000)	500,000
2	Dato' Dr. Freezailah bin Che Yeom	1,700,000	-	1,700,000
3	Mr. Ho Tet Shin	1,700,000	-	1,700,000
4	Dato' Choong Moh Kheng	1,700,000	(900,000)	800,000
	Total	7,400,000	(2,700,000)	4,700,000

Further details in regards to the Company's ESOS are available in the Directors' Report in the Financial Statements on pages 78 to 83 of this Annual Report.

Depository Receipt Programme

The Company did not sponsor any depository receipt programmes during the financial year ended 31 December 2013.

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.

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 2013, 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.

The Audit Committee of Salcon Berhad is pleased to present its report for the financial year ended 31 December 2013.

MEMBERSHIP AND ACTIVITIES

Membership

In compliance with the Bursa Malaysia Securities Berhad (BS) Main Market Listing Requirement (Main LR), all three (3) members of the Audit Committee (the Committee) are non-executive directors with a majority of them being independent, including the Committee Chairman.

The Committee comprises the following members:

Ho Tet Shin *(Chairman)*	Independent Non-Executive Director
Dato' Dr. Freezailah bin Che Yeom	Independent Non-Executive Director
Dato' Seri (Dr.) Goh Eng Toon	Non-Independent Non-Executive Director

The Committee Chairman, Mr. Ho Tet Shin, is a qualified Chartered Accountant. He is a member of the Malaysian Institute of Accountants and Malaysian Institute of Certified Public Accountants as well as a Fellow of the Institute of Chartered Accountants in England and Wales.

Meetings

During the financial year ended 31 December 2013, five (5) meetings were convened, with details on the attendance of the members listed below:

Directors	No. of Meetings Attended
Ho Tet Shin (Chairman)	5/5
Dato' Dr. Freezailah bin Che Yeom	5/5
Dato' Seri (Dr.) Goh Eng Toon	5/5

Representatives of the external auditors, Messrs. KPMG, Head of Internal Audit, and where necessary, executive officers were also present in the meetings to assist in the deliberations.

The meetings were appropriately structured through the use of agenda, which were distributed to members with sufficient notification.

Trainings

During the year, the Committee members have attended the following training programmes / seminars / conferences, collectively or individually:

#	Training programmes / seminars / conferences	Date
1	Equity, Fixed Income And Private Equity Valuation - Master class 1	29 April 2013
2	Director Duties, Business Ethics And Governance Seminar For Directors Of PLCs 2013	27 June 2013
3	Advocacy Sessions On Corporate Disclosure For Directors	21 August 2013
4	Sustainability and Environmental Management Conference & Exhibition	22 & 23 October 2013

Summary of Activities of the Committee

The activities carried out by the Committee during the financial year ended 31 December 2013 include, inter alia with particular attention paid to overseas operations, the following:

- Had discussions with the external auditors, twice, without the presence of the executive Board members or Management of the Company.
- Reviewed the external auditors' scope of work and audit plans for the year, prior to the commencement of their annual audit.
- Considered and recommended to the Board for approval, the audit fees payable to the external auditors as disclosed in Note 24 to the financial statements.
- Reviewed with the external auditors, the results of the audit and major issues arising from the audit as well as their evaluation of the system of internal controls of the Company.
- Reviewed the Company's quarterly results and financial statements prior to submission to the Board.
- Reviewed the Company's compliance in particular the quarterly and year-end financial statements with the Bursa Securities Main Market Listing Requirement, Malaysian Accounting Standards Board (MASB) and other relevant legal and regulatory requirements.
- Reviewed the Internal Audit & Risk Management Department's resource requirements, programs and plans for the financial year ending 2013.
- Reviewed the summary of pertinent issues presented by the internal auditor on major findings, recommendations and management's responses. The Committee also discussed management actions taken to improve the system of internal control based on improvement opportunities identified in the summary report.
- Reviewed pertinent issues of the Group which had a significant impact on the results of the Group which included enhancement and further investment in existing products and services offered, cost rationalization measures, reorganization of business units and human resource development.
- Reviewed the Statement on Risk Management and Internal Control and Audit Committee Report and its recommendation to the Board for inclusion in the Annual Report.
- Reviewed the application of corporate governance principles and the extent of the Group's compliance with the best practices set out under the MCCG 2012 for the purpose of preparing the Statement on Risk Management and Internal Control and Corporate Governance Statement pursuant to Bursa Securities Main Market Listing Requirement.
- Reviewed the verification exercise conducted by the internal auditor on the Employee Share Option Scheme (ESOS) allocation for the financial year ended 31 December 2013 to ensure compliance with the criteria as approved and disclosed by the ESOS Committee.
- Reviewed the suitability and independence of external auditors.

Internal Audit Function

The Group's internal audit function is performed in-house by the Internal Audit & Risk Management Department (IARMD), which has a direct reporting line to the Audit Committee. IARMD plays a key role in undertaking independent, regular and systematic reviews of risk management, internal control and governance systems to provide the Group with reasonable assurance that the said systems are operating and will continue to operate satisfactorily and effectively in a transparent manner. The remit of the internal audit function, as determined by the Audit Committee, is stated in the Internal Audit Charter.

The internal audit activities are carried out based on the approved annual internal audit plan, which is designed via risk based approach to cover projects, concessions and other operational units within the Group. Internal audit also plays its consultative and analytical roles by reviewing and recommending improvements to the risk management, internal control and governance processes, where appropriate.

During the financial year under review, the internal audit activities, which were carried out independently from the management and operations of the Group, include, inter alia, the following:

- Conducted audit visits to project sites, including those in Vietnam and India;
- Reviewed the adequacy of existing procedures in regards to the tendering and procurement functions;
- Reviewed the extent of compliance to the Group's established policies and procedures as well as relevant statutory requirements;
- Reviewed the reliability, completeness, usefulness of financial, operational and management information and the underlying records;
- Reviewed the adequacy of controls implemented to safeguard the Group's assets;
- Reviewed the internal controls and key operating processes according to the approved annual plan as well as their risk management processes and recommend areas for improvement; and
- Verified the allocation of ESOS as according to the disclosed criteria for allocation of options.

The pertinent findings arising from the above activities and management responses were tabled to the Audit Committee during its meeting held on quarterly basis. Follow up audits were conducted and the status of implementation of corrective actions were also tabled to the Audit Committee.

All internal audit activities for the financial year ended 31 December 2013 were conducted by the in-house audit team. There were no areas of the internal audit function which were outsourced. The total cost incurred by the Group's internal audit function for the year under review was approximately RM 450,000.

TERMS OF REFERENCE

Composition

1. The Committee shall be appointed by the Board from amongst its Directors (except for alternate directors) who fulfill the following requirements:

    a. the audit committee shall comprise no fewer than three (3) members;

    b. all members of the committee shall be non-executive directors, with a majority of them being independent directors; and

    c. all members of the audit committee should be financially literate and at least one member of the audit committee:

        (i) must be a member of the Malaysian Institute of Accountants; or

        (ii) if he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years' working experience, and:

            a. he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or
            b. he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act, 1967.

        (iii) shall fulfill such other requirements as prescribed or approved by Bursa Malaysia Securities Berhad ("Bursa Securities").

2. No alternate director of the Board shall be appointed as a member of the committee.

3. The members of the Committee shall select a chairman from among their number who shall be an independent director.

4. The Board shall within three (3) months of a vacancy occurring in the Committee which result in the number of members reduced below three (3), appoint such number of new members as may be required to make up the minimum number of three (3) members.

5. The Board shall review the term of office and performance of the Committee and each of its members at least once every three years.

Rights

The Committee shall, in accordance with the procedure determined by the Board and at the cost of the Company:

a. have authority to investigate any matter within its terms of reference;

b. have the resources, which are required to perform its duties;

c. have full and unrestricted access to any information pertaining to the Company and the Group;

d. have direct communication channels with the External and Internal Auditors, as well as employees of the Group;

e. be able to obtain independent professional or other advice; and

f. convene meetings with the external auditors at least twice a year, excluding the attendance of other Directors and employees of the Group.

Functions

The functions of the Committee shall include a review of the following:

Governance

a. the Management's compliance with laws, regulations, established policies, plans and procedures.

b. any related party transactions and conflict of interest situation that may arise within the Company or Group including any transaction, procedure or course of conduct that raises questions of management integrity.

c. procedures in place to ensure that the Group complies with the Companies Act, 1965, Bursa Securities Main LR and other legislative and reporting requirements.

Financial Reporting

a. the quarterly results and year-end financial statements, prior to the approval by the Board of Directors, focusing particularly on:

    i. changes in or implementation of major accounting policy changes;

    ii. significant and unusual events;

    iii. compliance with accounting standards and other legal requirements; and

    iv. the going concern assumption.

External Audit

a. with the external auditors, the scope of their audit plan, their evaluation of the system of internal control and the audit reports on the financial statements.

b. the assistance given by the employees of the listed issuer to the external auditor.

c. the selection, re-appointment, remuneration, resignation or dismissal of the external auditors.

d. to review the external auditor's management letter and management's response.

e. to discuss problems and reservations arising from the interim and final audits, and any matter the auditor may wish to discuss (in the absence of management where necessary).

f. the independence and objectivity of the external auditors and their services, including non-audit services and the professional fees, so as to ensure a proper balance between objectivity and value for money.

Internal Audit

a. the adequacy of the scope, functions, competency and resources of the internal audit function and the authority necessary to carry out its work.

b. the internal audit program, processes and the results of the internal audit work, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the Internal Audit function.

c. major audit findings and the management's responses during the year with management, external auditors, including the status of previous audit recommendation.

d. approve any appointment or termination of senior staff members of the internal audit function.

e. take cognizance of resignations of internal audit staff members and provide the resignation staff member an opportunity to submit his reasons for resigning.

f. any appraisal or assessment of the performance of the members of the internal audit function.

g. the adequacy and integrity of internal control system, including enterprise risk management, management information system, and the internal auditors and/or external auditors' evaluation of the said system.

ESOS

a. verifying the allocation of options under the Employee Share Option Scheme (ESOS) as compliant with the disclosed criteria for allocation of options, at the end of each financial year, if applicable.

Risk Management

a. the annual enterprise risk profile of the group (including risk registers) and evaluate the Risk Manager's risk assessments of the group and his/her plans to mitigate business risks as identified from time to time.

Other Matters

a. any other matters as may be directed by the Board from time to time.

Meetings

Meetings of the Committee shall be held not less than four (4) times a year. Other Board members and employees may attend any particular meeting only at the Committee's invitation. The external auditors may request a meeting if they consider that one is necessary and shall have the right to appear and be heard at any meeting of the Committee.

The Chairman shall convene a meeting whenever any member of the Committee requests for a meeting by giving not less than three (3) clear days notice thereof unless such requirement is waived by all members. Written notice of the meeting together with the agenda shall be given to the members and external auditor where applicable. However, consent from members who are overseas is not required.

The quorum for a meeting for the Committee shall be two (2) provided always that the majority of members present must be independent directors. Other Board members and employees may attend any particular meeting only at the Audit Committee's invitation. The Chairman shall not have a casting vote.

The Company Secretary shall be the Secretary of the Committee.

Reporting Procedures

The Secretary shall maintain minutes of the proceedings of the meetings of the Committee and circulate such minutes to all members of the Board. Key issues discussed shall be reported by the Chairman of the Committee to the Board.

STATEMENT OF VERIFICATION ON ALLOCATION OF OPTIONS PURSUANT TO EMPLOYEE SHARE OPTION SCHEME

Paragraph 8.17(3) of Bursa Securities Main Market Listing Requirements requires a statement by the Audit Committee verifying the allocation of options under the ESOS as compliant with the disclosed criteria for allocation of options, at the end of each financial year.

Following the Board and Shareholders' approval, the ESOS Committee was established on 7 July 2010, i.e. the effective date of ESOS, to administer the ESOS of Salcon Berhad. The ESOS Committee's main responsibility is to administer the ESOS in accordance to Group's approved By-Laws. The members of the ESOS Committee are provided on page 6 of this Annual Report.

The Audit Committee has verified the fourth allocation of 32,974,350 options granted of which 30,135,250 accepted by the eligible employees and Directors for the financial year ended 31 December 2013 and noted its compliance with the criteria for the allocation of options as approved and disclosed. The total share options allocated up to the financial year ended 31 December 2013 is 76,411,050 ordinary shares of RM0.50 each.

Statement on Risk Management and Internal Control

In accordance to Bursa Securities Main Listing Requirements (BSMLR), Paragraph 15.26(b), it requires the Board of Directors of Listed Issuers to incorporate a Statement on Risk Management and Internal Control in the Group's Annual Report. The Malaysian Code on Corporate Governance 2012 (MCCG 2012) recommends the Board that a sound risk management framework and internal control system to be established in order to safeguard shareholders' investments and Company's assets.

Board Responsibilities

The Board acknowledges its responsibility to review the integrity and adequacy of the internal control system for the Group. The system is designed to provide reasonable assurance of effective operations and compliance with laws and regulatory requirements. Regular reviews are conducted by the Board to ascertain effectiveness of the system.

Due to inherent restrictions, the systems of internal controls are designed to manage rather than eliminate the risk of failure to achieve business objectives, and as such, can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board has also received assurance from the Chief Operating Officer and the Financial Controller that the Group's risk management and internal control system is operating adequately and effectively throughout financial year 2013 and period up to the date of this report, in all material aspects, based on the risk management and internal control system of the Group.

Risk Management

The Board is pleased to disclose that there is an embedded process for identifying, evaluating, managing and reporting significant business risks faced by the Group, excluding associated company, throughout the financial year.

The Group has established a Risk Management Committee (RMC) to provide oversight function in the implementation and enforcement of the risk management process. The Group's Risk Management Framework is outlined in its Integrated Risk Management Policy.

Management from each business or operational area applies a risk/control assessment approach in identifying the risks relating to their area; the likelihood of these risks occurring; the consequences if they do occur and the actions being and/or to be taken to manage these risks to the desired level. The risk profiles and risk treatment measures determined from this process are documented in risk registers with each business or operational area having its respective risk register.

Internal Audit Function

BSMLR Paragraph 15.27 requires Listed Issuers to establish an independent internal audit function. The Board complies with the MCCG 2012, in setting up in-house internal audit function within the Group. The internal audit function reports directly to the Audit Committee (AC) to provide feedback regarding the adequacy and the integrity of the Group's systems of internal controls in managing its key risks.

The internal audit function reviews the key activities of the Group on the basis of an annual audit plan approved by the Audit Committee. The audit plan for the Group is prepared based on the direction given by the Audit Committee and the Corporate Risk Registers of the operating entities within the Group. The Audit Committee decides on the scope of the work to be carried out and reviews the internal audit reports to ensure that the necessary level of assurance with respect to the adequacy of internal controls and the management of key risks as required by the Board is achieved. Follow-up reviews on previous audit issues are carried out to ensure that appropriate actions are taken to address internal control weaknesses highlighted. Subsequent to the reviews, the Audit Committee shall present its pertinent findings to the Board on a quarterly basis or as appropriate.

Other Risks and Control Processes

The Board summarised at below processes implemented in reviewing the effectiveness, adequacy and integrity of the internal control system within the Group: -

- Salcon Engineering Berhad continues to be certified under the ISO9001:2008 and ISO14001:2004 quality and environmental management systems at the corporate office and project levels. As testimony of the Group's commitment to ensuring quality and minimum environmental impact, a Quality and Environmental Policy Statements and ISO Procedures have been established with updates of at least once a year.

- To ensure continual improvement, training and compliance audits are carried out at least once a year on environmental and quality performances for activities undertaken at the project sites by Quality Assurance (QA) and Safety, Health & Environmental (SHE) departments.

- The Group conforms to the Occupational Safety & Health OSHAS18001 (2007) requirements, with the development of a Corporate Safety & Health Manual and Procedures for implementation on project sites and the corporate office. A Safety & Health Policy Statement established by the Group represents a testimony of the Group's commitment to maintaining a safe working environment and stringent work practices.

- The Corporate Safety & Health Committee reviews and updates the Safety & Health Policy Statement as and when necessary, and conducts training courses at least once a year, to ensure continual improvement and enhancement of the effectiveness of the Occupational Safety and Health Management System (OSHMS) adopted by the Group.

- The Board has put in place an organizational structure with formally defined lines of responsibility and delegation of authority, allowing internal checks and balances.

- The Group has also developed and distributed to its employees an Employee Handbook that highlights policies with respect to entitlements, benefits and conduct expected from them.

- As a form of preventive control and awareness on conflict of interest situation and to promote good employee conducts and ethics, the Group has developed and put in place, a policy on Code of Ethics and Conduct.

- Quarterly updates of the financial results of the Group are reported to the Audit Committee and the Board.

- Informal business development and management meetings, which involve the Chief Operating Officer, Executive Directors and selected personnel, are held to update, identify and address any issues encountered by the Group.

- The internal audit function provides reasonable assurance on the operations and validity of the systems of internal controls whilst, the Management, through the Audit Committee, is tasked to follow up and monitor the status of actions on recommendations made by the internal auditors.

- The Audit Committee can direct investigations in respect of any specific instances or events, which are deemed to have violated internal policies pertaining to confidentiality or financial impropriety, which has material impact on the Group.

Weaknesses in Internal Controls That Result In Material Losses

Throughout the year, the Internal Audit & Risk Management Department has performed reviews on major subsidiaries and projects in Malaysia, project operations in Sri Lanka, Vietnam and India. The Board confirms that the systems of internal controls are being implemented throughout the Group and continuous reviews are being carried out to ensure its adequacy and effectiveness. There were no major internal controls weaknesses detected which have a material impact on the Group's financial performance or operations.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DIRECTORS' REPORT

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The Company is principally engaged in investment holding, whilst the principal activities of the subsidiaries are stated in Note 7 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

RESULTS

	Group RM'000	Company RM'000
Profit for the year attributable to:		
Owners of the Company	24,944	31,164
Non-controlling interests	32,633	-
	57,577	31,164

RESERVES AND PROVISIONS

There were no material transfers to or from reserves and provisions during the financial year under review.

DIVIDENDS

Since the end of the previous financial year, the Company paid a first and final dividend of 1.0 sen per ordinary share, single tier totalling RM5,393,000 in respect of the financial year ended 31 December 2012 on 27 August 2013.

The first and special final single tier dividend of 3.0 sen per ordinary share totalling RM18,249,000 recommended by the Directors in respect of the financial year ended 31 December 2013, is subject to the approval of the owners of the Company at the forthcoming Annual General Meeting.

DIRECTORS OF THE COMPANY

Directors who served since the date of the last report are:

Dato' Seri (Dr.) Goh Eng Toon
Tan Sri Dato' Tee Tiam Lee
Dato' Leong Kok Wah
Dato' Dr. Freezailah bin Che Yeom
Ho Tet Shin
Dato' Choong Moh Kheng

DIRECTORS' INTERESTS

The interests and deemed interests in the ordinary shares, options over ordinary shares and warrants of the Company and of its related corporations (other than wholly-owned subsidiaries) of those who were Directors at year end (including the interests of the spouses and children of the Directors who themselves are not Directors of the Company) as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares of RM0.50 each			
	At 1.1.2013	Bought	Sold	At 31.12.2013
The Company				
Direct interest				
Dato' Seri (Dr.) Goh Eng Toon	-	1,800,000	-	1,800,000
Tan Sri Dato' Tee Tiam Lee	26,796,400	2,900,000	-	29,696,400
Dato' Leong Kok Wah	700,000	2,900,000	-	3,600,000
Dato' Dr. Freezailah bin Che Yeom	50,400	-	-	50,400
Dato' Choong Moh Kheng	2,055,000	900,000	70,000	2,885,000
Deemed interest				
Dato' Seri (Dr.) Goh Eng Toon (1)	66,709,600	-	-	66,709,600
Tan Sri Dato' Tee Tiam Lee (2)	29,397,400	-	-	29,397,400
Dato' Leong Kok Wah (3)	67,009,600	-	-	67,009,600
Ho Tet Shin (4)	21,400	-	-	21,400
Dato' Choong Moh Kheng (5)	10,000,000	-	500,000	9,500,000

	Number of options over ordinary shares of RM0.50 each			
	At 1.1.2013	Granted	Exercised	At 31.12.2013
The Company				
Direct interest				
Dato' Seri (Dr.) Goh Eng Toon	1,500,000	800,000	1,800,000	500,000
Tan Sri Dato' Tee Tiam Lee	1,400,000	1,500,000	2,900,000	-
Dato' Leong Kok Wah	1,400,000	1,500,000	2,900,000	-
Dato' Dr. Freezailah bin Che Yeom	1,200,000	500,000	-	1,700,000
Ho Tet Shin	1,200,000	500,000	-	1,700,000
Dato' Choong Moh Kheng	1,200,000	500,000	900,000	800,000

Particulars of the Directors' interests in the warrants during the financial year are as follows:

	Number of Warrants 2007/2014			
	At 1.1.2013	Acquired	Disposed	At 31.12.2013
The Company				
Direct interest				
Dato' Leong Kok Wah	3,600,000	-	-	3,600,000
Dato' Dr. Freezailah bin Che Yeom	12,700	-	-	12,700
Deemed interest				
Dato' Seri (Dr.) Goh Eng Toon (1)	16,704,800	-	16,704,800	-
Tan Sri Dato' Tee Tiam Lee (2)	7,370,650	-	7,370,650	-
Dato' Leong Kok Wah (3)(ii)	16,704,800	-	16,704,800	-
Ho Tet Shin (4)	10,700	-	-	10,700

DIRECTORS' INTERESTS (continued)

(1) (i) Deemed interested through shareholding in Naga Muhibah Sdn Bhd pursuant to Section 6A of the Companies Act, 1965.
(ii) Deemed interested through shares held by child (Datin Goh Phaik Lynn) in Naga Muhibah Sdn Bhd pursuant to Section 6A of the Companies Act, 1965.

(2) Deemed interested through the shares held in Infra Tropika Sdn Bhd pursuant to Section 6A of the Companies Act, 1965.

(3) (i) Deemed interested through the shares held by children (Leong Yi Ping and Leong Yi Ming) pursuant to Section 6A of the Companies Act, 1965.
(ii) Deemed interested through the shares held by spouse (Datin Goh Phaik Lynn) in Naga Muhibah Sdn Bhd pursuant to Section 6A of the Companies Act, 1965.

(4) Deemed interested through the shares held under the estate of his spouse (Wong Sook Kuen).

(5) Deemed interested through shareholding in Pembinaan Punca Cergas Sdn Bhd pursuant to Section 6A of the Companies Act, 1965.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements or the fixed salary of a full time employee of the Company or of related corporations) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate apart from the Warrants 2007/2014 and the Employees Share Option Scheme ("ESOS").

ISSUE OF SHARES AND DEBENTURES

During the financial year, the Company issued:

a) 54,025,268 new ordinary shares of RM0.50 each for total cash consideration amounting to RM31,605,000 via private placement, and

b) 32,541,000 new ordinary shares of RM0.50 each for total cash consideration amounting to RM16,821,000 arising from the exercise of ESOS at a weighted average exercise price of RM0.52 per ordinary share.

There were no other changes in the authorised, issued and paid-up capital of the Company during the financial year. There were no debentures issued during the financial year.

WARRANTS 2007/2014

On 18 May 2007, the Company issued 106,022,701 free detachable warrants ("Warrants 2007/2014") pursuant to a renounceable rights issue of 212,045,402 new ordinary shares of RM0.50 each ("Rights Shares") to the entitled shareholders ("Rights Issue") on the basis of two (2) Rights Shares with one (1) Warrant 2007/2014 attached for every two (2) existing shares held.

Each Warrant 2007/2014 entitles the registered holder to subscribe for one (1) new ordinary share of RM0.50 each of the Company at any time on or after 18 May 2007 to 17 May 2014, at an exercise price of RM0.75 per share or such adjusted price in accordance with the provisions in the Deed Poll dated 12 April 2007. Any Warrants 2007/2014 not exercised during the exercise period will lapse and become void.

The shares arising from the exercise of Warrants 2007/2014 shall rank *pari passu* in all respects with the existing issued ordinary shares of the Company except that they shall not be entitled to any dividends, distributions or rights, the entitlement date of which is prior to the date of the allotment of the new shares arising from the exercise of Warrants 2007/2014.

The outstanding Warrants 2007/2014 remain unexercised at the end of the financial year amounting to 104,912,701 (2012: 104,912,701).

OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued shares of the Company during the financial year apart from the issue of options pursuant to the ESOS.

At an extraordinary general meeting held on 23 June 2010, the Company's shareholders approved the establishment of an ESOS of not more than 15% of the issued and paid up share capital of the Company to eligible Directors and employees of the Group. Subsequently, the Company had on 20 June 2012 obtained shareholders' approval to amend the existing By-Laws governing the ESOS and granting of ESOS options to Non-Executive Directors of Salcon Berhad.

The salient features of the ESOS scheme are, *inter alia*, as follows:

i) Maximum allowable allotment and basis of allocation

The maximum number of new ordinary shares of RM0.50 each in the Company ("Salcon Shares") that may be offered under the ESOS Options to eligible persons shall take into consideration, amongst other factors, the eligible persons' seniority and performance subject to the following:

(a) Not more than 50% of the total number of Salcon Shares to be issued under the ESOS shall be allocated, in aggregate, to Directors and senior management of the Group; and

(b) Not more than 10% of the total number of Salcon Shares to be issued under the ESOS would be allocated to any one eligible person, who either singly or collectively through person(s) connected with him/her holds 20% or more of the issued and paid-up share capital of the Company (excluding treasury shares).

ii) Eligibility to participate in the ESOS

Generally, all eligible Persons of the Group who fulfill the following conditions shall be eligible to participate in the ESOS:

a) in respect of an employee, the employee must fulfill the following criteria as at the Date of Offer:

(i) he/she is at least eighteen (18) years of age;
(ii) he/she is employed full time by and on the payroll of any company in the Group;
(iii) his/her employment must have been confirmed and he/she is employed by any company in the Group for more than one (1) year on the Date of Offer (except in respect of Directors);
(iv) he/she complies fully with any other criteria set by the ESOS committee.

b) in respect of a Director, whether executive or Non-Executive, the following criteria must be fulfilled as at the Date of Offer:

(i) the Director is at least eighteen (18) years of age;
(ii) the Director has served as a Director within the Salcon Group for a continuous period of more than one (1) year on the Date of Offer;
(iii) specific allocation of new shares to the Director of the Company under the Scheme must have been approved by the shareholders of Salcon in a general meeting and is not prohibited or disallowed by the relevant authorities or laws from participating in the ESOS;
(iv) he/she complies fully with any other criteria set by the ESOS committee.

The ESOS Committee reserves the right to set different eligibility criteria for foreign incorporated subsidiaries of Salcon.

The selection of any Eligible Persons for participation in the ESOS shall be at the discretion of the ESOS Committee, and the decision of the ESOS Committee shall be final and binding.

OPTIONS GRANTED OVER UNISSUED SHARES (continued)

iii) Duration of the ESOS

The ESOS shall be valid for a duration for five (5) years from the effective date of implementation and may, if the Board deems fit, upon the recommendation of the ESOS Committee, be extended for a further five (5) years, subject to a maximum aggregate of ten (10) years from the effective date of implementation of the ESOS.

iv) Subscription price

Subject to any adjustment that may be made in accordance with the Bylaws of the ESOS, the price payable for the exercise of an option under the ESOS shall be determined by the ESOS Committee at its sole discretion based on the five (5) day weighted average market price of the underlying shares immediately prior to the date of offer is made by the ESOS Committee, with a discount of not more than ten per centum (10%) thereon, if deemed appropriate, or the par value of the Salcon Shares, whichever is the higher.

The options offered to take up unissued ordinary shares of RM0.50 each and the exercise prices are as follows:

		Number of options over ordinary shares of RM0.50 each				
Date of offer	**Exercise price**	**At 1.1.2013**	**Granted**	**Exercised**	**Forfeited**	**At 31.12.2013**
9 July 2010	RM0.57	17,772,900	-	7,745,500	1,081,000	8,946,400
1 July 2011	RM0.52	1,125,000	-	407,000	207,000	511,000
2 July 2012	RM0.50	6,198,000	-	1,460,000	72,000	4,666,000
14 May 2013	RM0.50	-	30,135,250	22,928,500	245,000	6,961,750

During the current financial year, exemption has been granted by the Companies Commission of Malaysia to the Company from having to disclose in this report the names of person to whom less than 700,000 options for the new options granted in 2013. The details of their holdings as required by Section 169(11) of the Companies Act, 1965, and this information have been separately filed with the Companies Commission of Malaysia.

Other than the Directors whose interests are disclosed separately in the Directors' interest, the names of option holders whose options granted in 2013 of 700,000 or more ordinary shares of RM0.50 each are disclosed in Note 36 to the financial statements.

OTHER STATUTORY INFORMATION

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

i) all known bad debts have been written off and adequate provision made for doubtful debts, and

ii) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

OTHER STATUTORY INFORMATION (continued)

At the date of this report, the Directors are not aware of any circumstances:

i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts in the Group and in the Company inadequate to any substantial extent, or

ii) that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading, or

iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or

iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.

At the date of this report, there does not exist:

i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or

ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

No contingent liability or other liability of any company in the Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the Directors, except for the effect of disposal of subsidiaries during the financial year as disclosed in Note 23 to the financial statements, the financial performance of the Group and of the Company for the financial year ended 31 December 2013 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Significant event

The significant event during the year is disclosed in Note 37 to the financial statements.

Subsequent event

The subsequent event is disclosed in Note 38 to the financial statements.

Auditors

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

……………………………………………
DATO' SERI (DR.) GOH ENG TOON

……………………………………………
TAN SRI DATO' TEE TIAM LEE

Kuala Lumpur,
Date: 25 April 2014

Statements of Financial Position

As of 31 December 2013

	Note	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
Assets					
Property, plant and equipment	3	83,112	81,219	-	-
Intangible assets	4	3,683	138,704	-	-
Trade and other receivables	5	-	515,236	-	-
Investment properties	6	8,446	8,446	-	-
Investments in subsidiaries	7	-	-	157,220	204,874
Investment in an associate	8	27,850	28,329	-	-
Other investments	10	-	86	-	-
Deferred tax assets	11	5,673	2,420	-	-
Total non-current assets		128,764	774,440	157,220	204,874
Trade and other receivables, including derivatives	5	242,581	309,674	175,824	201,683
Inventories	12	26,067	26,404	-	-
Current tax assets		1,037	1,366	1,037	1,314
Assets classified as held for sale	13	660,733	-	-	-
Cash and cash equivalents	14	147,398	115,392	104,130	4,733
Total current assets		1,077,816	452,836	280,991	207,730
Total assets		1,206,580	1,227,276	438,211	412,604
Equity					
Share capital		304,152	260,869	304,152	260,869
Reserves		103,025	75,995	72,496	62,686
Retained earnings/ (Accumulated losses)		99,242	79,691	19,057	(6,714)
Total equity attributable to owners of the Company	15	506,419	416,555	395,705	316,841
Non-controlling interests		213,937	225,490	-	-
Total equity		720,356	642,045	395,705	316,841
Liabilities					
Loans and borrowings	16	20,917	263,078	-	59,540
Deferred tax liabilities	11	4,209	6,495	-	-
Total non-current liabilities		25,126	269,573	-	59,540
Trade and other payables, including derivatives	18	167,505	230,429	42,506	9,223
Loans and borrowings	16	10,374	80,582	-	27,000
Current tax liabilities		1,215	4,647	-	-
Liabilities classified as held for sale	13	282,004	-	-	-
Total current liabilities		461,098	315,658	42,506	36,223
Total liabilities		486,224	585,231	42,506	95,763
Total equity and liabilities		1,206,580	1,227,276	438,211	412,604

The notes on pages 92 to 167 are an integral part of these financial statements.

	Note	Group 2013 RM'000	Group 2012 RM'000 restated	Company 2013 RM'000	Company 2012 RM'000
Revenue	19	164,612	182,146	398	16,070
Cost of sales		(142,386)	(159,642)	-	-
Gross profit		22,226	22,504	398	16,070
Other income		7,714	14,508	56,181	316
Distribution expenses		(3,355)	(3,219)	(48)	(82)
Administrative expenses		(51,254)	(33,703)	(23,376)	(7,467)
Other expenses		(3,166)	(1,572)	-	-
Results from operating activities		(27,835)	(1,482)	33,155	8,837
Finance income		1,187	2,360	3,314	3,644
Finance costs	21	(7,281)	(5,772)	(5,052)	(3,832)
Operating (loss)/profit		(33,929)	(4,894)	31,417	8,649
Share of profit of equity-accounted associates, net of tax		3,173	3,483	-	-
(Loss)/Profit before tax		(30,756)	(1,411)	31,417	8,649
Income tax	22	1,077	(1,951)	(253)	(2,748)
(Loss)/Profit from continuing operations		(29,679)	(3,362)	31,164	5,901
Discontinued operations					
Profit from discontinued operation, net of tax		87,256	34,824	-	-
Profit for the year	24	57,577	31,462	31,164	5,901
Other comprehensive income, net of tax					
Foreign currency translation differences for foreign operations		38,510	(4,546)	-	-
Total comprehensive income/(expense) for the year, net of tax		38,510	(4,546)	-	-
Total comprehensive income for the year		96,087	26,916	31,164	5,901

	Note	Group 2013 RM'000	Group 2012 RM'000 restated	Company 2013 RM'000	Company 2012 RM'000
Profit attributable to:					
Owners of the Company		24,944	11,282	31,164	5,901
Non-controlling interests		32,633	20,180	-	-
Profit for the year		57,577	31,462	31,164	5,901
Total comprehensive income attributable to:					
Owners of the Company		42,164	9,706	31,164	5,901
Non-controlling interest		53,923	17,210	-	-
Total comprehensive income for the year		96,087	26,916	31,164	5,901
Basic (loss)/earnings per ordinary share (sen):	26				
from continuing operation		(5.79)	(1.09)		
from discontinued operations		10.29	3.30		
		4.50	2.21		
Diluted (loss)/earnings per ordinary share (sen):	26				
from continuing operation		(5.62)			
from discontinued operations		9.99			
		4.37			

The notes on pages 92 to 167 are an integral part of these financial statements.

Group	Note	Share capital RM'000	Share premium RM'000	Warrant reserve RM'000	Translation reserve RM'000	Share option reserve RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interest RM'000	Total equity RM'000
		Attributable to Owners of the Company								
			Non-distributable				Distributable			
At 1 January 2012		237,154	36,627	22,150	14,885	2,347	76,235	389,398	159,032	548,430
Foreign currency translation differences for foreign operations		-	-	-	(1,576)	-	-	(1,576)	(2,970)	(4,546)
Total other comprehensive income for the year		-	-	-	(1,576)	-	-	(1,576)	(2,970)	(4,546)
Profit for the year		-	-	-	-	-	11,282	11,282	20,180	31,462
Total comprehensive income for the year		-	-	-	(1,576)	-	11,282	9,706	17,210	26,916
Issuance of shares	15	23,715	-	-	-	-	-	23,715	-	23,715
Share-based payment transactions	17	-	-	-	-	1,562	-	1,562	-	1,562
Dividends to owners	27	-	-	-	-	-	(7,826)	(7,826)	-	(7,826)
Dividends to non-controlling interests		-	-	-	-	-	-	-	(4,140)	(4,140)
Total transactions with owners of the Company		23,715	-	-	-	1,562	(7,826)	17,451	(4,140)	13,311
Acquisition of subsidiaries		-	-	-	-	-	-	-	44,708	44,708
Issuance of shares to non-controlling Interests		-	-	-	-	-	-	-	8,680	8,680
At 31 December 2012		260,869	36,627	22,150	13,309	3,909	79,691	416,555	225,490	642,045
		Note 15	Note 15	Note 15	Note 15	Note 15	Note 15			

Group	Note	Share capital RM'000	Share premium RM'000	Warrant reserve RM'000	Translation reserve RM'000	Share option reserve RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interest RM'000	Total equity RM'000
		Attributable to Owners of the Company								
			Non-distributable				Distributable			
At 1 January 2013		260,869	36,627	22,150	13,309	3,909	79,691	416,555	225,490	642,045
Foreign currency translation differences for foreign operations		-	-	-	17,220	-	-	17,220	21,290	38,510
Total other comprehensive income for the year		-	-	-	17,220	-	-	17,220	21,290	38,510
Profit for the year		-	-	-	-	-	24,944	24,944	32,633	57,577
Total comprehensive income for the year		-	-	-	17,220	-	24,944	42,164	53,923	96,087
Issuance of shares	15	27,013	4,592	-	-	-	-	31,605	-	31,605
Share-based payment transactions	17	-	-	-	-	4,667	-	4,667	-	4,667
Dividends to owners	27	-	-	-	-	-	(5,393)	(5,393)	-	(5,393)
Dividends to non-controlling interests		-	-	-	-	-	-	-	(662)	(662)
Share options exercised		16,270	551	-	-	-	-	16,821	-	16,821
		43,283	5,143	-	-	4,667	(5,393)	47,700	(662)	47,038
Change in ownership interests in a subsidiary		-	-	-	-	-	-	-	(39,228)	(39,228)
Total transactions with owners of the Company		43,283	5,143	-	-	4,667	(5,393)	47,700	(39,890)	7,810
Issuance of shares to non-controlling interests		-	-	-	-	-	-	-	6,493	6,493
Disposal of interest in subsidiaries		-	-	-	-	-	-	-	(32,079)	(32,079)
Transfer to share premium for share options exercised		-	5,185	-	-	(5,185)	-	-	-	-
At 31 December 2013		304,152	46,955	22,150	30,529	3,391	99,242	506,419	213,937	720,356
		Note 15	Note 15	Note 15	Note 15	Note 15	Note 15			

		← *Non-distributable* →					
Company	**Note**	**Share capital RM'000**	**Share premium RM'000**	**Warrant reserve RM'000**	**Share option reserve RM'000**	**(Accumulated losses)/ Retained earnings RM'000**	**Total equity RM'000**
At 1 January 2012		237,154	36,627	22,150	2,347	(4,789)	293,489
Profit and total comprehensive income for the year		-	-	-	-	5,901	5,901
Issue of ordinary shares	15	23,715	-	-	-	-	23,715
Share-based payment transactions	17	-	-	-	1,562	-	1,562
Dividends to owners	26	-	-	-	-	(7,826)	(7,826)
Total transactions with owners of the Company		23,715	-	-	1,562	(7,826)	17,451
At 31 December 2012/ 1 January 2013		260,869	36,627	22,150	3,909	(6,714)	316,841
Profit and total comprehensive income for the year		-	-	-	-	31,164	31,164
Issue of ordinary shares	15	27,013	4,592	-	-	-	31,605
Share-based payment transactions	17	-	-	-	4,667	-	4,667
Share options exercised		16,270	551	-	-	-	16,821
Dividends to owners	26	-	-	-	-	(5,393)	(5,393)
Total transactions with owners of the Company		43,283	5,143	-	4,667	(5,393)	47,700
Transfer to share premium for share options exercised		-	5,185	-	(5,185)	-	-
At 31 December 2013		304,152	46,955	22,150	3,391	19,057	395,705
		Note 15	Note 15	Note 15	Note 15		

The notes on pages 92 to 167 are an integral part of these financial statements.

Statements of Cash Flows

For the year ended 31 December 2013

	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
Cash flows from operating activities				
(Loss)/Profit before tax				
- continuing operations	(30,756)	(1,411)	31,417	8,649
- discontinued operations	96,326	40,306	-	-
	65,570	38,895	31,417	8,649
Adjustments for:				
Amortisation of concession intangible assets	1,304	3,213	-	-
Amortisation of government grant	(656)	(626)	-	-
Amortisation of intangible assets	412	412	-	-
Depreciation of property, plant and equipment	4,218	4,256	-	-
Dividend income	-	-	(398)	(16,070)
Equity settled share-based payment transactions	4,667	1,562	1,359	239
Finance costs	21,037	18,428	5,052	3,832
Finance income	(17,642)	(13,492)	(3,314)	(3,644)
Gain on bargain purchase	-	(10,993)	-	-
Gain on disposal of property, plant and equipment	(2,559)	(32)	-	-
Gain on disposal of subsidiaries	(26,108)	-	(51,435)	-
Impairment loss on other investments	86	-	-	-
Loss on disposal of property, plant and equipment	226	-	-	-
Share of profit of equity-accounted associate, net of tax	(3,173)	(3,483)	-	-
Property, plant and equipment written off	3,203	110	-	-
Unrealised loss on foreign exchange	122	401	3,162	2,175
Operating profit/(loss) before changes in working capital	50,707	38,651	(14,157)	(4,819)
Changes in trade and other receivables	(117,737)	(2,266)	(15,484)	(3,921)
Changes in inventories	(2,820)	(3,588)	-	-
Changes in trade and other payables	60,521	(27,848)	30,224	399
Cash (used in)/generated from operations	(9,329)	4,949	583	(8,341)
Interest paid	(21,037)	(16,295)	(5,052)	(3,832)
Tax (paid)/refund	(10,981)	(4,924)	24	(56)
Net cash (used in)/from operating activities	(41,347)	(16,270)	(4,445)	(12,229)
Cash flows from investing activities				
Acquisition of property, plant and equipment	(5,878)	(55,061)	-	-
Acquisition of concession intangible assets	(24,131)	(10,156)	-	-
Acquisition of investment properties	-	(3,342)	-	-
Acquisition of subsidiary, net of cash acquired	(32,687)	(53,445)	(32,687)	(48,847)
Disposal of discontinued operations,				
Proceeds from disposal, net of cash & cash equivalent disposed of SPA-A	141,122	-	171,537	-
Dividends received from				
- Associated company	3,652	3,804	-	-
- Subsidiaries	-	-	-	571
Interest received	-	2,898	3,314	3,644
Proceeds from disposal of property, plant and equipment	2,876	606	-	-
Release of amount placed with debts service reserve accounts	4,402	-	-	-
Net cash from/(used in) investing activities	89,356	(114,696)	142,164	(44,632)

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Cash flows from financing activities				
Acquisition of non-controlling interests	-	-	-	-
Dividends paid to non-controlling interests	(1,935)	(3,146)	-	-
Dividends paid to owners of the Company	(5,393)	(7,826)	(5,393)	(7,826)
Proceeds from issuance of equity shares in subsidiaries to non-controlling interests	6,493	8,680	-	-
Net proceeds from issue of share capital	48,426	23,715	53,611	23,715
Proceeds from borrowings	126,390	101,753	-	51,040
Repayment of borrowings	(235,214)	(77,723)	(86,540)	(15,000)
Payment of finance lease liabilities	(4,634)	(4,957)	-	-
Net cash (used in)/from financing activities	(65,867)	40,496	(38,322)	51,929
Net (decrease)/increase in cash and cash equivalents	(17,858)	(90,470)	99,397	(4,932)
Cash and cash equivalents at 1 January	110,406	208,626	4,733	5,263
Effect of exchange rate fluctuations on cash held	53,879	(7,750)	-	-
Cash and cash equivalents at 31 December	146,427	110,406	104,130	331

Cash and cash equivalents

Cash and cash equivalents included in the statements of cash flows comprise the following statements of financial position amounts:

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Deposits placed with licensed banks	32,859	41,362	16,984	-
Cash and bank balances	114,539	74,030	87,146	4,733
Bank overdrafts	(971)	(584)	-	-
	146,427	114,808	104,130	4,733
Less : Amount placed with debts service	-	(4,402)	-	(4,402)
	146,427	110,406	104,130	331

Acquisition of property, plant and equipment

During the year, the Group acquired property, plant and equipment with an aggregate cost of RM10,467,000 (2012: RM57,274,000), of which RM768,000 (2012: RM2,213,000) were acquired by means of finance leases.

The notes on pages 92 to 167 are an integral part of these financial statements.

Salcon Berhad is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad. The address of the principal place of business and registered office of the Company is as follows:

15th Floor, Menara Summit
Persiaran Kewajipan USJ 1
47600 UEP Subang Jaya
Selangor Darul Ehsan
Malaysia

The consolidated financial statements of the Company as at and for the financial year ended 31 December 2013 comprise the Company and its subsidiaries (together referred to as the "Group" and individually referred to as "Group entities") and the Group's interest in associate and/or jointly controlled entities. The financial statements of the Company as at and for the financial year ended 31 December 2013 do not include other entities.

The Company is principally engaged in investment holding activities, whilst the principal activities of the subsidiaries are stated in Note 7 to the financial statements.

These financial statements were authorised for issue by the Board of Directors on 25 April 2014.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the Group and the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the Companies Act, 1965 in Malaysia.

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Group and the Company:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2014
- Amendments to MFRS 10, Consolidated Financial Statements: Investment Entities
- Amendments to MFRS 12, Disclosure of Interests in Other Entities: Investment Entities
- Amendments to MFRS 127, Separate Financial Statements (2011): Investment Entities
- Amendments to MFRS 132, Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
- Amendments to MFRS 136, Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to MFRS 139, Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting
- IC Interpretation 21, Levies

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2014
- Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2011-2013 Cycle)
- Amendments to MFRS 2, Share-based Payment (Annual Improvements 2010-2012 Cycle)
- Amendments to MFRS 3, Business Combinations (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)
- Amendments to MFRS 8, Operating Segments (Annual Improvements 2010-2012 Cycle)
- Amendments to MFRS 13, Fair Value Measurement (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)
- Amendments to MFRS 116, Property, Plant and Equipment (Annual Improvements 2010-2012 Cycle)
- Amendments to MFRS 119, Employee Benefits – Defined Benefit Plans: Employee Contributions
- Amendments to MFRS 124, Related Party Disclosures (Annual Improvements 2010-2012 Cycle)
- Amendments to MFRS 138, Intangible Assets (Annual Improvements 2010-2012 Cycle)
- Amendments to MFRS 140, Investment Property (Annual Improvements 2011-2013 Cycle)

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

MFRSs, Interpretations and amendments effective for a date yet to be confirmed

- MFRS 9, Financial Instruments (2009)
- MFRS 9, Financial Instruments (2010)
- MFRS 9, Financial Instruments – Hedge Accounting and Amendments to MFRS 9, MFRS 7 and MFRS 139 Amendments to MFRS 7, Financial Instruments: Disclosures – Mandatory Effective Date of MFRS 9 and Transition Disclosures

The Group and the Company plan to apply the abovementioned accounting standards, amendments and interpretations:

- from the annual period beginning on 1 January 2014 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2014, except for IC Interpretation 21 which is not applicable to the Group and the Company.

- from the annual period beginning on 1 January 2015 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 July 2014.

Material impacts of initial application of a standard, an amendment or an interpretation are discussed below:

(i) MFRS 9, *Financial Instruments*

MFRS 9 replaces the guidance in MFRS 139, Financial Instruments: Recognition and Measurement on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

The Group is currently assessing the financial impact that may arise from the adoption of MFRS 9.

(ii) MFRS 132, *Financial Instruments: Presentation*

The amendments to MFRS 132 clarify the criteria for offsetting financial assets and financial liabilities.

The Group is currently assessing the financial impact that may arise from the adoption of MFRS 132.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis other than as disclosed in Note 2.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is the Company's functional currency. All financial information presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with Malaysian Financial Reporting Standards ("MFRSs") requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

1. Basis of preparation (continued)

(d) Use of estimates and judgements (continued)

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in the following notes:

- Note 2(q) - contract revenue
- Note 4 - measurement of the recoverable amounts of cash generating units
- Note 5 - valuation of recoverability and impairment of receivables
- Note 6 - valuation of investment properties
- Note 11 - recognition of unutilised tax losses

2. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, and have been applied consistently by Group entities, unless otherwise stated.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities, including structured entities, controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Group adopted MFRS 10, Consolidated Financial Statements in the current financial year. This resulted in changes to the following policies:

- Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In the previous financial years, control exists when the Group has the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.
- Potential voting rights are considered when assessing control only when such rights are substantive. In the previous financial years, potential voting rights are considered when assessing control when such rights are presently exercisable.
- The Group considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return. In the previous financial years, the Group did not consider de facto power in its assessment of control.

The change in accounting policy has been made retrospectively and in accordance with the transitional provision of MFRS 10. The adoption of MFRS 10 has no significant impact to the financial statements of the Group.

Investments in subsidiaries are measured in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investments includes transaction costs.

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(ii) Accounting for business combinations

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group.

For new acquisitions, the Group measures the cost of goodwill at the acquisition date as:
- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.
For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(iii) Accounting for non-controlling interests

The Group treats all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

(iv) Loss of control

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(v) Associates

Associates are entities, including unincorporated entities, in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for in the consolidated financial statements using the equity method less any impairment losses. The costs of the investment include transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the associates, after adjustments if any, to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest including any long-term investments is reduced to zero and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate.

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(v) Associates (continued)

When the Group ceases to have significant influence over an associate, any retained interest in the former associate at the date when significant influence is lost is measured at fair value and this amount is regarded as the initial carrying amount of a financial asset. The difference between the fair value of any retained interest plus proceeds from the interest disposed of and the carrying amount of the investment at the date when equity method is discontinued is recognised in the profit or loss.

When the Group's interest in an associate decreases but does not result in a loss of significant influence, any retained interest is not re-measured. Any gain or loss arising from the decrease in interest is recognised in profit or loss. Any gains or losses previously recognised in other comprehensive income are also reclassified proportionately to profit or loss if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

Investments in associates are measured in the Company's statement of financial position at cost less any impairment losses unless the investment is classified as held for sale. The cost of the investment includes transaction costs.

(vi) Jointly-controlled operation and assets

Joint arrangements are arrangements of which the Group has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements' returns.

The Group adopted MFRS 11, Joint Arrangements in the current financial year. As a result, joint arrangements are classified and accounted for as follows:

- A joint arrangement is classified as "joint operation" when the Group or the Company has rights to the assets and obligations for the liabilities relating to an arrangement. The Group and the Company account for each of its share of the assets, liabilities and transactions, including its share of those held or incurred jointly with the other investors, in relation to the joint operation.
- A joint arrangement is classified as "joint venture" when the Group has rights only to the net assets of the arrangements. The Group accounts for its interest in the joint venture using the equity method.

In the previous financial years, joint arrangements were classified and accounted for as follows:

- For jointly controlled entity, the Group accounted for its interest using the equity method.
- For jointly controlled asset or jointly controlled operation, the Group and the Company accounted for each its share of the assets, liabilities and transactions, including its share of those held or incurred jointly with the other investors.

The change in accounting policy has been made retrospectively and in accordance with the transitional provision of MFRS 11. The adoption of MFRS 11 has no significant impact to the financial statements of the Group.

(vii) Non-controlling interests

Non-controlling interests at the end of the reporting period, being the equity in a subsidiary not attributable directly or indirectly to the equity holders of the Company, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from of equity attributable to the owners of the Company. Non-controlling interests in the results of the Group is presented in the consolidated statement of comprehensive income as an allocation of the profit or loss and the comprehensive income for the year between non-controlling interests and the owners of the Company.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(viii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with equity-accounted associates are eliminated against the investment to the extent of the Group's interest in the investees. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting period are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

(ii) Operations denominated in functional currencies other than Ringgit Malaysia

The assets and liabilities of operations denominated in functional currencies other than RM, including goodwill and fair value adjustments arising on acquisition are translated to RM at exchange rates at the end of the reporting period, except for goodwill and fair value adjustments arising from business combinations before 1 January 2011 which are reported using the exchange rates at the dates of the acquisitions. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to RM at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve ("FCTR") in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the FCTR related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

In the consolidated financial statements, when settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the FCTR within equity.

2. Significant accounting policies (continued)

(c) Financial instruments

(i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Group or the Company becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

(ii) Financial instrument categories and subsequent measurement

The Group and the Company categorise financial instruments as follows:

Financial assets

(a) Financial assets at fair value through profit or loss

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is designated as an effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Other financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

(b) Loans and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market, trade and other receivables.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

(c) Available-for-sale financial assets

Available-for-sale category comprises investment in equity and debt securities instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair value hedges which are recognised in profit or loss. On derecognition, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss. Interest calculated for a debt instrument using the effective interest method is recognised in profit or loss.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (see Note 2(m)).

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

Financial liabilities

All financial liabilities are subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are held for trading, derivatives (except for a derivative that is a financial guarantee contract or designated as an effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of equity instruments that do not have a quoted price in an active market for identical instruments whose fair values cannot be reliably measured are measured at cost.

Other financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

(iii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are classified as deferred income and are amortised to profit or loss using a straight-line method over the contractual period or, when there is no specified contractual period, recognised in profit or loss upon discharge of the guarantee. When settlement of a financial guarantee contract becomes probable, an estimate of the obligation is made. If the carrying value of the financial guarantee contract is lower than the obligation, the carrying value is adjusted to the obligation amount and accounted for as a provision.

(iv) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

2. Significant accounting policies (continued)

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less any accumulated depreciation and any impairment losses, if any.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

The cost of property, plant and equipment recognised as a result of a business combination is based on fair value at acquisition date. The fair value of property is the estimated amount for which a property could be exchanged between knowledgeable willing parties in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of other items of plant and equipment is based on the quoted market prices for similar items when available and replacement cost when appropriate.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within "other income" and "other expenses" respectively in the profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group or the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised to profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

The estimated useful lives for the current and comparative periods are as follows:

- leasehold land 99 years
- buildings 30 - 50 years
- plant and machinery 5 - 50 years
- motor vehicles 5 - 10 years
- fixtures and fittings 10 years
- office equipment 5 years

Depreciation methods, useful lives and residual values are reviewed at the end of the reporting period, and adjusted as appropriate.

2. Significant accounting policies (continued)

(e) Leased assets

(i) Finance lease

Leases in terms of which the Group or the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Leasehold land which in substance is a finance lease is classified as property, plant and equipment, or as an investment property if held to earn rental income or for capital appreciation or for both.

(ii) Operating lease

Leases, where the Group or the Company does not assume substantially all the risks and rewards of ownership are classified as operating leases and, except for property interest held under operating lease, the leased assets are not recognised on the statement of financial position. Property interest held under an operating lease, which is held to earn rental income or for capital appreciation or both, is classified as investment property and measured using fair value model.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

Leasehold land which in substance is an operating lease is classified as prepaid lease payments.

(f) Intangible assets

(i) Goodwill

Goodwill arises on business combinations is measured at cost less any accumulated impairment losses. In respect of equity-accounted associates, the carrying amount of goodwill is included in the carrying amount of the investment and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted associates.

(ii) Concession rights

Concession rights that are acquired by the Group which have finite useful lives are measured at cost less any accumulated amortisation and any accumulated impairment losses.

The fair value of intangible assets acquired in a business combination is based on the discounted cash flows expected to be derived from the water concession rights ranging from 30 to 50 years.

2. Significant accounting policies (continued)

(f) Intangible assets (continued)

(iii) Concession intangible assets

Under IC Interpretation 12, Service Concession Arrangements, the infrastructure assets incurred that establish the right granted by the concession grantor to charge users of public services are treated as concession intangible assets.

Infrastructure assets comprised assets which are constructed by the Group in exchange for the right of the Group to charge users of the public service infrastructure that it has constructed or upgraded and are stated at the fair value of construction services delivered including certain mark ups on the actual cost incurred. The capital work-in-progress relating to these assets is not amortised until the assets are fully completed and brought to use.

Concession intangible assets are stated at cost less accumulated amortisation and impairment loss.

(iv) Subsequent expenditure

Subsequent expenditure on capitalised concession intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

(v) Amortisation

Goodwill with indefinite useful lives are not amortised but are tested for impairment annually and whenever there is an indication that they may be impaired.

Concession rights and concession intangible assets are amortised from the date that they are available for use. Amortisation of concession rights and concession intangible assets are recognised in profit or loss on a straight-line basis over the estimated useful lives of the assets.

The estimated useful lives are as follows:

• Intangible assets	30 - 50 years
• Concession intangible assets	30 - 50 years

Concession rights and concession intangible assets are tested for impairment whenever there is an indication that they may be impaired.

(g) Investments properties

(i) Investment properties carried at fair value

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment properties are measured initially at cost and subsequently at fair value with any change therein recognised in profit or loss for the period in which they arise. Where the fair value of the investment property under construction is not reliably determinable, the investment property under construction is measured at cost until either its fair value becomes reliably determinable or construction is complete, whichever is earlier.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

An investment property is derecognised on its disposal, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount is recognised in profit or loss in the period in which the item is derecognised.

2. Significant accounting policies (continued)

(g) Investments properties (continued)

(ii) Reclassification to/from investment property

When an item of property, plant and equipment is transferred to investment property following a change in its use, any difference arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity as revaluation of property, plant and equipment. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in profit or loss. Upon disposal of an investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment or inventories, its fair value at the date of reclassification becomes its deemed cost for subsequent accounting.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories is measured based on weighted average cost formula, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Land held for property development consists of reclaimed land, freehold land, leasehold land and land use rights on which development work has not been commenced along with related costs on activities that are necessary to prepare the land for its intended use. Land held for property development is transferred to properties under development or work-in-progress when development activities have commenced.

Work-in-progress comprises all costs directly attributable to property development activities or that can be allocated on a reasonable basis to these activities. Upon completion of development, unsold completed development properties are transferred to stock of completed units.

(i) Receivables

Trade and other receivables are categorised and measured as loans and receivables in accordance with Note 2(c)(ii).

(j) Non-current assets held for sale

Non-current assets, or disposal group comprising assets and liabilities that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale.

Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group are measured at the lower of their carrying amount and fair value less costs of disposal.

Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets and investment property, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Property, plant and equipment once classified as held for sale are not amortised or depreciated. In addition, equity accounting of equity-accounted associates ceases once classified as held for sale.

2. Significant accounting policies (continued)

(k) Construction work-in-progress

Construction work-in-progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity. For qualifying contracts, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs.

Construction work-in-progress is presented as part of trade and other receivables as amount due from contract customers in the statement of financial position for all contracts in which costs incurred plus recognised profits exceed progress billings. If progress billings exceed costs incurred plus recognised profits, then the difference is presented as amount due to contract customers which is part of the deferred income in the statement of financial position.

(l) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, balances and deposits with banks. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

(m) Impairment

(i) Financial assets

All financial assets (except for financial assets categorised as fair value through profit or loss, investments in subsidiaries and investment in associates and joint ventures) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the impairment loss of the financial asset is estimated.

An impairment loss in respect of loans and receivables is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of available-for-sale financial assets is recognised in profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in the other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity to profit or loss.

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale is not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

2. Significant accounting policies (continued)

(m) Impairment (continued)

(ii) Other assets

The carrying amounts of other assets (except for inventories, amount due from contract customers, deferred tax assets, investment property that is measured at fair value and non-current assets (or disposal groups) classified as held for sale) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each period at the same time.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets (known as cash-generating unit). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to a cash-generating unit or a group of cash-generating units that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or a group of cash-generating units) and then to reduce the carrying amounts of the other assets in the cash-generating unit (or a group of cash-generating units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

(n) Equity instruments

Instruments are classified as equity are measured at cost on initial recognition and are not remeasured subsequently.

(i) Issue expenses

Costs directly attributable to issue of instruments classified as equity are recognised as a deduction from equity.

(ii) Ordinary shares

Ordinary shares are classified as equity.

(iii) Warrant reserve

Free warrants with rights issue are accounted for in accordance with Financial Reporting Standards Interpretation Committee ("FRSIC") Consensus 8/2008, which require free warrants to be accounted for in accordance with the substance and economic reality of the transactions and accordingly, a value is assigned to the warrants using a reasonable and appropriate method of allocation.

2. Significant accounting policies (continued)

(o) Employee benefits

(i) Short term employee benefits

Short term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) State plans

The Group's contributions to statutory pension funds are charged to profit or loss in the financial year to which they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(iii) Share-based payment transactions

The grant date fair value of share-based payment granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of employee share options is measured using a Black-Scholes model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

(p) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

2. Significant accounting policies (continued)

(q) Revenue and other income

(i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at fair value of the consideration received or receivable, net of returns and allowances, trade discount and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue when the sales are recognised.

(ii) Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue and contract cost are recognised in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related to future contract activity.

The stage of completion is assessed by reference to the proportion that contract costs incurred for work performed to-date bear to the estimated total contract costs or completion of a physical proportion of the contract work.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

(iii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the end of the reporting period. The stage of completion is assessed by reference to surveys of work performed.

(iv) Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Rental income from subleased property is recognised as other income.

(v) Dividend income

Dividend income is recognised in the profit or loss on the date the Group or the Company's right to receive payment is established.

(vi) Interest income

Interest income is recognised as it accrues using the effective interest method in profit or loss except for interest income arising from temporary investment of borrowings taken specifically for the purpose of obtaining a qualifying asset which is accounted for in accordance with the accounting policy on borrowing costs.

2. Significant accounting policies (continued)

(r) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all conditions attached will be met. Government grants shall be recognised in profit or loss on a systematic basis over the concession periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. Grants related to income may be presented as a credit in profit or loss, either separately or under a general heading such as "other income".

(s) Borrowing costs

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

(t) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, and the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in Note 2(g), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held with the objective to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2. Significant accounting policies (continued)

(t) Income tax (continued)

Unutilised reinvestment allowance and investment tax allowance, being tax incentives that is not a tax base of an asset, is recognised as a deferred tax asset to the extent that it is probable that the future taxable profits will be available against the unutilised tax incentive can be utilised.

(u) Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale or distribution, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

(v) Earnings per ordinary share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares.

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

(w) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the chief operating decision maker, which in this case is the Chief Operation Officer of the Group, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

(x) Service concession arrangements

The Group has entered into several service concession arrangements with the People's Republic of China ("PRC") government to construct/upgrade water treatment plants and operate the water treatment plants and wastewater treatment plants for a period ranging from 30 to 50 years. The terms of the arrangement allow the Group to maintain and manage these treatment plants and charge consumers based on the water usage and rates as determined by the grantor for concession period.

A substantial portion of the Group's assets are within the framework of concession contracts granted by the government ("the grantor"). In order to fall within the scope of concession contract, a contract must satisfy the following two criteria:

- The grantor controls or regulates what services the operator must provide with the infrastructure assets, to whom it must provide them, and at what price; and
- The grantor controls the significant residual interest in the infrastructure assets at the end of the term of the arrangement.

Such infrastructure assets are not recognised by the Group as property, plant and equipment and prepaid lease payment but as intangible assets as described in Note 2(f)(iii) or financial assets as described in Note 2(c)(ii)(b).

The Group recognises the consideration received or receivable as a financial asset to the extent that it has an unconditional right to receive cash or another financial asset for the construction services. Financial assets are accounted for in accordance with the accounting policy set out in Note 2(c)(ii)(b).

2. Significant accounting policies (continued)

(x) Service concession arrangements (continued)

The Group recognises the consideration receivable as an intangible asset to the extent that it receives a right to charge users of the public service. Intangible assets resulting from the application of this policy are recorded in the statement of financial position as "Concession intangible assets" and are amortised on a straight line basis over the concession rights ranging from 30-50 years.

Under the intangible asset model, revenue includes revenue from the construction of the infrastructure assets and concession revenue from operating the infrastructure.

(y) Fair value measurement

From 1 January 2013, the Group adopted MFRS 13, Fair Value Measurement which prescribed that fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In accordance with the transitional provision of MFRS 13, the Group applied the new fair value measurement guidance prospectively, and has not provided any comparative fair value information for new disclosures. The adoption of MFRS 13 has not significantly affected the measurements of the Group's assets or liabilities other than the additional disclosures.

3. Property, plant and equipment

Group Cost		Land RM'000	Freehold buildings RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings RM'000	Capital work-in-progress RM'000	Total RM'000
At 1 January 2012		1,156	409	744	32,141	5,412	-	39,862
Acquisition through business combinations		-	-	-	61	71	-	132
Other additions		-	-	765	669	619	55,221	57,274
Disposals		-	-	(320)	(496)	(274)	-	(1,090)
Write-off		-	-	-	(99)	(140)	-	(239)
Effect of movements in exchange rates		-	-	-	(103)	(51)	-	(154)
At 31 December 2012/1 January 2013		1,156	409	1,189	32,173	5,637	55,221	95,785
Additions		-	3,904	26	2,094	622	-	6,646
Transfer to assets held for sale	Note 13	-	-	-	(4,323)	(1,975)	-	(6,298)
Disposals		-	-	-	(829)	(617)	-	(1,446)
Write-off		-	-	(73)	(418)	(130)	(3,151)	(3,772)
Effect of movements in exchange rates		-	-	-	15	7	5,203	5,225
At 31 December 2013		1,156	4,313	1,142	28,712	3,544	57,273	96,140

3. Property, plant and equipment (continued)

Group Depreciation		Land RM'000	Freehold buildings RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings RM'000	Capital work-in-progress RM'000	Total RM'000
At 1 January 2012		66	83	654	6,443	3,774	-	11,020
Depreciation for the year		4	10	202	3,498	542	-	4,256
Disposals		-	-	(145)	(152)	(219)	-	(516)
Write-off		-	-	-	(51)	(78)	-	(129)
Effect of movements in exchange rates		-	-	-	(46)	(19)	-	(65)
At 31 December 2012/1 January 2013		70	93	711	9,692	4,000	-	14,566
Depreciation for the year		4	32	189	3,066	317	-	3,608
Transfer to assets held for sale	Note 13	-	-	-	(2,628)	(1,219)	-	(3,847)
Disposals		-	-	-	(553)	(350)	-	(903)
Write-off		-	-	(42)	(407)	(120)	-	(569)
Effect of movements in exchange rates		-	-	-	3	170	-	173
At 31 December 2013		74	125	858	9,173	2,798	-	13,028
Carrying amounts								
At 1 January 2012		1,090	326	90	25,698	1,638	-	28,842
At 31 December 2012/1 January 2013		1,086	316	478	22,481	1,637	55,221	81,219
At 31 December 2013		1,082	4,188	284	19,539	746	57,273	83,112

Assets under finance lease

Included in property, plant and equipment of the Group are motor vehicles and plant and machinery acquired under finance lease agreements with net book value of RM19,790,000 (2012: RM19,880,000).

4. Intangible assets

Group Cost	Goodwill RM'000	Concession rights RM'000	Concession intangible assets RM'000	Total RM'000
At 1 January 2012	3,683	13,175	137,121	153,979
Addition	-	-	10,156	10,156
Effect of movements in exchange rates	-	16	(3,566)	(3,550)
At 31 December 2012/1 January 2013	3,683	13,191	143,711	160,585
Additions	-	-	24,131	24,131
Transfer to assets held for sale (Note 13)	-	(10,572)	(183,501)	(194,073)
Disposal	-	(2,694)	-	(2,694)
Effect of movements in exchange rates	-	75	15,659	15,734
At 31 December 2013	3,683	-	-	3,683
Amortisation				
At 1 January 2012	-	1,565	17,354	18,919
Amortisation for the year	-	412	3,213	3,625
Effect of movements in exchange rates	-	-	(663)	(663)
At 31 December 2012/1 January 2013	-	1,977	19,904	21,881
Amortisation for the year	-	412	1,304	1,716
Transfer to assets held for sale (Note 13)	-	(2,389)	(24,568)	(26,957)
Effect of movements in exchange rates	-	-	3,360	3,360
At 31 December 2013	-	-	-	-
Carrying amounts				
At 1 January 2012	3,683	11,610	119,767	135,060
At 31 December 2012/1 January 2013	3,683	11,214	123,807	138,704
At 31 December 2013	3,683	-	-	3,683

Goodwill

Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to a subsidiary acquired at which the goodwill is monitored for internal management purposes.

The goodwill impairment test was based on value in use determined by the management. Value in use was derived from the subsidiary future budgets. Key assumptions used in preparing the budgets represent management's assessment of future trends in the subsidiary principal activity with certain reference made to the internal sources (historical data).

4. Intangible assets (continued)

Goodwill (continued)

Impairment testing for cash-generating units containing goodwill (continued)

Value in use was determined by discounting the future cash flows generated from the continuing use of the unit and was based on the following key assumptions:

- Based on past experience and actual operating results attained in both 2012 and 2013, 3 years cash flow projections were prepared. An average growth rate of 5 percent (2012: 5 percent) was incorporated into the projections.

- A pre-tax discount rate of 10 percent (2012: 10 percent) was applied in determining the recoverable amount of the unit. The discount rate was estimated based on the average of the Group's working cost of capital.

Based on the management assessments, there were no impairment losses on goodwill during the financial year under review. In addition, the management has assessed the key assumptions used and sensitivity of such assumptions to impairment losses and the results are as follows:

(i) An increase of 100 basis point in the discount rate used would have no significant impact on impairment losses.
(ii) A 10% decrease in future planned revenue would have no significant impact in the impairment losses.

Concession rights

The concession rights of the Group comprises the water concession rights are for duration of 30 years for subsidiaries in China, namely, Linyi Salcon Water Company Limited, Haining Salcon Water Company Limited, Nan An Salcon Water Company Limited, Changle Salcon Raw Water Company Limited and of 50 years for Shandong Changle Salcon Water Company Limited. They have been reclassified to assets held for sale in view of the ongoing disposal program (see Note 13).

Concession intangible assets

Concession intangible assets comprises fair value of the consideration receivable for the construction services delivered during the stage of constructing, including a mark-up based on market rate on the costs incurred for constructing water treatment plants for subsidiaries in China, namely Linyi Salcon Water Company Limited and Shandong Changle Salcon Water Company Limited. They have been reclassified to assets held for sale in view of the ongoing disposal program (see Note 13).

5. Trade and other receivables, including derivatives

	Note	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
Non-current					
Trade					
Receivables from concession arrangements		-	510,451	-	-
Non-trade					
Other receivables		-	4,785	-	-
		-	515,236	-	-
Current					
Trade					
Trade receivables	5.1	105,082	157,425	-	-
Amount due from contract customers	5.2	55,967	70,021	-	-
		161,049	227,446	-	-
Non-trade					
Amount due from associate	5.3	5	5	-	-
Amount due from subsidiaries	5.4	-	-	174,762	189,394
Other receivables	5.5	45,784	67,142	-	12,289
Deposits	5.6	27,130	13,592	-	-
Prepayments		8,613	1,403	1,063	-
Financial assets at fair value through profit or loss:					
- Held for trading, including derivatives		-	86	-	-
		81,532	82,228	175,825	201,683
		242,581	309,674	175,825	201,683
		242,581	824,910	175,825	201,683

5.1 Included in trade receivables of the Group are retention sums amounting to RM19,184,000 (2012: RM17,806,000) relating to construction work-in-progress. Retentions are unsecured, interest-free and are expected to be collected as follows:

	Group 2013 RM'000	Group 2012 RM'000
Within 1 year	3,246	569
1 - 2 years	6,158	2,843
2 - 3 years	7,973	8,083
3 - 4 years	402	3,583
4 - 5 years	1,405	2,728
	19,184	17,806

5. Trade and other receivables, including derivatives (continued)

5.2 Amount due from contract customers

	Group	
	2013	**2012**
	RM'000	**RM'000**
Aggregate costs incurred to date	412,614	1,204,555
Add: Attributable profit	41,970	137,265
	454,584	1,341,820
Less: Progress billings	(404,129)	(1,297,344)
	50,455	44,476
Amount due to contract customers (Note 18)	5,512	25,545
Amount due from contract customers	55,967	70,021

Included in aggregate costs incurred during the year are personnel expenses and hiring of equipment amounting to RM5,752,000 (2012: RM9,886,000) and RM917,000 (2012: RM1,028,000) respectively.

5.3 The amount due from an associate is non-trade, unsecured, interest free and repayable upon demand.

5.4 The amount due from subsidiaries are unsecured, interest free and repayable upon demand except for an amount due from a subsidiary amounting to RM114.8 million (2012: RM82.9 million) which bear interest ranging from 2% to 5.8% (2012: 2% to 5.8%) per annum.

5.5 Included in other receivables of the Group are as follows:

i) Compensation receivable of RM31,074,000 from Changzhou City District Office following the termination of the water concession agreement in 2012. The amount is receivable before 1 November 2015.

ii) In 2012, RM491,000 being advance payments to sub-contractors/suppliers of subsidiaries which was paid in accordance with the terms of the contract.

iii) Allowance for impairment losses amounting to RM476,000 (2012: RM362,000).

iv) In 2012, advances amounting to RM14.7 million representing amount paid to a joint venture partner of a subsidiary in arranging advance payment to the respective sub-contractors for construction of water transmission project. The subsidiary was disposed of in 2013.

5.6 Included in deposits is an amount of RM17.7 million (2012: RM2.0 million) incurred by a subsidiary being deposit paid to a third party to acquire 2 pieces of lands in Bandar Johor Bahru.

6. Investment properties

	Group 2013 RM'000	Group 2012 RM'000
At 1 January	8,446	5,104
Acquisition through business combination	-	19,720
Acquisitions	-	3,342
Transfer to inventories	-	(19,720)
At 31 December	8,446	8,446

Included in the above are:

	Group 2013 RM'000	Group 2012 RM'000
Freehold land	319	319
Freehold land and buildings	511	511
Leasehold land and buildings with unexpired lease period of more than 50 years	7,616	7,616
	8,446	8,446

The following are recognised in profit or loss in respect of investment properties:

	Group 2013 RM'000	Group 2012 RM'000
Rental income	28	25
Direct operating expenses:		
- income generating investment properties	7	5

The titles to the leasehold land and buildings with carrying amount of RM7,122,000 (2012: RM7,122,000) are in the process of being transferred to the subsidiaries.

6.1 Fair value information

Fair value of investment properties are categorised as follows:

	2013 Level 1 RM'000	2013 Level 2 RM'000	2013 Level 3 RM'000	2013 Total RM'000
Group				
Land	-	-	319	319
Buildings	-	-	8,127	8,127
	-	-	8,446	8,446

6. Investment properties (continued)

6.1 Fair value information (continued)

Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

Level 1 fair value

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical investment properties that the entity can access at the measurement date.

Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the investment property, either directly or indirectly.

Transfer between Level 1 and 2 fair values

There is no transfer between Level 1 and 2 fair values during the financial year.

Level 3 fair value

Level 3 fair value is estimated using unobservable inputs for the investment property.

The Directors estimate the fair value of investment properties based on cash flow projection. After evaluating the market condition, the Directors are of the view that the fair value of the investment properties as at 31 December 2013 approximates those value at 31 December 2012 which were determined based on the sales comparison approach then.

7. Investments in subsidiaries

	Company	
	2013	**2012**
	RM'000	**RM'000**
Unquoted shares, at cost	156,810	204,464
Unquoted preference shares, at cost	7,267	7,267
Less: Impairment losses	(6,857)	(6,857)
	157,220	204,874

7. Investments in subsidiaries (continued)

Details of the subsidiaries are as follows:-

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest and voting interest 2013 %	2012 %
Salcon Engineering Berhad	Malaysia	- Design, construction, operation and maintenance of municipal potable water, sewage and wastewater facilities; - Provision of mechanical and electrical engineering services for general industries; and - Investment holding.	100	100
Salcon Water (Asia) Limited +	Hong Kong	Investment holding company	60	60
Integrated Water Services (M) Sdn. Bhd.	Malaysia	Operation and maintenance of a water treatment plant.	51	51
Salcon Jiangsu (HK) Limited	Hong Kong	Investment holding company involved in water supply projects in the People's Republic of China via its subsidiary.	-	100
Salcon Changzhou (HK) Limited +	Hong Kong	Investment holding company involved in water supply projects in the People's Republic of China via its subsidiary.	100	100
Salcon Water International Limited +	Hong Kong	Dormant	100	100
Salcon Capital Sdn. Bhd.	Malaysia	Investment holding company	100	100
Salcon Water International Pte. Ltd.	Singapore	Dormant	-	100
Salcon Power (HK) Limited +	Hong Kong	Dormant	100	100
Salcon Water (HK) Limited +	Hong Kong	Dormant	100	100
Salcon Darco Environmental Pte Ltd	Singapore	Investment holding company	-	60
Salcon Development Sdn. Bhd.	Malaysia	Investment holding company	100	100

7. Investments in subsidiaries (continued)

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest and voting interest 2013 %	2012 %
Kencana Kesuma Sdn. Bhd.	Malaysia	Dormant	100	100
Gerbang Mawar Sdn. Bhd.	Malaysia	Dormant	100	100
Satria Megajuta Sdn. Bhd.	Malaysia	Dormant	100	100
Subsidiaries of Salcon Engineering Berhad:				
Salcon-Centrimax Engineering Sdn. Bhd.	Malaysia	Dormant	100	100
Precise Metal Sdn. Bhd.	Malaysia	Dormant	100	100
Salcon Power Sdn. Bhd.	Malaysia	Investment holding	100	100
Salcon Resources Sdn. Bhd.	Malaysia	Dormant	100	100
Salcon Environmental Services Sdn. Bhd.	Malaysia	Operation and maintenance of water treatment plants.	100	100
Envitech Sdn. Bhd.	Malaysia	Design, building, operation and maintenance of wastewater and sewage treatment plants.	60	60
Glitteria Sdn. Bhd. @	Malaysia	Provision of engineering works	50	50
Bumi Tiga Enterprise Sdn. Bhd.	Malaysia	Investment holding	100	100
Salcon Corporation Sdn. Bhd.	Malaysia	Dormant	100	100
Salcon (Perak) Sdn. Bhd. @	Malaysia	Dormant	40	40
Tanjung Jutaria Sdn. Bhd.	Malaysia	Dormant	100	100
Salcon (Sarawak) Sdn. Bhd.	Malaysia	Dormant	100	100
Salcon Holdings (Mauritius) Limited ^	Mauritius	Investment holding	100	100
Salcon Engineering Vietnam Company Limited ^	Vietnam	Dormant	100	100

7. Investments in subsidiaries (continued)

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest and voting interest 2013 %	2012 %
Subsidiaries of Bumi Tiga Enterprise Sdn. Bhd.:				
Skeel Engineering Sdn. Bhd.	Malaysia	Dormant	100	100
Salcon Building Services Sdn. Bhd.	Malaysia	Dormant	100	100
Eagle Metalizing & Coatings Company Sdn. Bhd. *	Malaysia	Dormant	60	60
Subsidiaries of Salcon Water (Asia) Limited:				
Salcon Fujian (HK) Limited $	Hong Kong	Investment holding company involved in water supply projects in the People's Republic of China via its subsidiary.	60	60
Salcon Linyi (HK) Limited $	Hong Kong	Investment holding company involved in water supply projects in the People's Republic of China via its subsidiary.	60	60
Salcon Zhejiang (HK) Limited $	Hong Kong	Investment holding company involved in water supply projects in the People's Republic of China via its subsidiary.	60	60
Salcon Shandong (HK) Limited $	Hong Kong	Investment holding company involved in water supply projects in the People's Republic of China via its subsidiary.	60	60
Salcon Services (HK) Limited +	Hong Kong	Investment holding company involved in investment advisory in the People's Republic of China via its subsidiary.	60	60

7. Investments in subsidiaries (continued)

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest and voting interest 2013 %	2012 %
Subsidiary of Salcon Fujian (HK) Limited:				
Nan An Salcon Water Company Limited $	People's Republic of China	Design, build and operate of water transmission in Fujian Province.	39	39
Subsidiary of Salcon Linyi (HK) Limited:				
Linyi Salcon Water Company Limited $	People's Republic of China	Management and operation of water production and distribution of water in Linyi City.	36	36
Subsidiary of Linyi Salcon Water Company Limited:				
Linyi Runcheng Supply Project Company Limited $	People's Republic of China	Repair and maintenance of municipal water supply pipeline, equipment, water supply equipment.	36	36
Linyi Salcon Water Supply Facilities Company Limited $	People's Republic of China	Repair and maintenance of municipal water supply pipeline, equipment, water supply equipment.	36	36
Subsidiary of Salcon Zhejiang (HK) Limited:				
Haining Salcon Water Company Limited $	People's Republic of China	Management and operation of water production and sale of water in Haining City, ZheJiang Province.	36	36
Subsidiary of Salcon Shandong (HK) Limited:				
Shandong Changle Salcon Water Company Limited $	People's Republic of China	Management and operation of water production and distribution of water in Changle County, Shandong Province.	60	60
Changle Salcon Raw Water Company Limited. $	People's Republic of China	Design, build and operate of water transmission in Changle County, Shandong Province.	60	60

7. Investments in subsidiaries (continued)

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest and voting interest 2013 %	2012 %
Subsidiary of Salcon Services (HK) Limited:				
Salcon Alliance Corporate Management & Consultancy (Shanghai) Pte. Ltd. +	People's Republic of China	Consultancy services for investment, operation and strategy business.	60	60
Subsidiary of Salcon Jiangsu (HK) Limited:				
Jiangsu Salcon Water & Environmental Development Company Limited	People's Republic of China	Design, build and operate of water transmission in Jiangsu Province.	-	67
Subsidiary of Jiangsu Salcon Water & Environmental Development Company Limited:				
Yizheng Salcon Wastewater Treatment Company Limited	People's Republic of China	Management and operation of wastewater treatment plant in Yizheng city.	-	67
Subsidiary of Salcon Changzhou (HK) Limited:				
Changzhou Salcon Wastewater Treatment Company Limited +	People's Republic of China	Management and operation of wastewater treatment plant in Changzhou City.	100	100
Subsidiary of Salcon Power Sdn. Bhd.:				
Salcon Green Energy (UK) Ltd. *	United Kingdom	Dormant	100	100
Subsidiary of Salcon Capital Sdn. Bhd.:				
Eco-Coach & Tours (M) Sdn. Bhd.	Malaysia	Transportation services	51	51

7. Investments in subsidiaries (continued)

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest and voting interest 2013 %	2012 %
Subsidiary of Salcon Holdings (Mauritius) Limited:				
Salcon Engineering (India) Pte. Ltd. *	India	Construction, development and maintenance of water, sewage and wastewater treatment plants.	100	100
Subsidiary of Salcon Water International Limited:				
Salcon Investment Consultation (Shanghai) Company Limited ^	People's Republic of China	Consultancy services for investment, operation and strategy business.	100	100
Subsidiary of Salcon Development Sdn. Bhd.:				
Azitin Venture Sdn. Bhd.	Malaysia	Property development	50	50
Nusantara Megajuta Sdn. Bhd.	Malaysia	Property development	50	50
Subsidiary of Salcon Darco Environmental Pte Ltd:				
Deqing Darco Producing Water Co Ltd	China	Management and operation of water production and sale of water in Deqing county, Zhejiang Province	-	60
Globe Industrial Technology Co, Ltd	Hong Kong	Investment holding	-	57

7. Investments in subsidiaries (continued)

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest and voting interest 2013 %	2012 %
Subsidiary of Globe Industrial Technology Co, Ltd:				
Deqing Huanzhong Producing Water Co, Ltd	China	Management and operation of water production and sale of water in Deqing county, Zhejiang Province	-	53
Subsidiary of Eco-Coach & Tours (M) Sdn. Bhd.:				
Eco Tours Asia Sdn. Bhd. *	Malaysia	Transportation services (incorporated during the year)	100	-

\+ Audited by other member firms of KPMG International

^ Audited by other firms of accountants.

@ Although the Group owns not more than 50% of the voting power of Salcon (Perak) Sdn. Bhd. ("SPSB") and Glitteria Sdn. Bhd. ("GSB"), the Group regards them as subsidiaries as it is able to govern the financial and operating policies of the companies by virtue of shareholders agreements entered into with the other investors of SPSB and GSB respectively. Consequently, the Group consolidates its investments in these companies.

* The financial statements of this subsidiary was not audited and this subsidiary was consolidated based on management financial statements.

$ Entities ear-marked for disposal.

7. Investments in subsidiaries (continued)

7.1 Non-controlling interest in subsidiaries

The Group's subsidiaries that have material non-controlling interests ("NCI") are as follows:

	Salcon Water (Asia) Limited RM'000	Envitech Sdn Bhd RM'000
2013		
NCI percentage of ownership interest and voting interest	40%	40%
Carrying amount of NCI	49,679	16,418
Profit allocated to NCI	447	2,749
Summarised financial information before intra-group elimination		
As at 31 December		
Non-current assets	151,717	13,896
Current assets	2,070	50,897
Non-current liabilities	-	(730)
Current liabilities	(27,035)	(23,717)
Net assets	126,752	40,346
Year ended 31 December		
Revenue	1,182	65,032
Profit for the year	1,118	6,873
Total comprehensive income	631	6,873
Cash flows from operating activities	(1)	1,475
Cash flows from/(used in) investing activities	7,045	(3,570)
Cash flows from financing activities	(6,201)	(1,156)
Net increase in cash and cash equivalents	843	(3,251)
Dividends paid to NCI	2,480	280

7. Investments in subsidiaries (continued)

7.1 Non-controlling interest in subsidiaries (continued)

	Salcon Water (Asia) Limited RM'000	Envitech Sdn Bhd RM'000
2012		
NCI percentage of ownership interest and voting interest	40%	40%
Carrying amount of NCI	49,718	13,669
Profit allocated to NCI	1,014	1,600
Summarised financial information before intra-group elimination		
As at 31 December		
Non-current assets	126,154	10,685
Current assets	25,990	51,871
Non-current liabilities	-	(392)
Current liabilities	(25,294)	(27,990)
Net assets	126,850	34,174
Year ended 31 December		
Revenue	2,595	46,144
Profit for the year	2,534	4,000
Total comprehensive income	2,536	4,000
Cash flows from operating activities	9	6,009
Cash flows used in investing activities	-	(3,178)
Cash flows used in financing activities	-	(1,286)
Net increase in cash and cash equivalents	9	1,545
Dividends paid to NCI	988	280

8. Investment in an associate

	Group 2013 RM'000	Group 2012 RM'000
Unquoted shares, at cost	11,800	11,800
Unquoted preference shares, at cost	10,000	10,000
Share of post-acquisition profits	6,050	6,529
	27,850	28,329

Summary financial information for associate, not adjusted for the percentage ownership held by the Group:

	Country of incorporation	Effective ownership interest %	Revenue (100%) RM'000	Profit (100%) RM'000	Total assets (100%) RM'000	Total liabilities (100%) RM'000
2013						
EUC*	Malaysia	40	23,257	7,934	49,164	694
2012						
EUC*	Malaysia	40	22,711	8,708	47,395	786

* Emas Utilities Corporation Sdn. Bhd. ("EUC") holds 90% equity interest in Binh An Water Corporation Ltd, a company incorporated in Vietnam. The principal activities of EUC is investment holding whilst that of Binh An Water Corporation Ltd is production and supply of treated water in Vietnam.

9. Investment in jointly controlled entity

Details of jointly controlled entity are as follows:

	Principal activities	Proportion of ownership interest 2013 %	Proportion of ownership interest 2012 %
WET – Envitech Joint Venture	Construction of sewage treatment plants, project management on sewage treatment plants and related activities.	-	50

The Group entered into a Joint Venture agreement with Water Engineering Technology Sdn. Bhd. and incorporated WET - Envitech Joint Venture on 2 April 2004. The principal activities of WET-Envitech JV are that of the construction of sewage treatment plants as well as project management in relation to sewage treatment plants and related activities. WET - Envitech JV commenced operations in 2007. The joint venture is accounted for using the proportionate consolidation method. However, the joint venture has remained dormant in previous year.

The joint venture has been terminated during the year.

10. Other investments

Group	Total RM'000	Unquoted shares RM'000	Other investment RM'000
2013			
Non-current			
Available-for-sale financial assets	4,815	175	4,640
Less: Impairment loss	(4,815)	(175)	(4,640)
	-	-	-
2012			
Non-current			
Available-for-sale financial assets	4,815	175	4,640
Less: Impairment loss	(4,729)	(175)	(4,554)
	86	-	86

Company	Total RM'000	Unquoted shares RM'000	Other investment RM'000
2013			
Non-current			
Available-for-sale financial assets	4,500	-	4,500
Less: Impairment loss	(4,500)	-	(4,500)
	-	-	-
2012			
Non-current			
Available-for-sale financial assets	4,500	-	4,500
Less: Impairment loss	(4,500)	-	(4,500)
	-	-	-

11. Deferred tax assets and liabilities

Group

Recognised deferred tax assets/(liabilities)

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
Group	**2013 RM'000**	**2012 RM'000**	**2013 RM'000**	**2012 RM'000**	**2013 RM'000**	**2012 RM'000**
Property, plant and equipment	-	-	(944)	(1,288)	(944)	(1,288)
Provisions	29	229	-	(225)	29	4
Other items	-	37	(3,418)	(5,749)	(3,418)	(5,712)
Tax losses carry-forwards	5,607	2,835	-	-	5,607	2,835
Unabsorbed capital allowances	190	86	-	-	190	86
Tax assets/(liabilities)	5,826	3,187	(4,362)	(7,262)	1,464	(4,075)
Set off of tax	(153)	(767)	153	767	-	-
Net tax assets/(liabilities)	5,673	2,420	(4,209)	(6,495)	1,464	(4,075)

In recognising the deferred tax assets attributable to unutilised tax losses carry-forwards, the Directors made an assumption that there will not be any substantial change (more than 50%) in the shareholders before these assets are utilised. If there is substantial change in the shareholders, unutilised tax losses carry-forwards amounting to approximately RM22.4 million will not be available to the Group, resulting in a decrease in deferred tax assets of RM5.6 million.

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2013 RM'000	**2012 RM'000**	**2013 RM'000**	**2012 RM'000**
Unabsorbed capital allowance	848	849	-	-
Unutilised tax losses	3,196	3,812	-	-
	4,044	4,661	-	-

The deductible temporary differences do not expire under current tax legislation. If there is substantial change in shareholders (more than 50%), unutilised tax loss carry-forwards and unutilised capital allowance carry-forwards will not be available to the Group. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

11. Deferred tax assets and liabilities (continued)

Unrecognised deferred tax assets (continued)

Group	At 1.1.2012 RM'000	Acquisition through business combination RM'000	Recognised in profit or loss (Note 22) RM'000	At 1.1.2013 RM'000	Disposal of Subsidiaries RM'000	Recognised in profit or loss (Note 22) RM'000	At 31.12.2013 RM'000
Property, plant and equipment	(761)	-	(527)	(1,288)	-	344	(944)
Provisions	179	-	(175)	4	-	25	29
Other items	(181)	(5,749)	218	(5,712)	2,368	(74)	(3,418)
Tax losses carry-forwards	2,781	-	54	2,835	-	2,772	5,607
Unabsorbed capital allowance	-	-	86	86	-	104	190
	2,018	(5,749)	(344)	(4,075)	2,368	3,171	1,464

12. Inventories

	Note	Group 2013 RM'000	Group 2012 RM'000
At cost:			
Raw materials and consumables		-	3,931
Spares		1,652	1,259
Properties under development	12.1	24,415	21,214
		26,067	26,404

12.1 Properties under development

	Group 2013 RM'000	Group 2012 RM'000
Land	21,214	21,214
Development cost	3,201	-
	24,415	21,214

13. Disposal group held for sale

During the year, the Group entered into a sale and purchase agreement with a third party to dispose of its businesses in People's Republic of China through the disposal of the shares in the intermediate holding companies in Hong Kong (see Note 7). The financial statement of the ongoing disposal group is presented as a disposal group held for sale in view of the ongoing disposal program. Efforts to sell the disposal group have commenced, and the transaction is expected to complete in 2014. At 31 December 2013, the assets and liabilities of the disposal group are as follows:

	Note	Group 2013 RM'000
Assets classified as held for sale		
Property, plant and equipment	a	2,451
Intangible assets	b	167,116
Trade and other receivables	c	459,375
Inventories	d	2,948
Cash and cash equivalents		28,843
		660,733
Liabilities classified as held for sale		
Trade and other payables		88,988
Loans and borrowings		190,087
Current tax liabilities		2,929
		282,004

The carrying value of property, plant and equipment of the disposal group is the same as its carrying value before it was being reclassified to assets held for sale.

Cumulative income or expense recognised in other comprehensive income

Note a
Property, plant and equipment held for sale comprise the following:

	Note	Group 2013 RM'000
Cost		6,298
Accumulated depreciation		(3,847)
	3	2,451

13. Disposal group held for sale (continued)

Cumulative income or expense recognised in other comprehensive income (continued)

Note b

Intangible assets held for sale comprise the following:

	Note	Group 2013 RM'000
Cost		194,073
Accumulated amortisation		(26,957)
	4	167,116

Note c

Receivables are carried at cost less impairment loss. Included in Receivables is an amount of RM385,588,000 being non-current financial assets.

Note d

The inventories held for sale comprise raw materials and consumables and are carried at cost.

14. Cash and cash equivalents

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Deposits placed with licensed banks				
- Malaysia	31,925	24,195	16,984	-
- Outside Malaysia	934	17,167	-	-
	32,859	41,362	16,984	-
Cash and bank balances				
- Malaysia	101,364	37,073	87,146	4,733
- Outside Malaysia	13,175	36,957	-	-
	114,539	74,030	87,146	4,733
	147,398	115,392	104,130	4,733

15. Capital and reserves

Share capital

	Group and Company			
	Amount 2013 RM'000	Number of shares 2013 '000	Amount 2012 RM'000	Number of shares 2012 '000
Authorised:				
Ordinary shares of RM0.50 each	500,000	1,000,000	500,000	1,000,000
Issued and fully paid shares classified as equity instruments:				
Ordinary shares of RM0.50 each				
At 1 January	260,869	521,738	237,154	474,308
Issued for cash under Employees Share Option Scheme	16,270	32,541	-	-
Issued for cash under private placement	27,013	54,025	23,715	47,430
At 31 December	304,152	608,304	260,869	521,738

Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Warrant reserve

The warrant reserve relates to reserves allocated to free detachable warrants issued with rights issue effective on 18 May 2007.

The proceeds received were allocated between the equity instruments using the proportionate fair value basis to account for the free warrants. In 2008, the assignment of fair value to the free warrants had resulted in a reallocation of RM22,384,000 from the share premium account to the warrant reserve account. Upon the exercise of warrants, the proportionate amount of warrant reserve is transferred to the share premium account.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of the Group entities with functional currencies other than Ringgit Malaysia.

Share option reserve

The share option reserve comprises the cumulative value of employee services received for the issue of share options. When the option is exercised, the amount from the share option reserve is transferred to share premium. When the share options expire, the amount from the share option reserve is transferred to retained earnings. Share option is disclosed in Note 17.

16. Loans and borrowings

	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
Non-current				
Finance lease liabilities	8,225	11,966	-	-
Term loans (unsecured)	12,692	251,112	-	59,540
	20,917	263,078	-	59,540
Current				
Bank overdrafts (unsecured)	971	584	-	-
Bankers' acceptances (unsecured)	2,106	6,120	-	-
Revolving credits (unsecured)	1,000	3,000	-	-
Term loans (unsecured)	1,958	66,414	-	27,000
Finance lease liabilities	4,339	4,464	-	-
	10,374	80,582	-	27,000

16.1 Security

All of the facilities (except finance lease liabilities) granted to the subsidiaries are guaranteed by the Company.

16.2 Finance lease liabilities

Finance lease liabilities are payable as follows:

	Future minimum lease payments RM'000 31.12.2013	Interest RM'000 31.12.2013	Present value of minimum lease payments RM'000 31.12.2013	Future minimum lease payments RM'000 31.12.2012	Interest RM'000 31.12.2012	Present value of minimum lease payments RM'000 31.12.2012
Group						
Less than one year	5,002	(663)	4,339	5,376	(912)	4,464
Between one and five years	8,729	(504)	8,225	13,070	(1,104)	11,966
	13,731	(1,167)	12,564	18,446	(2,016)	16,430

17. Employee benefits

Equity compensation benefits

Share option plan

On 9 July 2010, the Group offers vested share options over ordinary shares to Executive Directors and eligible employees.

On 1 July 2011, a further grant on similar terms (except for exercise price) was offered to a Director and eligible employees.

On 2 July 2012, a further grant on similar terms (except for exercise price) was offered to Non-Executive Directors and eligible employees.

On 14 May 2013, a further grant on similar terms (except for exercise price) was offered to Executive Directors, Non-Executive Directors, and eligible employees.

The terms and conditions of the grants are as follows; all options are to be settled by physical delivery of shares:

Grant date/ employees entitled	Number of options '000	Vesting conditions	Contractual life of options
Option granted to Executive Directors and eligible employees on 9 July 2010	31,499	Eligible employees are confirmed staff with at least one year service as at the date of offer including Executive Directors of any company comprised in the Group. One-third (1/3) of the total option is exercisable equally in year one (1), year two (2) and year three (3) respectively.	5 years
Option granted to a Director and eligible 1 July 2011	1,647	Eligible employees are confirmed staff with at least one year service as at the date of offer including Directors of any company comprised in the Group. One-third (1/3) of the total option is exercisable equally in year one (1), year two (2) and year three (3) respectively.	4 years

17. Employee benefits (continued)

Equity compensation benefits (continued)

Share option plan (continued)

Grant date/ employees entitled	Number of options '000	Vesting conditions	Contractual life of options
Option granted to Non-Executive Directors and eligible employees on 2 July 2012	6,198	Eligible employees are confirmed staff with at least one year service as at the date of offer including Non-Executive Directors of any company comprised in the Group. One-third (1/3) of the total option is exercisable equally in year one (1), year two (2) and year three (3) respectively.	3 years
Option granted to Executive Directors, Non-Executive Directors, and eligible employees on 14 May 2013	30,135	Eligible employees are confirmed staff with at least one year service as at the date of offer including Executive Directors, Non-Executive Directors and Directors of any company comprised in the Group. The entire option is exercisable immediately on grant date.	2 years
Total share options	69,479		

Movements in the number of share options held by employees are as follows:

	Weighted average exercise price RM	Group and Company 2013 '000	2012 '000
Outstanding at 1 January	0.55	25,095	21,655
Granted during the year	0.50	30,135	6,198
Lapsed during the year	0.55	(1,604)	(2,758)
Exercised during the year	0.52	(32,541)	-
Outstanding at 31 December	0.53	21,085	25,095

The options outstanding at 31 December 2013 have an exercise price in the range of RM0.50 to RM0.57 (2012: RM0.52 to RM0.57) and a weighted average contractual life of 2 years (2012: 3 years).

During the year, 32,541,000 share options were exercised. The weighted average share price at the date of exercise for the year was RM0.55 (2012: RM0.54).

17. Employee benefits (continued)

Equity compensation benefits (continued)

Share option programme

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using a Black-Scholes model, with the following inputs:

	2013	2012
Fair value of share options and assumptions		
Fair value at grant date	RM0.15	RM0.08
Weighted average share price	RM0.55	RM0.54
Exercise price	RM0.50	RM0.50
Expected volatility (weighted average volatility)	1.90%	2.08%
Option life (expected weighted average life)	2 years	3 years
Risk-free interest rate (based on Malaysian government bonds)	4.240%	4.012%

Value of employee services received for issue of share options

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Expenses recognised as share-based payments	4,667	1,562	1,359	239

18. Trade and other payables, including derivatives

	Note	Group		Company	
		2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Trade					
Trade payables		56,043	93,831	-	-
Amount due to contract customers	5	5,512	25,545	-	-
		61,555	119,376	-	-
Non-trade					
Amount due to an associate	18.1	2	2	-	-
Amount due to subsidiaries	18.2	-	-	8,714	8,067
Other payables	18.3	75,330	93,664	30,741	565
Accrued expenses	18.4	30,618	5,179	3,051	591
Deferred income	18.5	-	12,208	-	-
		105,950	111,053	42,506	9,223
		167,505	230,429	42,506	9,223

18. Trade and other payables, including derivatives (continued)

18.1 The amount due to an associate is unsecured, interest free and repayable upon demand.

18.2 The amounts due to subsidiaries are unsecured, interest free and repayable upon demand.

18.3 Included in other payables of the Group are as follows:

i) RM2.7 million (2012: RM1.8 million) being amount due to non-controlling interest of a subsidiary for business operation funding. The amount is unsecured, bearing interest of 8.1% (2012: 8.1%) and repayable upon demand.

ii) RM30.2 million (2012: RM nil) being deposit received by the Company from Beijing Enterprises Water Group Limited as part of the consideration for the disposal of subsidiaries (see Note 13).

iii) RM280,000 (2012: RM1,553,000) being dividend payable by a subsidiary to non-controlling interest.

iv) In 2012, RM19.1 million being amount payable to the Linyi Municipal Government for the acquisition of water related assets. The amount has been reclassified to liabilities held for sale in view of the ongoing disposal program.

18.4 Included in accrued expenses of the Group is the amount of RM22.7 million (2012: RM2.6 million) being accrual for claims from construction projects.

18.5 The deferred income relates to government grant received from the Government of China for the water concession investment in China. The amount has been reclassified to liabilities held for sale in view of the ongoing disposal program.

19. Revenue

	Continuing operations		Discontinued operation (see Note 23)		Total	
	2013	2012 Restated*	2013	2012 Restated	2013	2012
Group	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Sales	1,950	19,441	-	-	1,950	19,441
Services	14,381	13,771	-	-	14,381	13,771
Construction	148,281	141,782	-	-	148,281	141,782
Operating concession revenue	-	7,144	202,864	158,660	202,864	165,804
	164,612	182,146	202,864	158,660	367,476	340,806
Company						
Dividends	398	16,070	-	-	398	16,070

* Not applicable for the Company

20. Key management personnel compensation

The key management personnel compensation is as follows:

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Directors of the Company:				
- Fees	150	150	150	150
- Remuneration	4,405	4,152	1,405	1,259
- Other short term employee benefits (including estimated monetary value of benefit-in-kind)	173	200	72	20
- Share-based payments	1,852	366	918	133
	6,580	4,868	2,545	1,562

21. Finance costs

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Finance costs on:				
- Bank overdraft	42	36	-	-
- Loans	5,747	4,600	5,052	3,832
- Other borrowings	1,492	1,136	-	-
	7,281	5,772	5,052	3,832

22. Income tax

Recognised in profit or loss

	Note	Group		Company	
		2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Income tax expense on continuing operations		(1,077)	1,951	253	2,748
Income tax expense on discontinued operation	23	9,070	5,482	-	-
Share of tax of equity-accounted associates		462	325	-	-
Total income tax expense		8,455	7,758	253	2,748
Major components of income tax expense include:					
Current tax expense					
Malaysian - current year		3,096	2,513	405	3,651
- prior year		(475)	(768)	(152)	(903)
Overseas - current year		8,543	5,344	-	-
- prior year		-	-	-	-
Total current tax recognised in profit or loss		11,164	7,089	253	2,748

22. Income tax (continued)

Recognised in profit or loss (continued)

	Note	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
Deferred tax expense					
Origination and reversal of temporary differences		(2,968)	284	-	-
Under provision from prior year		(203)	60	-	-
Total deferred tax recognised in profit or loss		(3,171)	344	-	-
Share of tax of equity-accounted associates		462	325	-	-
Total income tax expense		8,455	7,758	253	2,748

Reconciliation of effective tax expense

	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
Profit for the year	57,577	31,462	31,164	5,901
Total income tax expense	8,455	7,758	253	2,748
Profit excluding tax	66,032	39,220	31,417	8,649
Income tax calculated using Malaysian tax rate of 25% (2012: 25%)	16,508	9,805	7,854	2,162
Effect of tax rates in foreign jurisdiction	(1,369)	(2,001)	-	-
Non-deductible expenses	6,098	5,315	1,870	2,006
Tax exempt income	(11,950)	(5,437)	(9,319)	(517)
Effect of deferred tax assets not recognised	-	784	-	-
Effect of utilising deferred tax assets previously not recognised	(154)	-	-	-
	9,133	8,466	405	3,651
Over provision in prior years	(678)	(708)	(152)	(903)
	8,455	7,758	253	2,748

23. Discontinued operation

In November 2013, the Group entered into 2 separate agreements, being SPA-A and SPA-B with a third party to sell its China operations. SPA-A covers Salcon Jiangsu (HK) Limited and Salcon Darco Environmental Pte Ltd and their respective subsidiaries whilst SPA-B covers Salcon Fujian (HK) Limited, Salcon Zhejiang (HK) Limited, Salcon Shandong (HK) Limited, Salcon Linyi (HK) Limited and their respective subsidiaries operating in People's Republic of China.

The disposal transaction under SPA-A has been completed during the year and the Group reported a gain on disposal of RM26,108,000. On the other hand, the disposal transaction under SPA-B has yet to be completed as at end of reporting period.

These disposals were not discontinued operation or classified as held for sale as at 31 December 2012 and the comparative consolidated statement of profit or loss and other comprehensive income has been re-presented to show the discontinued operation separately from continuing operations.

23. Discontinued operation (continued)

Profit attributable to the discontinued operation was as follows:

	Note	Group 2013 RM'000	Group 2012 RM'000
Revenue	19	202,864	158,660
Expenses		(141,716)	(123,836)
Results from operating activities, net of tax		61,148	34,824
Gain on sale of discontinued operation		26,108	-
Profit for the year		87,256	34,824
Included in results from operating activities are:			
Depreciation of property, plant and equipment		610	761
Amortisation of intangible assets		1,716	3,625
Cash flows from/(used in) discontinued operation			
Net cash from operating activities		59,672	140,777
Net cash used in investing activities		(63,370)	(156,481)
Net cash from financing activities		8,643	187
Effect on cash flows		4,945	(15,517)

Effect of disposal under SPA-A on the financial position of the Group

	Note	2013 RM'000
Property, plant and equipment		376
Intangible assets		2,694
Trade and other receivables		229,391
Inventories		208
Cash and cash equivalents		26,078
Deferred tax liabilities		(2,367)
Trade and other payables		(31,005)
Current tax liabilities		(356)
Borrowings		(35,651)
Exchange equalisation		(9,656)
Non-controlling interest		(38,620)
Net assets and liabilities		141,092
Gain on sale of discontinued operation		26,108
Consideration received, satisfied in cash		167,200
Cash and cash equivalent disposed of		(26,078)
Net cash inflow		141,122

24. Profit for the year

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Profit for the year is arrived at after charging:				
Allowance for impairment losses				
- Trade receivables	277	1,496	-	-
- Other receivables	114	91	-	-
Amortisation of concession intangible assets	1,304	3,213	-	-
Amortisation of intangible assets	412	412	-	-
Auditors' remuneration				
- Audit fees				
- Current year				
KPMG Malaysia	274	229	50	50
Overseas affiliates of KPMG Malaysia	493	657	-	-
Other auditors	74	91	-	-
- Underprovision in prior year				
KPMG Malaysia	61	30	55	30
- Non-audit fees				
- Current year				
KPMG Malaysia	270	62	40	62
- Underprovision in prior year				
KPMG Malaysia	-	2	-	2
Depreciation of property, plant and equipment	4,218	4,256	-	-
Impairment of other investment	86	-	-	-
Loss on disposal of property, plant and equipment	226	-	-	-
Personnel expenses (including key management personnel):				
- Contributions to Employees Provident Fund	1,953	3,157	353	352
- Share-based payments	4,667	1,562	1,859	238
- Wages, salaries and others	47,538	49,335	3,079	2,843
Property, plant and equipment written off	3,203	110	-	-
Realised loss on foreign exchange	1,672	241	593	-
Rental of expense in respect of:				
- Equipment	63	6	-	-
- Land	3	-	-	-
- Premises	1,074	1,425	-	-
Unrealised loss on foreign exchange	320	516	589	2,491

24. Profit for the year (continued)

	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
and after crediting:				
Allowance for impairment losses no longer required				
- Trade receivables	23	2,293	-	-
Amortisation of government grant	656	605	-	-
Dividend income from subsidiaries (unquoted)	-	-	398	16,070
Dividend from equity-accounted associates	3,652	-	-	-
Gain on bargain purchase	-	10,993	-	-
Gain on disposal of equity interest in subsidiaries	26,108	-	51,435	-
Gain on disposal of property, plant and equipment	2,559	32	-	-
Finance income:				
- Subsidiaries	-	-	3,032	3,639
- Others	2,099	2,898	282	5
- Concession receivables	15,543	10,594	-	-
Realised gain on foreign exchange	6,883	823	995	-
Rental income on premises	204	231	-	-
Rental income on investment properties	22	25	-	-
Unrealised gain on foreign exchange	198	115	3,751	316

25. Other comprehensive income/(expenses)

	Before tax RM'000	Tax RM'000	Net of tax RM'000
Group			
2013			
Foreign currency translation differences for foreign operations			
- Gain arising during the year	38,510	-	38,510
2012			
Foreign currency translation differences for foreign operations			
- Losses arising during the year	(4,546)	-	(4,546)

26. (Loss)/Earnings per ordinary share

Basic (loss)/earnings per ordinary share

The calculation of basic (loss)/earnings per share at 31 December 2013 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding, calculated as follows:

	Continuing operations RM'000	Discontinued operations RM'000	Total RM'000
Group			
2013			
(Loss)/Profit attributable to ordinary shareholders	(32,068)	57,012	24,944
2012			
(Loss)/Profit attributable to ordinary shareholders	(5,564)	16,846	11,282

26. (Loss)/Earnings per ordinary share (continued)

Weighted average number of ordinary shares

	Group 2013 '000	Group 2012 '000
Weighted average number of ordinary shares at 31 December	553,774	510,723

	Group 2013 Sen	Group 2012 Sen
From continuing operations	(5.79)	(1.09)
From discontinued operation	10.29	3.30
Basic earnings per ordinary share	4.50	2.21

Diluted (loss)/earnings per ordinary share

The calculation of diluted (loss)/earnings per ordinary share at 31 December 2013 was based on (loss)/profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, calculated as follows:

(Loss)/Profit attributable to ordinary shareholders

	Continuing operations RM'000	Discontinued operations RM'000	Total RM'000
Group			
2013			
(Loss)/Profit attributable to ordinary shareholders (diluted)	(32,068)	57,012	24,944
2012			
(Loss)/Profit attributable to ordinary shareholders (diluted)	(5,564)	16,846	11,282

	Group 2013 '000
Weighted average number of ordinary shares at 31 December (basic)	553,774
Effect of share option on issue	16,938
Weighted average number of ordinary shares at 31 December (diluted)	570,712

26. (Loss)/Earnings per ordinary share (continued)

Diluted (loss)/earnings per ordinary share (continued)

The average market value of the Company's shares for purpose of calculating the dilutive effect of share options and call warrants was based on quoted market prices for the period during which the options were outstanding.

	Group 2013 Sen
From continuing operations	(5.62)
From discontinued operation	9.99
Diluted (loss)/earnings per ordinary share	4.37

In 2012, the potential ordinary shares i.e. warrants and options are anti-dilutive in nature as their respective exercise price exceeds the average market price of the ordinary shares at the end of the reporting period. Accordingly, there is no dilution in the earnings per share.

27. Dividends

Dividends recognised in the current year by the Company are:

	Sen per share	Total amount RM'000	Date of payment
2013			
Final 2012 ordinary (single tier)	1.0	5,393	27 August 2013
2012			
Final 2011 ordinary (single tier)	1.5	7,826	20 July 2012

After the end of the reporting period, the following special final dividends were proposed by the Directors. These dividends will be recognised in subsequent financial period upon approval by the owners of the Company at the forthcoming Annual General Meeting.

	Sen per share
Special final ordinary (single tier)	3.0

28. Operating segments

The Group has three reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's Chief Operating Officer (the chief operating decision maker) reviews internal management reports at least on a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- Segment 1. Includes constructions.
- Segment 2. Includes concessions.
- Segment 3. Includes trading.
- Segment 4. Includes property development.

The accounting policies of the reportable segments are the same as described in Note 2(w).

Performance is measured based on segment profit before tax, interest, depreciation and amortisation, as included in the internal management reports that are reviewed by the Group's Chief Operating Officer (the chief operating decision maker). Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Segment assets

The total of segment asset is measured based on all assets (including goodwill) of a segment, as included in the internal management reports that are reviewed by the Group's Chief Operating Officer. Segment total asset is used to measure the return of assets of each segment.

Segment liabilities

Segment liabilities information is neither included in the internal management reports nor provided regularly to the Group's Chief Operating Officer. Hence no disclosure is made on segment liability.

Segment capital expenditure

Segment capital expenditure is the total cost incurred during the financial year to acquire property, plant and equipment and intangible assets other than goodwill.

28. Operating segments (continued)

Segment capital expenditure (continued)

2013	Constructions RM'000	Concessions RM'000	Trading RM'000	Property Development RM'000	Total Continuing Operations RM'000	Concession (Discontinued Operations) RM'000	Total RM'000
Segment profit	8,823	4,337	(1,479)	(1,978)	9,703	95,953	105,656
Included in the measure of segment profit are:							
Revenue from external customers	148,281	1,164	15,167	-	164,612	202,864	367,476
Share of profit of associate	-	3,173	-	-	3,173	-	3,173
Not included in the measure of segment profit but provided to Chief Operating Officer:							
Depreciation and amortisation	(1,234)	(26)	(2,253)	(95)	(3,608)	(2,326)	(5,934)
Finance costs	(5,855)	(2)	(1,424)	-	(7,281)	(13,756)	(21,037)
Finance income	946	9	219	13	1,187	16,455	17,642
Income tax expense	865	45	(165)	332	1,077	(9,070)	(7,993)
Segment assets	332,121	28,487	126,708	58,531	545,847	660,733	1,206,580
Included in the measure of segment assets are:							
Investment in associate	-	27,850	-	-	27,850	-	27,850
Additions to non-current assets other than financial instruments and deferred tax assets	4,460	1	1,661	416	6,538	23,842	30,380

28. Operating segments (continued)

Segment capital expenditure (continued)

2012	Constructions RM'000	Concessions RM'000	Trading RM'000	Property Development RM'000	Total Continuing Operations RM'000	Concession (Discontinued Operations) RM'000	Total RM'000
Segment profit	10,321	5,204	3,625	(176)	18,974	46,169	65,143
Included in the measure of segment profit are:							
Revenue from external customers	141,891	27,206	13,049	-	182,146	158,660	340,806
Share of profit of associate	-	3,483	-	-	3,483	-	3,483
Not included in the measure of segment profit but provided to Chief Operating Officer:							
Depreciation and amortisation	(1,278)	(41)	(2,221)	(3)	(3,543)	(4,338)	(7,881)
Finance costs	(3,957)	(774)	(1,041)	-	(5,772)	(12,656)	(18,428)
Finance income	2,292	47	2	20	2,361	11,131	13,492
Income tax expense	(1,250)	(70)	(626)	(5)	(1,951)	(5,482)	(7,433)
Segment assets	279,302	858,798	89,176	-	1,227,276	-	1,227,276
Included in the measure of segment assets are:							
Investment in associate	-	28,329	-	-	28,329	-	28,329
Additions to non-current assets other than financial instruments and deferred tax assets	98	152	55,516	-	55,766	15,006	70,772

28. Operating segments (continued)

Reconciliations of reportable segment profit or loss, assets and other material items

	Group 2013 RM'000	Group 2012 RM'000
Profit		
Total profit or loss for reportable segments	9,703	18,974
Depreciation and amortisation	(3,608)	(3,543)
Finance costs	(7,281)	(5,772)
Finance income	1,187	2,360
Unallocated expenses:		
Corporate expenses	(30,757)	(13,430)
Consolidated loss before tax from continuing operations	(30,756)	(1,411)
Profit from discontinued operations, net of tax	87,256	34,824
Consolidated profit before tax	56,500	33,413

Geographical segments

The constructions and concessions are managed on a worldwide basis, but operations are in Malaysia, China, Sri Lanka and Vietnam.

In presenting information on the basis of geographical segments, segment revenue is based on geographical location of customers. Segment assets are based on the geographical location of the assets. The amounts of non-current assets do not include financial instruments (including investment in associate) and deferred tax assets.

	Geographical information			
	Revenue 2013 RM'000	Non current assets 2013 RM'000	Revenue 2012 RM'000	Non current assets 2012 RM'000
Malaysia	139,063	71,470	156,415	65,213
China	-	-	165,803	653,940
Sri Lanka	16,595	-	5,779	-
Vietnam	-	15	1,136	31
Other countries	8,954	57,279	11,673	55,256
	164,612	128,764	340,806	774,440
Assets classified as held for sale	202,864	555,155	-	-
	367,476	683,919	340,806	774,440

29. Financial instruments

29.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

(a) Loans and receivables (L&R);
(b) Fair value through profit or loss (FVTPL);
(c) Available-for-sale financial assets (AFS); and
(d) Other liabilities (OL).

	Carrying amount RM'000	L&R/ (OL) RM'000	AFS RM'000	FVTPL -HFT RM'000
2013				
Financial assets				
Group				
Trade and other receivables, including derivatives	233,968	233,968	-	-
Cash and cash equivalents	147,398	147,398	-	-
	381,366	381,366	-	-
Company				
Trade and other receivables	174,762	174,762	-	-
Cash and cash equivalents	104,130	104,130	-	-
	278,892	278,892	-	-
Financial liabilities				
Group				
Loans and borrowings	(31,291)	(31,291)	-	-
Trade and other payables, including derivatives	(167,505)	(167,505)	-	-
	(198,796)	(198,796)	-	-
Company				
Trade and other payables	(42,506)	(42,506)	-	-

29. Financial instruments (continued)

29.1 Categories of financial instruments (continued)

	Carrying amount RM'000	L&R/ (OL) RM'000	AFS RM'000	FVTPL -HFT RM'000
2012				
Financial assets				
Group				
Other investments	86	-	86	-
Trade and other receivables, including derivatives	823,507	823,421	-	86
Cash and cash equivalents	115,392	115,392	-	-
	938,985	938,813	86	86
Company				
Trade and other receivables	201,683	201,683	-	-
Cash and cash equivalents	4,733	4,733	-	-
	206,416	206,416	-	-
Financial liabilities				
Group				
Loans and borrowings	(343,660)	(343,660)	-	-
Trade and other payables, including derivatives	(230,429)	(230,429)	-	-
	(574,089)	(574,089)	-	-
Company				
Loans and borrowings	(86,540)	(86,540)	-	-
Trade and other payables	(9,223)	(9,223)	-	-
	(95,763)	(95,763)	-	-

29.2 Net losses and gain arising from financial instruments

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Net (losses)/gain arising on:				
Loans and receivables	(70)	895	3,161	(2,175)
Financial liabilities measured at amortised cost	(7,281)	(18,428)	(5,052)	(3,832)
	(7,351)	(17,533)	(1,891)	(6,007)

29. Financial instruments (continued)

29.3 Financial risk management

The Group and the Company have exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Currency risk
- Interest rate risk

29.4 Credit risk

Credit risk is the risk of a financial loss to the Group and the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk arises principally from its receivables from customers. The Company's exposure to credit risk arises principally from outstanding from subsidiaries and financial guarantees given for the banking facilities granted to the subsidiaries.

Receivables

Risk management objectives, policies and processes for managing the risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis, and credit evaluations are performed on customers requiring credit over a certain amount.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is represented by the carrying amounts in the statement of financial position.

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are stated at their realisable values. The Group uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than 60 days, which are deemed to have higher credit risk, are monitored individually.

The exposure of credit risk for receivables as at the end of the reporting period by geographic region was:

	Group	
	2013	**2012**
	RM'000	**RM'000**
Domestic	139,402	125,342
Sri Lanka	16,642	16,712
Vietnam	30,018	39,181
China	34,350	627,841
Others	13,556	14,431
	233,968	823,507

At date of statement of financial position, there were no significant concentrations of credit risk.

29. Financial instruments (continued)

29.4 Credit risk (continued)

Receivables (continued)

Impairment losses

The ageing of trade receivables as at the end of the reporting period was summarised as follows:

Group	Gross RM'000	Individual impairment RM'000	Net RM'000
2013			
Not past due	95,114	-	95,114
Past due 1 - 30 days	4,123	-	4,123
Past due 31 - 120 days	18,916	-	18,916
Past due more than 120 days	59,113	(16,217)	42,896
	177,266	(16,217)	161,049
2012			
Not past due	99,862	-	99,862
Past due 1 - 30 days	7,935	-	7,935
Past due 31 - 120 days	18,499	-	18,499
Past due more than 120 days	121,042	(19,892)	101,150
	247,338	(19,892)	227,446

Although certain trade receivables have become past due and exceeded the credit terms granted to them, the Directors are reasonably confident that all debts can be recovered within the next 12 months.

The movements in the allowance for impairment losses of trade receivables during the year were:

	2013 RM'000	2012 RM'000
At 1 January	(19,892)	(20,868)
Impairment loss recognised	(277)	(1,496)
Impairment loss reversed	23	2,293
Impairment loss written off	-	179
Transfer	3,929	-
At 31 December	(16,217)	(19,892)

The allowance account in respect of trade receivables is used to record impairment losses. Unless the Group is satisfied that recovery of the amount is possible, the amount considered irrecoverable is written off against the receivable directly.

29. Financial instruments (continued)

29.4 Credit risk (continued)

Receivables (continued)

Financial guarantees

Risk management objectives, policies and processes for managing the risk

The Company provides unsecured financial guarantees to banks in respect of banking facilities granted to certain subsidiaries.

The Company monitors on an ongoing basis the results of the subsidiaries and repayments made by the subsidiaries.

Exposure to credit risk, credit quality and collateral

The maximum exposure to credit risk amounts to RM18,727,000 (2012: RM327,230,000) representing the outstanding amount of banking facilities of the subsidiaries as at end of the reporting period.

As at end of the reporting period, there was no indication that any subsidiary would default on their repayments.

The financial guarantees have not been recognised since the fair value on initial recognition were not material.

Inter company balances

Risk management objectives, policies and processes for managing the risk

The Company provides unsecured advances to subsidiaries. The Company monitors the results of the subsidiaries regularly.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk is represented by their respective carrying amounts in the statement of financial position.

Impairment losses

As at the end of the reporting period, there was no indication that the advances to the subsidiaries are not recoverable. The Company does not specifically monitor the ageing of the advances to the subsidiaries. Nevertheless, these advances have been overdue for less than a year.

29.5 Liquidity risk

Liquidity risk is the risk that the Group and the Company will not be able to meet its financial obligations as and when they fall due. The Group and the Company's exposure to liquidity risk arises principally from its various payables, loans and borrowings.

The Group and the Company maintains a level of cash and cash equivalents and bank facilities deemed adequate by the management to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

29. Financial instruments (continued)

29.5 Liquidity risk (continued)

Maturity analysis

The table below summarises the maturity profile of the Group's and the Company's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

	Carrying amount RM'000	Contractual interest rate	Contractual cash flows RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	More than 5 years RM'000
Group							
2013							
Non-derivative financial liabilities							
Unsecured bank facilities	17,756	4.75% to 5.57%	19,370	6,333	11,810	460	767
Bank overdraft	971	7.60% to 9.10%	971	971	-	-	-
Finance lease liabilities	12,564	2.25% to 6.50%	13,731	5,002	4,971	3,758	-
Trade and other payables	168,655	-	168,655	168,655	-	-	-
	199,947		202,727	180,961	16,781	4,218	767
Company							
Non-derivative financial liabilities							
Trade and other payables	42,506		42,506	42,506	-	-	-
2012							
Non-derivative financial liabilities							
Unsecured bank facilities	326,646	2.90% to 8.00%	328,165	71,406	84,662	144,780	27,317
Bank overdraft	584	6.55% to 8.05%	584	584	-	-	-
Finance lease liabilities	16,430	2.25% to 6.50%	18,561	5,473	4,882	8,206	-
Trade and other payables	230,433	-	230,433	230,433	-	-	-
	574,093		577,743	307,896	89,544	152,986	27,317
Company							
Non-derivative financial liabilities							
Unsecured bank facility	86,540	5.60% to 5.85%	93,501	31,225	44,229	18,047	-
Trade and other payables	9,223	-	9,223	9,223	-	-	-
	95,763		102,724	40,448	44,229	18,047	-

29. Financial instruments (continued)

29.6 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other prices that will affect the Group's financial position or cash flows.

29.6.1 Currency risk

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily Euro (EUR), United States Dollar (USD), Japanese Yen (JPY), Vietnamese Dong (VND) and Sri Lanka Rupee (LKR).

Risk management objectives, policies and processes for managing the risk

The Group and the Company ensures that the net exposure is kept to an acceptable level by monitoring the fluctuation of the foreign currencies.

Exposure to foreign currency risk

The Group's exposure to foreign currency (a currency which is other than the functional currency of the Group entities) risk, based on carrying amounts as at the end of the reporting period was:

				Denominated in		
	AUD RM'000	EUR RM'000	USD RM'000	JPY RM'000	VND RM'000	LKR RM'000
Group						
2013						
Trade receivables	-	63	1,984	-	5,669	400
Cash and cash equivalents	-	44	6,350	187	215	5,000
Trade payables and other payables	-	-	-	(10,947)	(8,945)	(19,171)
Amount due from contract customers	-	-	-	4,410	506	779
Net exposure	-	107	8,334	(6,350)	(2,555)	(12,992)
2012						
Trade receivables	-	1,505	2,093	5,232	5,829	1,743
Cash and cash equivalents	-	10	8,094	54	231	1,422
Trade payables and other payables	-	-	(1,597)	(20,724)	(8,411)	(2,911)
Forward exchange contracts	4	-	82	-	-	-
Amount due from contract customers	-	10,373	-	26,617	86	240
Net exposure	4	11,888	8,672	11,179	(2,265)	494

29. Financial instruments (continued)

29.6 Market risk (continued)

29.6.1 Currency risk (continued)

Currency risk sensitivity analysis

Foreign currency risk arises from Group entities which have Ringgit Malaysia functional currency. The exposure to currency risk of Group entities which do not have a Ringgit Malaysia functional currency is not material and hence, sensitivity analysis is not performed.

A 10 percent strengthening of the following currencies against RM at the end of the reporting period would have increased/(decreased) equity and post-tax profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant.

	Equity		Profit or loss	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
EUR	8	891	8	891
USD	625	650	625	650
JPY	(476)	838	(476)	838
VND	(230)	(169)	(230)	(169)
LKR	(1,033)	37	(1,033)	37
	(1,106)	2,247	(1,106)	2,247

A 10 percent weakening of the above currencies against RM at the end of the reporting period would have had equal but opposite effect to the amounts shown on the above currencies, on the basis that all other variables remain constant.

29.6.2 Interest rate risk

The Group's investments in fixed rate debt securities and its fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. The Group and the Company's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Investments in equity securities and short term receivables and payables are not significantly exposed to interest rate risk.

Risk management objectives, policies and processes for managing the risk

The Group and the Company borrowed for operations at variable rates using its overdrafts, revolving credit, bankers' acceptance and term loan facilities, and uses fixed rate finance lease agreements to finance capital expenditure. Deposits are placed with established banks or financial institutions at the prevailing market rate.

29. Financial instruments (continued)

29.6 Market risk (continued)

29.6.2 Interest rate risk (continued)

Exposure to interest rate risk

The interest rate profile of the Group's and the Company's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Fixed rate instruments				
Financial assets	119,656	41,362	103,781	-
Financial liabilities	15,670	32,503	-	-
Floating rate instruments				
Financial liabilities	15,621	311,157	-	86,540

Interest rate risk sensitivity analysis

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points (bp) in interest rates at the end of the reporting period would have increased/(decreased) post-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Group Profit or loss		Company Profit or loss	
	100 bp increase RM'000	100 bp decrease RM'000	100 bp increase RM'000	100 bp decrease RM'000
2013				
Floating rate instruments	(117)	117	-	-
2012				
Floating rate instruments	(2,333)	2,333	(649)	649

29. Financial instruments (continued)

29.7 Fair value information

The carrying amounts of cash and cash equivalents, short term receivables and payables and short term borrowings approximate fair values due to the relatively short term nature of these financial instruments.

It was not practicable to estimate the fair value of the Group's investment in unquoted shares due to the lack of comparable quoted market prices and the inability to estimate fair value without incurring excessive costs.

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position.

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value					
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Total fair value	Carrying amount
Group	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
2013										
Financial liabilities										
Unsecured bank loans	-	-	-	-	-	(17,757)	-	(17,757)	(17,757)	(17,757)
Finance lease liabilities	-	-	-	-	-	(11,545)	-	(11,545)	(11,545)	(12,564)
	-	-	-	-	-	(29,302)	-	(29,302)	(29,302)	(30,321)
2012										
Financial assets										
Forward exchange contracts	-	86	-	86	-	-	-	-	86	86
Financial liabilities										
Unsecured bank loans	-	-	-	-	-	(276,326)	-	(276,326)	(276,326)	(326,647)
Finance lease liabilities	-	-	-	-	-	(16,160)	-	(16,160)	(16,160)	(16,430)
	-	-	-	-	-	(292,486)	-	(292,486)	(292,486)	(343,077)
Company										
2012										
Financial liabilities										
Unsecured bank loans	-	-	-	-	-	(84,318)	-	(84,318)	(84,318)	(86,540)

29. Financial instruments (continued)

29.7 Fair value of information (continued)

Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

Level 1 fair value

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical financial assets or liabilities that the entity can access at the measurement date.

Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the financial assets or liabilities, either directly or indirectly.

Derivatives

The fair value of forward exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the end of the reporting period. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For other borrowings, the market rate of interest is determined by reference to similar borrowing arrangements.

Transfers between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and 2 fair values during the financial year. (2012: no transfer in either directions)

Level 3 fair value

Level 3 fair value is estimated using unobservable inputs for the financial assets and liabilities.

30. Capital management

The Group's objectives when managing capital are to maintain a strong capital base and safeguard the Group's ability to continue as a going concern, so as to maintain investors, creditors and market confidence and to sustain future development of the business. The Directors monitor and determine an optimal debt-to-equity ratio that complies with debt covenants.

The debt-to-equity ratios at 31 December 2013 and 31 December 2012 were as follows:

	Group	
	2013 RM'000	2012 RM'000
Total borrowings (Note 16)	31,291	343,660
Less: Cash and cash equivalents (Note 14)	(147,398)	(115,392)
Net debt	(116,107)	228,268
Total equity	720,356	642,045
Debt-to-equity ratio	-	0.35

There were no changes in the Group's approach to capital management during the financial year.

Under the requirements of Bursa Malaysia Practice Note No. 17/2005, the Company is required to maintain a consolidated shareholders' equity equal to or not less than the 25 percent of the issued and paid-up capital (excluding treasury shares) and such shareholders' equity is not less RM40 million. The Company has complied with this requirement.

The Group is also required to maintain a debt-to-equity ratio at no more than 1.25 to comply with a bank covenant, failing which, the bank may call an event of default.

31. Contingencies

The unrecognised contingencies of the Group and the Company at the end of the reporting period are summarised at below:

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Bank guarantees given to financial institutions in respect of facilities granted to subsidiaries	-	-	546,369	419,369
Bank guarantee given to third parties relating to performance, tender and advance payment bonds - unsecured	177,521	110,297	-	-
Guarantees given in favour of main contractors of the subsidiaries - unsecured	10,918	10,918	10,918	10,918

32. Related parties

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Group and the Company if the Group and the Company have the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control. Related parties may be individuals or other entities.

The Group has related party relationships with its subsidiaries (see Note 7), associate (see Note 8), Directors and key management personnel.

Transactions with key management personnel

Key management personnel compensation

Key management personnel compensation is disclosed in Note 20.

Significant transactions with subsidiaries

	Transaction value year ended 31 December	
	2013	2012
Company	**RM'000**	**RM'000**
Interest income	3,032	3,639

The outstanding balances due from subsidiaries are disclosed in Note 5.

33. Operating leases

Lease as lessee

Non-cancellable operating lease rentals are payable as follows:

	Group	
	2013	2012
	RM'000	RM'000
Less than one year	436	1,455
Between one and five years	-	2,381
More than five years	-	3,076
	436	6,912

The Group leases offices under operating leases. The leases typically run for a period of years, with an option to renew the lease after that date. None of the leases includes contingent rentals.

34. Capital and other commitments

	2013 RM'000	2012 RM'000
Capital expenditure commitments		
Contracted but not provided for	-	5,399
Guaranteed minimum gross rental		
Contracted but not provided for in the financial statements	-	6,912

35. Acquisition of non-controlling interests

Salcon Darco Environmental Pte. Ltd.

In July 2013, the Group acquired the remaining 40% interest in Salcon Darco Environmental Pte. Ltd. for RMB63 million (approximately RM32.7 million) in cash, increasing its ownership from 60% to 100%. The carrying amount of Salcon Darco Environmental Pte. Ltd. net assets in the Group's financial statements on the date of the acquisition was RM39.2 million. The non-controlling interest has therefore been derecognised.

The following summarises the effect of changes in the equity interest in Salcon Darco Environmental Pte. Ltd. that is attributable to owners of the Company:

	Group 2013 RM'000
Equity interest at 1 January 2013	11,879
Effect of increase in Company's ownership interest	39,228
Share of comprehensive income	6,938
Disposal of entire interests *	(58,045)
Equity interest at 31 December 2013	-

* The entire interests in the subsidiary has been disposed of subsequently in November 2013 (see Note 23).

36. Employee Share Options Scheme ("ESOS")

Other than the Directors whose interests are disclosed separately in the Directors' Report, the eligible employees of the Group whose share options entitlements are equal to or more than 700,000 share options for the new options granted in 2013 in the Company pursuant to the ESOS are as follows:

	Number of options over ordinary shares of RM0.50 each			
	At 1.1.2013	Granted	Exercised	At 31.12.2013
Chern Meng Gaik	-	700,000	700,000	-
Eng Boon Chong	-	700,000	700,000	-
Jamiluddin Amini Sulaiman	-	1,006,250	540,000	466,250
Law Woo Hock	-	1,225,000	1,225,000	-
Lee Choon Weng	-	700,000	700,000	-
Lee Thim Loy	-	875,000	875,000	-
Low Beng Peow	-	875,000	875,000	-
Ong Sian	-	700,000	700,000	-
Ooi Cheng Swee	750,000	1,225,000	-	1,975,000

37. Significant event

Significant events during the year are as follows:

i) Acquisition of remaining equity interest in a subsidiary

During the year, the Company has acquired the remaining 40% of the equity interests in Salcon Darco for a total cash consideration of RMB63 million (approximately RM32.7 million) (see Note 35).

ii) Purchase price adjustment

On 30 September 2013, the Company has paid Challenger Emerging Market Infrastructure Fund a sum of USD4.6 million. This amount represents purchase price adjustment for the disposal of 40% stakes in Salcon Water (Asia) Limited which was concluded in 2010 as certain conditions stipulated in the share sales agreement were not met. The amount has been recognised within "other expenses" in the profit or loss.

iii) Disposal of China subsidiaries

During the year, the Group entered into two agreements with Beijing Enterprise Water Group Limited, being SPA-A and SPA-B which cover the following businesses:-

SPA-A
This agreement covers the disposal of Salcon Jiangsu (HK) Limited and Salcon Darco Environmental Pte Ltd and their respective subsidiaries in Jiangsu and Deqing provinces in People's Republic of China for a total consideration of RMB307 million (see Note 23).

SPA-B
This agreement covers the disposal of Salcon Shandong (HK) Limited, Salcon Fujian (HK) Limited, Salcon Zhejiang (HK) Limited, and Salcon Linyi (HK) Limited and their respective subsidiaries in Changle, Nan An, Haining and Linyi provinces in People's Republic of China for a total consideration of RMB648 million. The transaction is yet to be completed as at end of reporting period and reported as disposal group held for sale accordingly (see Note 13).

38. Subsequent event

Subsequent to year end, Linyi Raw Water Co Ltd ("Linyi RW") filed a legal claim against Linyi Salcon Water Co Ltd ("Salcon Linyi") for outstanding consideration sum of RMB29.5 million together with interest of RMB6.1 million related to the acquisition of state-owned assets.

In response, Salcon Linyi contested the amount as the purchase consideration was RMB25.1 million, against which Salcon Linyi has paid RMB13.5 million. Salcon Linyi has then filed a counter-claim of RMB18.3 million. The counter-claim was made on the basis that Salcon Linyi has been settling the retrenchment costs on behalf of Linyi RW. The case is pending hearing in May 2014.

39. Comparative figures

During the year, the Group entered into a sale and purchase agreement with a third party to dispose of its businesses in People's Republic of China through the disposal of the shares in the intermediate holding companies in Hong Kong (see Note 7). The disposal was not a discontinued operation or classified as held for sale as at 31 December 2012 and the comparative consolidated statement of profit or loss and other comprehensive income has been re-presented to show the discontinued operation separately from continuing operations.

	31.12.2012	
	As restated RM'000	As previously stated RM'000
Revenue	182,146	340,806
Cost of sales	(159,642)	(273,522)
Gross profit	22,504	67,284
Other income	14,508	31,120
Distribution expenses	(3,219)	(4,892)
Administrative expenses	(33,703)	(51,592)
Other expenses	(1,572)	(1,572)
Results from operating activities	(1,482)	40,348
Finance income	2,360	13,492
Finance costs	(5,772)	(18,428)
Operating (loss)/profit	(4,894)	35,412
Share of profit of equity-accounted associates, net of tax	3,483	3,483
(Loss)/Profit before tax	(1,411)	38,895
Income tax	(1,951)	(7,433)
(Loss)/Profit from continuing operations	(3,362)	31,462
Discontinued operations		
Profit from discontinued operation, net of tax	34,824	-
Profit for the year	31,462	31,462
Other comprehensive income, net of tax		
Foreign currency translation differences for foreign operations	(4,546)	(4,546)
Total comprehensive income/ (expense) for the year, net of tax	(4,546)	(4,546)
Total comprehensive income for the year	26,916	26,916

40. Supplementary financial information on the breakdown of realised and unrealised profits or losses

The breakdown of the retained earnings of the Group and of the Company as at 31 December, into realised and unrealised profits, pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements, are as follows:

	Group		Company	
	2013	**2012**	**2013**	**2012**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Total retained earnings/ (accumulated losses) of the Company and its subsidiaries				
- realised	157,832	117,303	15,897	(1,037)
- unrealised	7,842	(4,476)	3,160	(5,676)
	165,674	112,827	19,057	(6,713)
Share of retained earnings of associate				
- realised	6,050	6,529	-	-
Share of retained earnings of jointly controlled entities				
- realised	1,496	1,496	-	-
	173,220	120,852	19,057	(6,713)
Less:Consolidation adjustments	(73,978)	(41,161)	-	-
Total retained earnings	99,242	79,691	19,057	(6,713)

The determination of realised and unrealised profits is based on the Guidance of Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants on 20 December 2010.

Statement by Directors

pursuant to Section 169(15) of the Companies Act, 1965

In the opinion of the Directors, the financial statements set out on pages 84 to 166 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2013 and of their financial performance and cash flows for the financial year then ended.

In the opinion of the Directors, the information set out in Note 40 on page 167 to the financial statements has been compiled in accordance with the Guidance on Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

……………………………………………………..

Dato' Seri (Dr.) Goh Eng Toon

……………………………………………………..

Tan Sri Dato' Tee Tiam Lee

Kuala Lumpur,

Date: 25 April 2014

Statutory Declaration

pursuant to Section 169(16) of the Companies Act, 1965

I, **Law Woo Hock**, the officer primarily responsible for the financial management of Salcon Berhad, do solemnly and sincerely declare that the financial statements set out on pages 84 to 167 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Kuala Lumpur in the Federal Territory on 25 April 2014.

…………………………………..
Law Woo Hock

Before me:

Lee Chin Hin
(W493)
Commissioner for Oaths
Kuala Lumpur

Independent Auditors' Report

to the members of Salcon Berhad

Report on the Financial Statements

We have audited the financial statements of Salcon Berhad, which comprise the statements of financial position as at 31 December 2013 of the Group and of the Company, and the statements of comprehensive income, changes in equity and cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 84 to 166.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as of 31 December 2013 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

b) We have considered the accounts and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 7 to the financial statements.

c) We are satisfied that the accounts of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

d) The audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Other Reporting Responsibilities

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The information set out in Note 40 on page 167 to the financial statements has been compiled by the Company as required by the Bursa Malaysia Securities Berhad Listing Requirements and is not required by the Malaysian Financial Reporting Standards. We have extended our audit procedures to report on the process of compilation of such information. In our opinion, the information has been properly compiled, in all material respects, in accordance with the Guidance of Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG
Firm Number: AF 0758
Chartered Accountants

Peter Ho Kok Wai
Approval Number: 1745/12/15(J)
Chartered Accountant

Petaling Jaya, Selangor
Date: 25 April 2014

Particulars of Group Properties

The properties of the Group as at 31 December 2013 and their net book values ("NBV") are indicated below:

FREEHOLD BUILDINGS AND LAND

Company	Location/Address	Size & Usage	Approximate age of building	Date of Acquisition/ Revaluation	NBV RM'000
Envitech Sdn Bhd	HS(D) 102104, PT No. 15914, Pekan Damansara, Daerah Petaling/No. 64, Jalan Penyair U1/44, Temasya Industrial Park, Seksyen U1, 40150 Shah Alam, Selangor Darul Ehsan	149 sq. metres of intermediate unit 1½ storey terraced factory	17 years	14/03/2002	245
Envitech Sdn Bhd	HS(D) 3422, Lot No. 3988, Mukim Damansara, Daerah Petaling, Selangor/No. 67, Jalan SS15/5A, 47500 Subang Jaya, Selangor Darul Ehsan	164 sq. metres of intermediate unit 3 storey terraced shop-office	34 years	15/03/2002	805
Envitech Sdn Bhd	No.79, Lorong Sanggul 1F, Bandar Puteri, 41200 Klang, Selangor Darul Ehsan	1,540 sq ft of 3 storey shop	9 years	15/05/2013	1,029
Envitech Sdn Bhd	No.81, Lorong Sanggul 1F, Bandar Puteri, 41200 Klang, Selangor Darul Ehsan	1,540 sq ft of 3 storey shop	9 years	15/05/2013	1,236
Eco-Coach & Tours (M) Sdn Bhd	No. 25, Jalan Seri Waja 2, Taman Industri Waja, 09000 Kulim, Kedah	1½ storey semi-detached factory	8 years	23/01/2013	808
Eco-Coach & Tours (M) Sdn Bhd	No. 26, Jalan Seri Waja 2, Taman Industri Waja, 09000 Kulim, Kedah	1½ storey semi-detached factory	8 years	23/01/2013	809
					4,932

LEASEHOLD LAND

Company	Location/Address	Size & Usage	Approximate age of building	Date of Acquisition/ Revaluation	NBV RM'000
Salcon Engineering Berhad	HS(D) 216, Plot No. 144, Mukim Ayer Panas, Daerah Jasin, Melaka	1,474 sq. metres of vacant bungalow lot	99 years leasehold expiring on 20.02.2077	31/07/2001	113
Salcon Engineering Berhad	HS(D) 216, Plot No. 145, Mukim Ayer Panas, Daerah Jasin, Melaka	1,087 sq. metres of vacant bungalow lot	99 years leasehold expiring on 20.02.2077	31/07/2001	113

LEASEHOLD LAND (continued)

Company	Location/Address	Size & Usage	Approximate age of building	Date of Acquisition/ Revaluation	NBV RM'000
Salcon Engineering Berhad	HS(D) 216, Plot No. 154, Mukim Ayer Panas, Daerah Jasin, Melaka	1,115 sq. metres of vacant bungalow lot	99 years leasehold expiring on 20.02.2077	31/07/2001	112
					338

INVESTMENT PROPERTIES

Company	Location/Address	Size & Usage	Approximate age of building	Date of Acquisition/ Revaluation	NBV RM'000
Envitech Sdn Bhd	Property held under GRN 227594 Lot 5109 (formerly held under HS(D) 62070 PT 2074) Mukim Beranang, District of Ulu Langat, State of Selangor (BM9/2C)	12,000 sq ft of bungalow plot	11 years	28/11/2002	230
Envitech Sdn Bhd	Bungalow Lot No. BB-034 Bandar Mahkota Banting, measuring an area approximately 465 square metres bearing postal address at No. 42, Jalan Angkasa 1A/5 Bandar Mahkota Banting, 42700 Banting, Selangor held under master title Geran 100210 Lot 19601 Mukim Tanjong Duabelas, District of Kuala Langat, State of Selangor	465 sq. metres of bungalow plot	5 years	22/10/2009	89
Envitech Sdn Bhd	Industrial Land Lot No. 98 Section 4, Phase 2C, Selangor Halal-Hub Pulau Indah measuring an area approximately 0.50 acre (21,780 square feet) held under master title PN 7939 Lot No. 74076 District and Mukim Kelang, State of Selangor	0.5 acre of industry	5 years	24/07/2009	494
Envitech Sdn Bhd	Unit No. 2, Corner Ground Floor, Block E Shop & Office At Pulau Melaka	3,358 sq. ft. of corner ground shop & office	4 years	1/11/2011	795
Envitech Sdn Bhd	Unit No. 7, Intermediate Ground Floor, Block .K Shop & Office At Pulau Melaka	1,540 sq. ft. of intermediate ground shop & office	4 years	1/11/2011	353
Envitech Sdn Bhd	Ukay Perdana Shoplot as Lot No. SB-SG13	920 sq. ft. of intermediate shop	4 years	10/11/2011	284

INVESTMENT PROPERTIES (continued)

Company	Location/Address	Size & Usage	Approximate age of building	Date of Acquisition/ Revaluation	NBV RM'000
Envitech Sdn Bhd	Ukay Perdana Shoplot as Lot No. SB-SG16	920 sq. ft. of intermediate shop	4 years	10/11/2011	284
Envitech Sdn Bhd	Ukay Perdana Shoplot as Lot No. SB-SG18	920 sq. ft. of intermediate shop	4 years	10/11/2011	298
Envitech Sdn Bhd	Ukay Perdana Shoplot as Lot No. SB-SG20	920 sq. ft. of intermediate shop	4 years	10/11/2011	298
Envitech Sdn Bhd	Ukay Perdana Shoplot as Lot No. SB-SG21	920 sq. ft. of intermediate shop	4 years	10/11/2011	284
Envitech Sdn Bhd	Ukay Perdana Shoplot as Lot No. SB-SG23	920 sq. ft. of intermediate shop	4 years	10/11/2011	473
Envitech Sdn Bhd	Ukay Perdana Shoplot as Lot No. SA-0106	920 sq. ft. of intermediate shop	4 years	10/11/2011	306
Envitech Sdn Bhd	Ukay Perdana Shoplot as Lot No. SB-0111	920 sq. ft. of intermediate shop	4 years	10/11/2011	406
Envitech Sdn Bhd	Unit No. Parcel 12A, LOT 150 Ground Floor, Block D Shop & Office At Pulau Melaka	1,300 sq. ft. of end lot shop	2 years	22/11/2012	367
Envitech Sdn Bhd	Unit No. Parcel 12, LOT 151 Ground Floor, Block E Shop & Office At Pulau Melaka	1,300 sq. ft. of end lot shop	2 years	22/11/2012	372
Envitech Sdn Bhd	Unit No. Parcel 10, LOT 152 Ground Floor, Block E Shop & Office At Pulau Melaka	1,300 sq. ft. of intermediate shop	2 years	22/11/2012	338
Envitech Sdn Bhd	Unit No. Parcel 8, LOT 153 Ground Floor, Block E Shop & Office At Pulau Melaka	1,300 sq. ft. of intermediate shop	2 years	22/11/2012	338
Envitech Sdn Bhd	Unit No. Parcel 6, LOT 154 Ground Floor, Block E Shop & Office At Pulau Melaka	1,300 sq. ft. of intermediate shop	2 years	22/11/2012	338
Envitech Sdn Bhd	Unit No. Parcel 2A, LOT 155 Ground Floor, Block E Shop & Office At Pulau Melaka	1,300 sq. ft. of intermediate shop	2 years	22/11/2012	338
Envitech Sdn Bhd	Unit No. Parcel 27-1, LOT 329 (55-1), 1ST Floor, Block U Shop & Office At Pulau Melaka	3,007 sq. ft. of corner shop	2 years	22/11/2012	301
Envitech Sdn Bhd	Unit No. Parcel 28-1, LOT 315 (41-1), 1ST Floor, Block S Shop & Office At Pulau Melaka	2,626 sq. ft. of corner shop	2 years	22/11/2012	323

INVESTMENT PROPERTIES (continued)

Company	Location/Address	Size & Usage	Approximate age of building	Date of Acquisition/ Revaluation	NBV RM'000
Envitech Sdn Bhd	Unit No. Parcel 21-1, LOT 338 (84-1), 1ST Floor, Block W Shop & Office At Pulau Melaka	2,885 sq. ft. of corner shop	2 years	22/11/2012	289
Envitech Sdn Bhd	Unit No. Parcel 61-2A, LOT 207 (191-2A), 2ND Floor, Block J Shop & Office At Pulau Melaka	1,531 sq. ft. of corner shop	2 years	22/11/2012	201
Envitech Sdn Bhd	Unit No. Parcel 61-2B, LOT 207 (191-2B), 2ND Floor, Block J Shop & Office At Pulau Melaka	1,418 sq. ft. of corner shop	2 years	22/11/2012	136
Salcon Engineering Berhad	B-PH-07, Casa Subang, Service Apartment Subang USJ 1.	1,555 sq. ft. of service apartment	6 years	5/10/2007	511
					8,446

LAND HELD FOR PROPERTY DEVELOPMENT

Company	Location/Address	Size & Usage	Approximate age of building	Date of Acquisition/ Revaluation	NBV RM'000
Azitin Venture Sdn Bhd	PM 316, LOT 57274, Bandar Selayang, Mukim Batu, Daerah Gombak, Selangor Darul Ehsan	2,186 sq. metres	99 years leasehold expiring on 20.07.2093	28/03/2012	13,386
Azitin Venture Sdn Bhd	PN 93034, Lot 72341. (formerly held under H.S.(D) 48151, P.T. 1440), Bandar Selayang, Mukim Batu, Daerah Gombak, Selangor Darul Ehsan	1,801 sq. metres	99 years leasehold expiring on 13.11.2102	28/03/2012	11,029
					24,415

Analysis of Shareholdings
as at 30 April 2014

ANALYSIS OF SHAREHOLDINGS

Authorised share capital		:	RM500,000,000
Issued and paid-up share capital		:	RM307,746,701
Class of shares		:	Ordinary share of RM0.50 each
Voting rights:	On show of hands	:	One vote for each shareholder
	On poll	:	One vote for each ordinary share

DISTRIBUTION OF SHAREHOLDINGS

Size of Shareholdings	Number of Shareholders	Number of Shares	Percentage of Issued Capital
Less than 100	1,392	70,640	0.011
100 – 1,000	840	477,176	0.078
1,001 – 10,000	4,692	29,874,381	4.854
10,001 – 100,000	3,242	110,455,741	17.946
100,001 – less than 5% of issued shares	549	407,905,864	66.273
5% and above of issued shares	1	66,709,600	10.838
Total	10,716	615,493,402	100.00

LIST OF SUBSTANTIAL SHAREHOLDERS

	Direct Interest		Indirect Interest	
Name of Substantial Shareholders	No. of shares	Percentage of issued capital (%)	No. of shares	Percentage of issued capital (%)
Naga Muhibah Sdn. Bhd.	66,709,600	10.838	-	-
Tan Sri Dato' Tee Tiam Lee	26,696,400	4.337	29,397,400[1]	4.776
Dato' Seri (Dr.) Goh Eng Toon	1,800,000	0.292	66,709,600[2]	10.838
Datin Goh Phaik Lynn	-	-	300,000[3]	0.049
			3,600,000[4]	0.585
			66,709,600[5]	10.838
Dato' Leong Kok Wah	3,600,000	0.585	300,000[3]	0.049
			66,709,600[6]	10.838
Great Eastern Holdings Limited	-	-	37,464,300[7]	6.087
Oversea-Chinese Banking Corporation Limited	-	-	37,464,300[7]	6.087

Notes:

(1) Deemed interested through the shares held in Infra Tropika Sdn Bhd pursuant to Section 6A of the Companies Act, 1965

(2) (i) Deemed interested through shareholding in Naga Muhibah Sdn Bhd pursuant to Section 6A of the Companies Act, 1965

(ii) Deemed interested through shares held by child (Datin Goh Phaik Lynn) in Naga Muhibah Sdn Bhd pursuant to Section 6A of the Companies Act, 1965

(3) Deemed interested through the shares held by children (Leong Yi Ping and Leong Yi Ming) pursuant to Section 6A of the Companies Act, 1965

(4) Deemed interested through the shares held by spouse (Dato' Leong Kok Wah) pursuant to Section 6A of the Companies Act, 1965

(5) Deemed interested through shareholding in Naga Muhibah Sdn Bhd pursuant to Section 6A of the Companies Act, 1965

(6) Deemed interested through the shares held by spouse (Datin Goh Phaik Lynn) in Naga Muhibah Sdn Bhd pursuant to Section 6A of the Companies Act, 1965

(7) Deemed Interest pursuant to Section 6A(4)(C) of the Companies Act, 1965 via its subsidiaries i.e. Great Eastern Life Assurance (Malaysia) Bhd; Overseas Assurance (Malaysia) Bhd; Great Eastern Takaful Bhd; and Pacific Mutual Fund Bhd.

LIST OF 30 LARGEST SHAREHOLDERS

No.	Name of Shareholders	No. of Shares	Percentage of Issued Capital
1	NAGA MUHIBAH SDN BHD	66,709,600	10.838
2	TAN SRI DATO' TEE TIAM LEE	29,696,400	4.824
3	INFRA TROPIKA SDN BHD	29,397,400	4.776
4	KONG HON KONG	27,012,634	4.389
5	CHOO KENG WENG	20,727,634	3.368
6	WONG SWEE YEE	14,555,390	2.365
7	TENG LI LING	14,095,400	2.290
8	HSBC NOMINEES (ASING) SDN BHD COUTTS & CO LTD SG FOR BEADLE GROUP LIMITED	13,443,300	2.184
9	PEMBINAAN PUNCA CERGAS SDN. BHD.	9,400,000	1.527
10	LEE THIAM LAI	9,035,000	1.468
11	CITIGROUP NOMINEES (ASING) SDN BHD CBNY FOR DIMENSIONAL EMERGING MARKETS VALUE FUND	7,484,700	1.216
12	HSBC NOMINEES (ASING) SDN BHD HSBC-FS I FOR JPMORGAN MALAYSIA FUND	6,269,600	1.019
13	MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (LSF)	6,000,000	0.975
14	CITIGROUP NOMINEES (ASING) SDN BHD CBNY FOR EMERGING MARKET CORE EQUITY PORTFOLIO DFA INVESTMENT DIMENSIONS GROUP INC	4,759,100	0.773
15	MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (LGF)	4,462,400	0.725
16	CITIGROUP NOMINEES (ASING) SDN BHD CBNY FOR DFA EMERGING MARKETS SMALL CAP SERIES	4,438,500	0.721
17	HLB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR HARI NARAYANAN A/L GOVINDASAMY (SIN 90558-4)	4,400,000	0.715
18	MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (LBF)	4,200,000	0.682
19	MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (LEEF)	3,860,800	0.627
20	DATO' LEONG KOK WAH	3,600,000	0.585
21	CITIGROUP NOMINEES (TEMPATAN) SDN BHD ALLIANZ LIFE INSURANCE MALAYSIA BERHAD (MEF)	3,300,000	0.536

LIST OF 30 LARGEST SHAREHOLDERS (cont'd)

No.	Name of Shareholders	No. of Shares	Percentage of Issued Capital
22	MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (LPF)	3,000,000	0.488
23	AMSEC NOMINEES (TEMPATAN) SDN BHD AMTRUSTEE BERHAD FOR PACIFIC PEARL FUND (UT-PM-PPF)	2,810,800	0.457
24	CARTABAN NOMINEES (TEMPATAN) SDN BHD RHB TRUSTEES BERHAD FOR MAAKL- HW SHARIAH PROGRESS FUND	2,700,000	0.439
25	AMANAHRAYA TRUSTEES BERHAD PUBLIC STRATEGIC SMALLCAP FUND	2,690,000	0.437
26	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR CREDIT SUISSE (SG BR-TST-ASING)	2,628,600	0.427
27	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR OCBC SECURITIES PRIVATE LIMITED (CLIENT A/C-R ES)	2,310,000	0.375
28	HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR PERTUBUHAN KESELAMATAN SOSIAL (PACIFIC6939-407)	2,234,500	0.363
29	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC TREASURES GROWTH FUND	2,100,300	0.341
30	PNG CHIEW CHUAN	2,073,600	0.337
	TOTAL	**309,395,658**	**50.267**

DIRECTORS' SHAREHOLDINGS

Name of Directors	Direct Interest No. of shares	Direct Interest Percentage of issued capital (%)	Indirect Interest No. of shares	Indirect Interest Percentage of issued capital (%)
Dato' Seri (Dr.) Goh Eng Toon	1,800,000	0.292	66,709,600[1]	10.838
Dato' Dr. Freezailah Bin Che Yeom	50,400	0.008	-	-
Tan Sri Dato' Tee Tiam Lee	26,696,400	4.337	29,397,400[2]	4.776
Dato' Leong Kok Wah	3,600,000	0.585	300,000[3]	0.049
			66,709,600[4]	10.838
Ho Tet Shin	-	-	21,400[5]	0.003
Dato' Choong Moh Kheng	3,200,000	0.520	9,400,000[6]	1.527

Notes:

(1) (i) Deemed interested through shareholding in Naga Muhibah Sdn Bhd pursuant to Section 6A of the Companies Act, 1965
(ii) Deemed interested through shares held by child (Datin Goh Phaik Lynn) in Naga Muhibah Sdn Bhd pursuant to Section 6A of the Companies Act, 1965

(2) Deemed interested through the shares held in Infra Tropika Sdn Bhd pursuant to Section 6A of the Companies Act, 1965

(3) Deemed interested through the shares held by children (Leong Yi Ping and Leong Yi Ming) pursuant to Section 6A of the Companies Act, 1965

(4) Deemed interested through the shares held by spouse (Datin Goh Phaik Lynn) in Naga Muhibah Sdn Bhd pursuant to Section 6A of the Companies Act, 1965

(5) Deemed interested through the shares held under the estate of his spouse (Wong Sook Kuen)

(6) Deemed interested through the shares held in Pembinaan Punca Cergas Sdn Bhd pursuant to Section 6A of the Companies Act, 1965

The exercise period for the Company's warrants 2007/2014 had expired on 19 May 2014. The outstanding warrants remained unexercised on the expiry date had lapsed pursuant to the terms and conditions of the warrants.

NOTICE IS HEREBY GIVEN THAT the Eleventh Annual General Meeting of the Company will be held at Classics Ballroom 2, Level 3, Holiday Villa Hotel & Suites Subang, 9 Jalan SS12/1, 47500 Subang Jaya, Selangor Darul Ehsan on Thursday, 26 June 2014 at 10.30 a.m. for the following purposes:-

AGENDA

1. To receive the Audited Financial Statements for the financial year ended 31 December 2013 together with the Reports of the Directors and Auditors thereon. **[Please see Note 2]**

2. To approve the payment of the first and special final single tier dividend of 3 sen per ordinary share in respect of the financial year ended 31 December 2013. **[Resolution 1]**

3. To approve the payment of Directors' fees for the financial year ended 31 December 2013. **[Resolution 2]**

4. To re-elect the following Directors who retire pursuant to Article 96 of the Company's Articles of Association:-

    a) Ho Tet Shin **[Please see Note 3]** **[Resolution 3]**
    b) Dato' Choong Moh Kheng **[Please see Note 3]** **[Resolution 4]**

5. To re-appoint the following Directors who retire pursuant to Section 129(6) of the Companies Act, 1965, to hold office until the next Annual General Meeting:- **[Please see Note 4]**

    a) Dato' Seri (Dr.) Goh Eng Toon **[Resolution 5]**
    b) Dato' Dr. Freezailah Bin Che Yeom **[Please see Note 3]** **[Resolution 6]**

6. To re-appoint Messrs KPMG as Auditors of the Company and authorise the Directors to fix their remuneration. **[Resolution 7]**

AS SPECIAL BUSINESS

To consider and, if thought fit, to pass the following Ordinary Resolutions:

7. **Ordinary Resolution**
   Authority to Allot and Issue Shares in General Pursuant to Section 132D of the Companies Act, 1965 **[Please see Note 5(a)]**

   "THAT, subject always to the Companies Act, 1965, the Articles of Association of the Company and the approval of any relevant governmental and/or regulatory authorities, where such approval is required, the Directors be and are hereby authorised and empowered pursuant to Section 132D of the Companies Act, 1965 to allot and issue shares in the Company, at any time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion deem fit, provided that the aggregate number of shares issued pursuant to this resolution does not exceed ten (10) per centum of the issued and paid-up share capital of the Company for the time being and that the Directors be and are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued on the Bursa Malaysia Securities Berhad and that authority shall continue in force until the conclusion of the next Annual General Meeting of the Company." **[Resolution 8]**

8. **Ordinary Resolution** **[Please see Note 5(b)]**
Continuing in Office as Independent Non-Executive Directors

"THAT, subject to the passing of Resolution 3, approval be and is hereby given for Ho Tet Shin who has served as an Independent Non-Executive Director of the Company since 5 August 2005 and will reach the nine year term limit on 4 August 2014, to continue to act as an Independent Non-Executive Director of the Company." **[Resolution 9]**

"THAT, subject to the passing of Resolution 6, approval be and is hereby given for Dato' Dr. Freezailah Bin Che Yeom who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than nine years, to continue to act as an Independent Non-Executive Director of the Company." **[Resolution 10]**

9. **Ordinary Resolution** **[Please see Note 5(c)]**
Proposed Share Buy-Back

"THAT, subject always to the Companies Act, 1965, the provisions of the Articles of Association of the Company, Bursa Malaysia Securities Berhad ("Bursa Securities") Main Market Listing Requirements and all other applicable laws, guidelines, rules and regulations, the Company be and is hereby authorised, to the fullest extent permitted by law, to purchase such amount of ordinary shares of RM0.50 each in the Company as may be determined by the Directors of the Company from time to time through Bursa Securities upon such terms and conditions as the Directors may deem fit and expedient in the interest of the Company provided that:- **[Resolution 11]**

(i) the aggregate number of shares purchased does not exceed ten per centum (10%) of the total issued and paid-up share capital of the Company as quoted on Bursa Securities as at the point of purchase;

(ii) an amount not exceeding the Company's audited retained profits or/and share premium account at the time of purchase(s) will be allocated by the Company for the purchase of own shares; and

(iii) the Directors of the Company may decide either to retain the shares purchased as treasury shares or cancel the shares or retain part of the shares so purchased as treasury shares and cancel the remainder or to resell the shares or distribute the shares as dividend.

AND THAT the authority conferred by this resolution will commence immediately upon the passing of this Ordinary Resolution and will, subject to renewal thereat, expire at the conclusion of the next Annual General Meeting of the Company following the passing of this Ordinary Resolution (unless earlier revoked or varied by an Ordinary Resolution of the shareholders of the Company in a general meeting) but shall not prejudice the completion of purchase(s) by the Company before that aforesaid expiry date and in any event, in accordance with the provisions of the guidelines issued by Bursa Securities and/or any other relevant authorities;

AND THAT authority be and is hereby given to the Directors of the Company to take all such steps as are necessary or expedient (including without limitation, the opening and maintaining of central depository account(s) under Securities Industry (Central Depositories) Act, 1991, and the entering into all other agreements, arrangements and guarantee with any party or parties) to implement, finalise and give full effect to the aforesaid purchase(s) with full powers to assent to any conditions, modifications, revaluations, variations and/or amendments (if any) as may be required or imposed by the relevant authorities and with the fullest power to do all such acts and things thereafter (including without limitation, the cancellation or retention as treasury shares of all or any part of the purchased shares or to resell the shares or distribute the shares as dividends) in accordance with the Companies Act, 1965, the provisions of the Articles of Association of the Company and the requirements and/or guidelines of Bursa Securities for the Main Market and all other relevant governmental and/or regulatory authorities."

10. To consider any other business of which due notice shall have been given.

NOTICE OF DIVIDEND ENTITLEMENT AND PAYMENT

NOTICE IS HEREBY GIVEN that subject to the approval of the shareholders at the Eleventh Annual General Meeting to be held on 26 June 2014, a first and special final single tier dividend of 3 sen per ordinary share of RM0.50 each in respect of the financial year ended 31 December 2013 will be paid on 8 August 2014.

The entitlement date for the dividend is 23 July 2014.

A depositor shall qualify for entitlement to the dividend only in respect of:-

(a) Shares transferred into the Depositor's Securities Account before 4:00 p.m. on 23 July 2014 in respect of transfers; and

(b) Shares bought on the Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

BY ORDER OF THE BOARD

Wong Wai Foong (MAICSA 7001358)
Joanne Toh Joo Ann (LS 0008574)
Company Secretaries

Kuala Lumpur
Date: 4 June 2014

Notes:-

1. APPOINTMENT OF PROXY

    (a) A member entitled to attend and vote at the meeting is entitled to appoint not more than two (2) proxies to attend and vote at the meeting except where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, in which event it may appoint not more than two (2) proxies in respect of each Securities Account it holds in ordinary shares of the Company standing to the credit of the said Securities Account.
    (b) For an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one (1) securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.
    (c) Where a member or the authorised nominee appoints two (2) proxies, or where an exempt authorised nominee appoints two (2) or more proxies, the appointments shall be invalid unless the proportion of shareholdings to be represented by each proxy is specified in the instrument appointing the proxies. A proxy may but need not be a member of the Company and Section 149(1)(b) of the Companies Act, 1965 shall not apply.
    (d) The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or if the appointer is a corporation, either under the corporation's seal or under the hand of an officer or attorney duly authorised.
    (e) The instrument appointing a proxy must be deposited at the Registered Office at 15th Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan not less than 48 hours before the time set for the meeting or any adjournment thereof.
    (f) Only members whose names appear in the Record of Depositors as at 19 June 2014 will be entitled to attend, speak and vote at the meeting or appoint proxy(ies) to attend, speak and vote on their behalf.

2. AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

    The Audited Financial Statements is meant for discussion only as an approval from shareholders is not required pursuant to the provision of Section 169(1) of the Companies Act, 1965. Hence, this Agenda is not put forward for voting by shareholders of the Company.

3. RE-ELECTION AND RE-APPOINTMENT OF DIRECTORS

   The Board has undertaken an annual assessment on the independence of all its Independent Directors i.e Ho Tet Shin, Dato' Choong Moh Kheng and Dato' Dr. Freezailah Bin Che Yeom who are seeking for re-election or re-appointment pursuant to the Articles of Association of the Company or Section 129 of the Companies Act, 1965, at the forthcoming Eleventh Annual General Meeting. The annual assessment has been disclosed in the Corporate Governance Statement of the Company's 2013 Annual Report.

4. RE-APPOINTMENT OF DIRECTORS PURSUANT TO SECTION 129(6) OF THE COMPANIES ACT, 1965

   The proposed Resolution 5 and Resolution 6, if passed, will authorise the continuity in office of the Directors (who are over the age of 70 years) until the next Annual General Meeting.

5. Explanatory Notes to Special Business:

   (a) AUTHORITY TO ALLOT AND ISSUE SHARES IN GENERAL PURSUANT TO SECTION 132D OF THE COMPANIES ACT, 1965

   The proposed Resolution 8 is the renewal of the mandate obtained from the members at the last Annual General Meeting. As at the date of this Notice, the Company has placed out 54,025,268 new Ordinary Shares at an issue price of RM0.585 each, which raised a total of RM31,604,781.78 and which shares were all listed on the Main Market of Bursa Malaysia Securities Berhad on 20 August 2013 ("Private Placement"). Details and status of the utilisation of proceeds from the Private Placement are set out in the "Other Information Required by the Bursa Malaysia Securities Berhad Main Market Listing Requirements" on page 62 of the 2013 Annual Report.

   The proposed Resolution 8, if passed, would provide flexibility to the Directors to undertake fund raising activities, including but not limited to further placement of shares for the purpose of funding the Company's future investment project(s), working capital and/or acquisition(s), by the issuance of shares in the Company to such persons at any time as the Directors may deem fit provided that the aggregate number of shares issued pursuant to the mandate does not exceed 10% of the issued and paid-up share capital of the Company for the time being, without having to convene a general meeting. This authority, unless revoked or varied by the Company in a general meeting will expire at the conclusion of the next Annual General Meeting of the Company.

   (b) CONTINUING IN OFFICE AS INDEPENDENT NON-EXECUTIVE DIRECTORS

   Pursuant to the Malaysian Code on Corporate Governance 2012, it is recommended that approval of shareholders be sought in the event the Company intends to retain an Independent Director who has served in that capacity for more than nine years.

   The Board of Directors has assessed the independence of Ho Tet Shin and Dato' Dr. Freezailah Bin Che Yeom and recommended them to continue to act as Independent Non-Executive Directors of the Company based on the following justifications:-

   (i) they fulfilled the criteria of an Independent Director pursuant to Bursa Malaysia Securities Berhad Main Market Listing Requirements;
   (ii) they are familiar with the Company's business operations as they have been with the Company for a period of almost nine (9) years or more;
   (iii) their long tenures with the Company have neither impaired nor compromised their independent judgement. They continue to remain objective and are able to exercise independent judgement in expressing their views and in participating in deliberations and decision making of the Board and Board Committees in the best interest of the Company.
   (iv) they have devoted sufficient time and attention to their responsibilities as Independent Non-Executive Directors of the Company; and
   (v) they have exercised due care during their tenure as Independent Directors of the Company and carried out their duties in the interest of the Company and shareholders.

   The proposed Resolution 9 and Resolution 10, if passed, will enable Ho Tet Shin and Dato' Dr. Freezailah Bin Che Yeom to continue in office as Independent Non-Executive Directors of the Company.

(c) PROPOSED SHARE BUY-BACK

The proposed Resolution 11, if passed, will allow the Company to purchase its own Shares through Bursa Securities up to 10% of the issued and paid-up share capital of the Company. Please refer to the Circular to Shareholders dated 4 June 2014 for further details on the Proposed Share Buy-Back.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING
(Pursuant to Paragraph 8.27(2) of Bursa Malaysia Securities Berhad Main Market Listing Requirements)

Directors who are standing for election at the Eleventh Annual General Meeting are as follows:

1. Dato' Seri (Dr.) Goh Eng Toon
2. Dato' Dr. Freezailah Bin Che Yeom

The profiles of the above Directors are set out in the section entitled "Profile of Directors" on pages 14 to 19. The details of their respective interests in the securities of the Company are set out in the section entitled "Analysis of Shareholdings" on pages 176 to 178.

salcon

Proxy Form

I/ We____

(FULL NAME IN BLOCK LETTERS)

NRIC No./Company No. ______________________ of ______________________

____

(FULL ADDRESS)

being a Member/Members of SALCON BERHAD hereby appoint ______________________

______________________ NRIC No.______________________

(FULL NAME IN BLOCK LETTERS)

of ____

(FULL ADDRESS)

or failing whom, ______________________ NRIC No.______________________

(FULL NAME IN BLOCK LETTERS)

of ____

(FULL ADDRESS)

or failing him/her, the Chairman of the Meeting as my/our proxy to vote for me/us and on my/our behalf, at the Eleventh Annual General Meeting of the Company to be held at Classics Ballroom 2, Level 3, Holiday Villa Hotel & Suites Subang, 9 Jalan SS12/1, 47500 Subang Jaya, Selangor Darul Ehsan on Thursday, 26 June 2014 at 10.30 a.m. and at any adjournment thereof.

NO.	RESOLUTIONS	*FOR	*AGAINST
1.	To approve the payment of the first and special final single tier dividend of 3 sen per ordinary share in respect of financial year ended 31 December 2013.		
2.	To approve payment of Directors' fees for the financial year ended 31 December 2013.		
3.	To re-elect Ho Tet Shin as Director.		
4.	To re-elect Dato' Choong Moh Kheng as Director.		
5.	To re-appoint Dato' Seri (Dr.) Goh Eng Toon as Director.		
6.	To re-appoint Dato' Dr. Freezailah Bin Che Yeom as Director.		
7.	To re-appoint Messrs KPMG as Auditors of the Company and to authorise the Directors to fix their remuneration.		
8.	To grant authority to allot and issue shares in general pursuant to Section 132D of the Companies Act, 1965.		
9.	To approve Ho Tet Shin to continue to act as an Independent Non-Executive Director.		
10.	To approve Dato' Dr. Freezailah Bin Che Yeom to continue to act as an Independent Non-Executive Director.		
11.	To approve the Proposed Share Buy-Back.		

(*Please indicate with an "X" in the space provided above how you wish your vote to be cast. If no instruction as to voting is given, the proxy will vote or abstain from voting at his/her discretion.)

Dated this _______ day of ___________2014.

____

Signature of Shareholder or Common Seal

CDS Account No. :	
Number of shares held:	
If more than 1 proxy, please specify number of shares represented by each proxy	
Name of Proxy 1:	
Name of Proxy 2:	

Notes:-

1. A member entitled to attend and vote at the meeting is entitled to appoint not more than two (2) proxies to attend and vote at the meeting except where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, in which event it may appoint not more than two (2) proxies in respect of each Securities Account it holds in ordinary shares of the Company standing to the credit of the said Securities Account.
2. For an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one (1) securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.
3. Where a member or the authorised nominee appoints two (2) proxies, or where an exempt authorised nominee appoints two (2) or more proxies, the appointments shall be invalid unless the proportion of shareholdings to be represented by each proxy is specified in the instrument appointing the proxies. A proxy may but need not be a member of the Company and Section 149(1)(b) of the Companies Act, 1965 shall not apply.
4. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or if the appointer is a corporation, either under the corporation's seal or under the hand of an officer or attorney duly authorised.
5. The instrument appointing a proxy must be deposited at the Registered Office at 15th Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan not less than 48 hours before the time set for the meeting or any adjournment thereof.
6. Only members whose names appear in the Record of Depositors as at 19 June 2014 will be entitled to attend, speak and vote at the meeting or appoint proxy(ies) to attend, speak and vote on their behalf.

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AFFIX
STAMP
HERE

SALCON BERHAD (593796-T)
15th Floor, Menara Summit
Persiaran Kewajipan, USJ1
47600 UEP Subang Jaya
Selangor Darul Ehsan

2nd fold here

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