salcon

Strength in DIVERSIFICATION

Annual Report **2012**

Cover Rationale

The splashes of water colour represent the tagline Strength in Diversification, to symbolize new changes of vibrancy, vigour and a new sense of direction in our goals and mission. Through our diversified businesses, we not only aim to acquire and sustain our businesses but to also make a big splash in the industry by being, and leading from the front.

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.

Company Profile

Established with a mission of providing quality water and sanitation services through innovation and capable human resource, Salcon Berhad ("Salcon") has grown steadily through the ranks as one of the leading water and wastewater engineering company in Asia, offering value-added services in the investment, design, construction, commissioning, operation and maintenance of water and wastewater treatment plants and ancillary facilities. In 2003, the Company was listed on the Main Board of Bursa Malaysia Securities Berhad.

Over the past 39 years, Salcon has carved a strong foothold in the water and wastewater industry. We have successfully completed more than 500 water treatment and 300 wastewater treatment projects in Malaysia, Thailand, Vietnam and China. To date, Salcon has built a portfolio of 9 water and 2 wastewater concessions located in China and Vietnam ie Changle County, Nanan City, Haining City, Linyi City, Yizheng City, Deqing City in China and Ho Chi Minh City in Vietnam.

With in-depth industry experience and innovative strategies, Salcon has a proven track record in the water and wastewater industry and envisions itself to be in the forefront of future projects in other parts of Asia which has tremendous growth for expansion.

Whilst water and wastewater remains the core business for Salcon, we have also diversified into property development to boost our order books and diversify our revenue base. We are excited with this new venture and look forward to generate sustainable returns for our shareholders.

Salcon aspires to achieve excellence in every industry which we are involved in through innovation, strong execution and capable human resource with our core values to guide us always.

Corporate Information

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

Ng Yen Hoong *(LS 008016)*
Lim Poh Yen *(MAICSA 7009475)*

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

GROWING TOGETHER

We remain committed to nurturing long-term and mutually beneficial relationships with all our alliances.

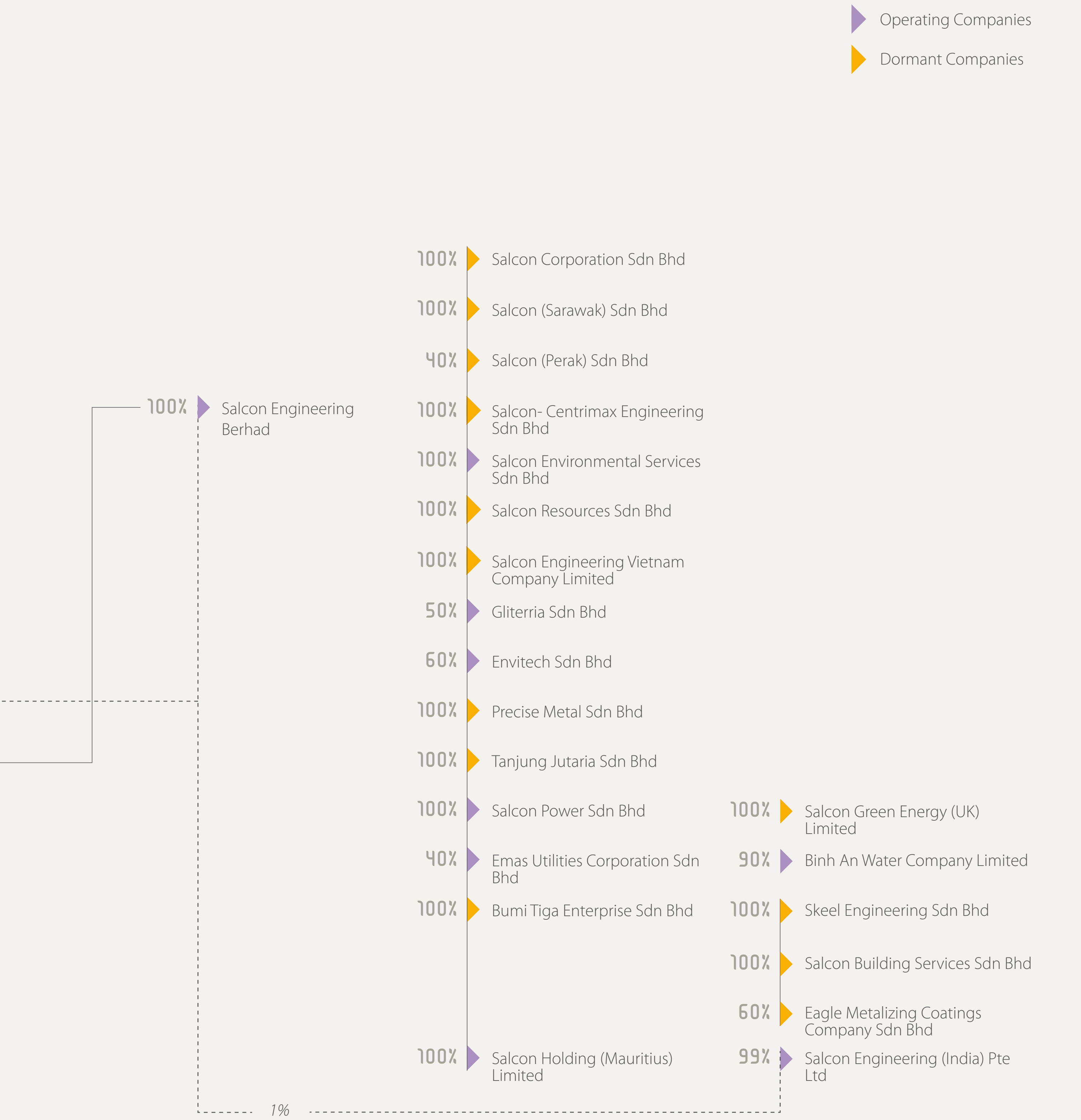
Corporate Structure

as at 30 April 2013

- 100% Kencana Kesuma Sdn Bhd
- 100% Gerbang Mawar Sdn Bhd
- 100% Satria Megajuta Sdn Bhd
- 60% Salcon Darco Environmental Pte Ltd
  - 95.6% Globe Industrial Technology Company Limited
    - 88.32% Deqing Huanzhong Producing Water Company Limited
  - 100% Deqing Darco Producing Water Company Limited
- 60% Salcon Water (Asia) Limited
  - 99.99% Salcon Services (HK) Limited
    - 100% Salcon Alliance Corporate Management & Consultancy (Shanghai) Pte. Ltd.
  - 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% Shandong Changle Salcon Water Company Limited
    - 100% Changle Salcon Raw Water Company Limited
  - 99.99% Salcon Linyi (HK) Limited
    - 60% Linyi Salcon Water Company Limited
      - 100% Linyi Runcheng Water Supply Project Company Limited
      - 100% Linyi Salcon Water Supply Facilities Company Limited

1 share

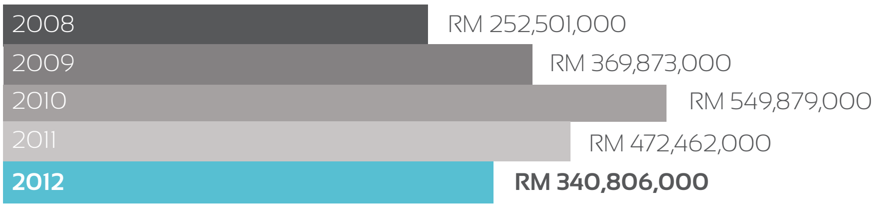
- 99% Salcon Water (HK) Limited
  - 1%
- 100% Salcon Power (HK) Limited
- 51% Integrated Water Services (M) Sdn Bhd
- 100% Salcon Water International Pte Ltd
- 100% Salcon Capital Sdn Bhd
  - 51.3% Eco-Coach & Tours (M) Sdn Bhd
- 100% Salcon Water International Limited
  - 100% Salcon Investment Consultation (Shanghai) Company Limited
- 100% Salcon Changzhou (HK) Limited
  - 100% Changzhou Salcon Wastewater Treatment Company Limited
- 100% Salcon Jiangsu (HK) Limited
  - 67% Jiangsu Salcon Water & Environmental Development Company Limited
    - 100% Yizheng Salcon Wastewater Treatment Company Limited
- 100% Salcon Development Sdn Bhd
  - 50.01% Nusantara Megajuta Sdn Bhd
  - 50%+1 share Azitin Venture Sdn Bhd


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

Financial Highlights

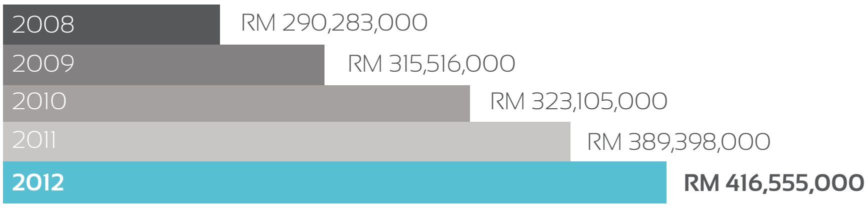
Revenue

RM341m



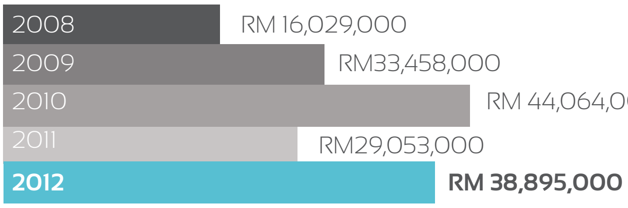
Total Equity Attributable to Owners of the Company

RM417m



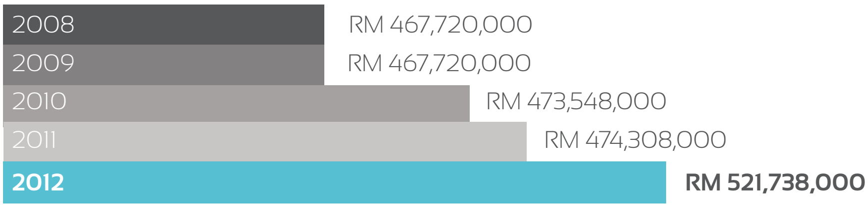
Profit Before Tax

RM39m



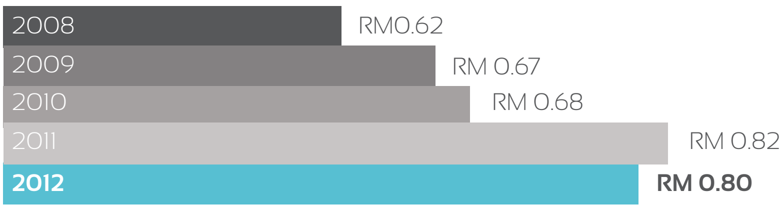
Number of Shares Issued

RM522m



Net Assets per Share

RM0.80



	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000
Revenue (RM '000)	252,501	369,873	549,879	472,462	340,806
Profit Before Tax (RM '000)	16,029	33,458	44,064	29,053	38,895
Profit After Tax (RM '000)	11,889	26,073	35,462	25,355	31,462
Profit Attributed to Owners of the Company (RM '000)	8,822	22,053	26,793	14,645	11,282
Total Assets (RM '000)	705,157	755,808	858,989	1,081,508	1,227,276
Total Liabilities (RM '000)	356,939	365,063	446,522	533,078	585,231
Total Equity Attributable to Owners of the Company (RM '000)	290,283	315,516	323,105	389,398	416,555
No. of Shares Issued ('000)	467,720	467,720	473,548	474,308	521,738
Net Assets per Share Attributable to Owners of the Company (RM)	0.62	0.67	0.68	0.82	0.80
Basic Earnings per Share (sen)	1.91	4.72	5.72	3.09	2.21
Dividend per Share (sen)	1.0	1.5	1.5	1.5	1.0
Return on Equity (%)	3.04	6.99	8.29	3.76	2.71
Share Price (Min) (RM)	0.325	0.325	0.605	0.390	0.405
Share Price (Max) (RM)	1.270	0.690	0.875	0.740	0.640

UNIQUE PROFILE

We're different. The way we look at things, the way we work, the way we're structured – all express a strongly aligned set of beliefs that exist at our core and drive our results.

Board of Directors


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

Profile of Directors

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

Dato' Seri (Dr.) Goh Eng Toon, aged 79, 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 Medical Centre, 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. He is also 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 56, 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.

Profile of Directors (cont'd)

Dato' Leong Kok Wah
Executive Director

Dato' Leong Kok Wah, aged 59, 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 from 1 June 2000 until 28 February 2013.

Dato' Leong sits on the Board of MUI Continental Insurance Berhad and is a member of its Audit 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 73, 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 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.

Profile of Directors (cont'd)

Ho Tet Shin
Independent Non-Executive Director

Mr. Ho Tet Shin, aged 62, 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 57, 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 (S55.1 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.*

UNITED

To continually excel in all areas of our business operations, while staying united in the pursuit of our goals.

Chairman's Message

Dato' Seri (Dr.) Goh Eng Toon *(Chairman)*

Dear Shareholders,

On behalf of the Board of Directors of Salcon Berhad, I am pleased to present the Annual Report and Audited Financial Statements of the Group and Company for the financial year ended 31 December 2012.

You may be aware that the Group is actively exploring new opportunities to diversify its business. We are confident that a diversified business model will set the pace for our future growth.

Concurrently, we remain focused on creating value and synergies between our existing business units. Whilst challenges in global economies remain, we are confident that our diversified range of business activities will position us well to weather the economic volatility and uncertainties ahead.

FINANCIAL PERFORMANCE

For the year ended 31 December 2012, the Group recorded a drop of 28% in total revenues to RM 340.8 million compared to the previous financial year ended 31 December 2011. This was mainly due to lower billings from the construction division and a diminishing order book.

Nevertheless, the Group recorded a commendable profit before tax of RM 38.9 million, an increase of 34% from RM 29.1 million, compared to the previous year. Group profit after tax also saw an increase of 24% to RM 31.5 million compared to RM 25.3 million the previous year.

The increase in profit contribution despite the drop in revenues is mainly due to the excellent performance of our concession investments which recorded healthy increases in volume demands and increased installation incomes. This division also recorded a gain from the bargain purchase of a subsidiary.

The Group's long term investment strategy in concession investments to ensure consistent income streams is bearing fruit and this is reflected in the Group's ability to deliver a sustainable financial performance despite discouraging external factors. This strategic initiative has also allowed the Group to smoothen out the volatility of earnings from construction projects.

The Group's financial position remains healthy; the total equity attributable to

Chairman's Message (cont'd)

owners of the company increased by 7% to RM416.6 million whilst cash and cash equivalents total RM115.4 million. The Group continues to maintain a strong financial position with a gearing ratio of 0.35 as at 31 December 2012.

DIVIDEND

Reflecting the year's good performance, but mindful of the prevailing economic conditions, the Directors are pleased to recommend the payment of the first and final single tier dividend of 1 sen per share equivalent to RM5.2 million for the financial year ended 31 December 2012. The consistent distributions of dividend to the shareholders represent the Group's commitment and ability to deliver growth over the long term.

AWARDS & RECOGNITION

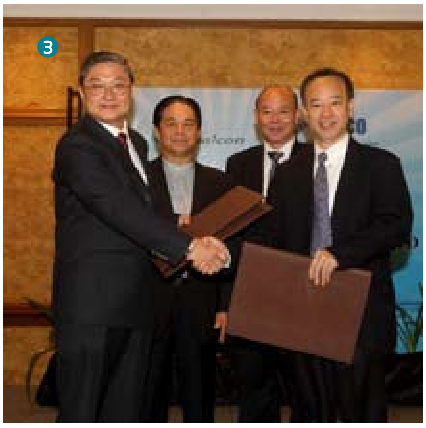
The Group is honored to receive the Honorable Mention Award (Educational Service Category) in the Asia-Pacific Enterprise Leadership Awards by Asia-Pacific Enterprise Cooperation in Singapore. The honorary award is given to Salcon for our continuous efforts and activities in the areas of sustainable development, corporate responsibility (CR) through the Salcon River and Water Awareness Education programme. This programme has benefited 7 schools and 4 orphanage homes involving more than 300 children since 2010. The Group will continue to carry out more programmes which focus on educating and raising awareness on the importance of water resources conservation especially to young Malaysians.

MILESTONE DEVELOPMENTS

Expanding Concession Portfolio

During the year under review, the Group acquired two (2) water assets, namely Wukang and Qian Yuan water treatment plants located in Deqing County with a capacity of 60 MLD and 100 MLD respectively via a 60% stake in Salcon Darco Environmental Pte Ltd. The acquisition adds to the growing portfolio of China water assets held by the Group and strengthens our recurrent revenue stream to provide stability and consistent profitability. This acquisition is estimated to generate total revenues of RMB 1.7 billion (approximately RM 842.52 million) throughout the entire concession periods.

During the same period, the Group mutually ended the Changzhou Industrial Wastewater Treatment concession with the Changzhou Government. This was due to the government's decision to buy back the industrial zone for redevelopment. The Group will make a modest gain upon completion of the transaction and this will enable the Group to refocus management and financial resources on other more lucrative opportunities in the People's Republic of China.



1. Aerial view of Labu Water Treatment Plant, implemented under the second economic stimulus package for Pengurusan Aset Air Berhad (PAAB)

2. Salcon is honored to receive the Honorable Mention Award (Educational Service Category) in the Asia-Pacific Enterprise Leadership Awards.

3. Signing ceremony for the acquisition of 60% stake in Darco Environmental Pte Ltd

To date, Salcon has built a portfolio of seven (7) water concessions and two (2) municipal wastewater concessions. These concessions are located in Shandong, Fujian, Zhejiang and Jiangsu Provinces with a total combined capacity of 1,075 MLD.

Growth & Diversification

In the pursuit of high margins and sustained profitability, the Group evaluated various growth options including property development to bring the Group to its next phase of growth and to diversify its revenue base.

In line with this strategy, the Group has teamed up with strategic partners who have relevant expertise and track record in the property development sector. The Group is confident of tapping into the attractive growth prospects of the industry by leveraging on the experience and expertise of its Board of Directors as well as its various joint venture partners.

Chairman's Message (cont'd)

4. *Artist impression of Res 280 in Selayang.*

5. *Aerial view of Johor Sewage Treatment Plant at Medini Development, Iskandar Malaysia with capacity of 500,000 population equivalent.*

In November 2012, the Group via its 50.01% owned subsidiary Nusantara Megajuta Sdn Bhd took a step forward to acquire two (2) parcels of land totaling 51,476 sqm in Johor for RM 99.7 million. Development plans and preparatory works are currently in progress. The proposed development is expected to comprise mixed residential and commercial buildings, a shopping mall with a net lettable area of 700,000 sqft, 37 units of 5 storey strata offices and 1100 units service apartments with Gross Development Value (GDV) of RM1.16 billion.

Besides this, the Group via its wholly owned subsidiary, Salcon Development Sdn Bhd also acquired 50% shares plus one share in a property development company, Azitin Venture Sdn Bhd to develop two parcels of leasehold commercial land totaling 3,988 sqm in Selayang. The proposed development will comprise a 21 storey commercial building and twelve (12) units of two (2) storey shop office. The project was launched in May 2013 and is estimated to complete in 2016.

The Group is confident that it has the necessary skills and expertise to secure sizeable new development projects within the next few years to further improve on its earnings prospects.

BUSINESS OUTLOOK & PROSPECTS

The uncertain outlook of the global economy, where lingering euro-area crisis remains a serious concern to the world economy, coupled with the threat of the US fiscal cliff tipping its economy into recession, weighs heavily on global growth.

Despite this, the Malaysian economy is expected to remain resilient. It is estimated that Malaysia will achieve a GDP growth of at least 5% or better. This is supported by continued strong domestic consumption and investments, as well as the implementation of key initiatives announced by the Government under the Economic Transformation Programme.

Construction Division

Malaysia remains our core market for the water & wastewater construction division and this division is expected to do better going forward from improved construction progress and encouraging order book replenishment prospects. Since early this year, the Group has secured more than RM200 million worth of construction contracts. Notable contracts include Package D55 - Construction of Sewage Pipes Network at Lot 130 in Klang valued at RM110 million and the Kalu Ganga Water Supply Project in Sri Lanka with a contract sum of approximately RM58 million.

The implementation of Greater KL/ Klang Valley river for life under the economic transformation programme is also expected to provide opportunities to the Group especially in wastewater division where major sewerage infrastructure projects are being implemented to meet the increasing demands for better and more effective sanitation services resulting from the country's economic

Chairman's Message (cont'd)

growth. Under the Malaysian Budget 2013, a total of RM500 million will be allocated for the River of Life project for the beautification of the Klang River. Meanwhile, an additional RM300 million is provided for replacement of water pipelines and sewage to improve water supply and sewage system.

In its key overseas markets in Sri Lanka and Indonesia, the Group will continue to leverage on its track record and technological know-how to provide clean water and wastewater solutions. The Group has participated in various tenders and proposals and looks forward to securing projects in these markets in the coming years.

As at 31 March 2013, the Group's order book stands at RM1.2 billion with RM352 million balance of works to be carried out.

Concession Investments

As the Group's China water concessions mature, we expect continuing and growing contribution from this division to the Group's bottom line.

The Group will continue to seek value accretive water assets with good growth potential in our targeted markets of second and third tier cities in China. The Group seeks to further strengthen our recurrent revenue streams via prudent investment strategies which have stood us in good stead so far.

6. *View of Qian Yuan Water Treatment Plant, Deqing County, Zhejiang Province, China*

7. *View of Wukang Water Treatment Plant, Deqing County, Zhejiang Province, China.*

8. *Filter Plant in Kelani Right Bank Water Treatment Plant Project with total capacity of 180 MLD.*

Property Development

The property market is expected to grow further in 2013 based on favourable domestic market prospects driven by factors that include catalytic projects under the Economic Transformation Programme (ETP) and in the economic corridors. During the period under review, a total of 217,135 transactions worth RM 69.05 billion were recorded. Its robustness is underpinned by the country's carefully crafted long-term masterplan and no lack of growth drivers for real estate demand.

In Johor, it is expected that an influx of investments into Iskandar Malaysia (IM) with total cumulative committed investments of RM 105.1 billion after six years of development, to translate into high economic activity and ample job creation. The land acquired by the Group in Johor is strategically located and is accessible by the major and busiest road within Johor Bahru city center. It is expected to enjoy increased housing and commercial demand in tandem with the growth of Iskandar Malaysia which will be the driving factor in boosting demand for properties in Johor Bahru.

Chairman's Message (cont'd)

The Selayang development is a niche property development with good potential in view of its easy accessibility as well as close proximity to amenities such as Hospital Selayang, Universiti Teknologi MARA (UiTM), schools, shopping malls as well as the surrounding residential areas. The proposed development of small office home office (SOHO) concept would be able to fulfill demand and complement the existing establishment, facilities and amenities available in the area.

The Group plans to increase its presence in the property development market through more opportunistic acquisitions or joint ventures to secure more projects and improve its growth prospects. The Group's strategic shift into the property development sector is expected to contribute to the Group's profit over the medium to longer term.

Looking ahead at the diverse sectors in which the Group is actively involved in, we are fairly optimistic that the outlook and long term prospects of the Group remain positive. We move forward cautiously and always with the interest of the shareholders in mind. Whilst there might be a gestation period between investment and returns, in the longer term, the Group is confident that shareholders will enjoy greater rewards upon completion of our projects.

ACKNOWLEDGEMENT

Across our business segments and operations as a whole, I am pleased that our brand, technical expertise and industry focus are coming together to advance the interests of our shareholders and stakeholders.

Thus I would like to express our heartfelt thanks to all our shareholders, clients, suppliers, bankers, business partners, regulatory authorities and subcontractors for their invaluable support and cooperation.

Last but not least, I would also like to express my gratitude to my fellow board members for their invaluable advice and contributions to the Group.

9. Maintenance Service at DMA Meranti B, Pasir Mas, Kelantan for Kelantan NRW Project.

PERFORMANCE DRIVEN

With inspired leadership and the dedication of our people, we will continue to move forward with the same determination and drive that have always defined our company.

Management Review

For the financial year ended 31 December 2012, the Group recorded total revenues of RM340.8 million, primarily underpinned by the concession division, which is our main income source, contributing 55% of the total Group revenues.

The engineering and construction division contributed 42% of total revenues, followed by others with 3% contribution. Despite the decrease of total revenues compared to financial year ended 2011, the Group is able to maintain its profitability for 10 consecutive financial years since its listing in 2003.

ENGINEERING & CONSTRUCTION DIVISION

The Group's revenue for the engineering and construction division stood at RM141.9 million, a decrease of 47% compared to that of last year. Consequently, the division recorded losses after tax of RM11.5 million compared to preceding year's RM3.8 million profit after tax due to higher cost of sales and diminishing order books.

The lower order books in the division are mainly due to uncertainty in the water related construction and engineering business in Malaysia resulting from several factors such as the reduction in Government expenditure for major water infrastructure projects, and the prevailing socio-political environment which has delayed the implementation of certain projects.

During financial year 2012, the Group secured a total of RM80 million worth of water and wastewater contracts. Amongst the notable ones are the contract extension for the operation of a customer service call centre, monitoring and maintenance of the District Metering Zone (DMZ), establishment of new DMZ, meter reading and billing for Sandakan Water Department with an estimated contract value of RM 15.24 million.

Wastewater contracts secured include the design and build of a 100,000 population equivalent (PE) sewage treatment plant and intermediate pumping station inclusive of force mains for the proposed development of 'Senai Airport City' in Johor Bahru with a contract value of RM8.3 million as well as a RM4.8 million Sewage Treatment Plant contract at Bandar Enstek, Negeri Sembilan for a PE of 40,000.

The Group completed the 105 MLD Sungai Labu Water Treatment Plant project which offers alternative water supply to Kuala Lumpur International Airport and its surrounding areas. Currently, the Group is also undertaking the Sungai Dua Water Treatment Plant project in Pulau Pinang which forms part of the Muda River Water Scheme Phase 4A for augmentation of water supply to Pulau Pinang and Seberang Perai.

1. Main Pipe Installation at Bukit Jawa, Pasir Puteh, Kelantan for Kelantan NRW Project

Overseas market

Overseas projects contribute 23% of the total revenues in the construction and engineering division. The Group is currently undertaking projects in Thailand and India namely the Phet Kasem and Rat Burana distribution pumping stations project in Bangkok, Thailand as well as raw pumping station project in Davanagere City, Karnataka, India, to provide reliable and quality water for sustainable development.

The Group has successfully completed three projects in Sri Lanka ie Hambantota Water Supply Project, Batticaloa Water Supply Project and Kelani Right Bank Water Supply Project. With the excellent track record and successful completion of these 3 projects, the Group is confident of securing more projects in Sri Lanka in the near future.

2. Water Treatment Plant at Hambantota, Sri Lanka.

3. Sedimentation tank at Kelani Right Bank Water Treatment Plant, Sri Lanka.

Management Review (cont'd)

Looking Forward
The Group sees a better and fruitful year ahead for this division. Since early this year, the Group has secured more than RM200 million worth of water and wastewater engineering construction contracts which will contribute positively to the Group's revenue.

Notable contracts include Package D55 - Construction of Sewage Pipes Network at Lot 130 in Klang valued at RM110 million and the Kandana Water Treatment Plant extension project in Sri Lanka with a contract sum of RM 58 million.

The Package D55 project – Construction of Sewage Pipes Network at Lot 130, Klang Selangor, forms part of the works proposed under the Greater Kuala Lumpur/ Klang Valley NKEA 2020 which aims to achieve the targets of putting Kuala Lumpur amongst the top 20 most livable cities list, and Malaysia the top 20 in economic growth. The project includes the rationalization of a number of old sewage treatment plants, pumping stations as well as the design and construction of new trunk sewers.

In the coming year, the Group's main priority is to replenish its order book, strive for excellence in quality as well as innovation in delivering its services while constantly looking at ways to increase operational efficiency.

4. *Visit by Mayor of Davanagere City to Davanagere's raw pumping station to view the work progress.*

CONCESSION INVESTMENTS DIVISION

It is the Group's aim to offer shareholders sustainable returns via recurrent income from its concession investments.

The Group had a fruitful year in its concession investments during the period under review. In 2012, the concession division generated RM185.9 million of total revenues to the Group, accounting for 55% of the total revenue with a profit after tax of RM39.1 million, an increase of 86% compared to that of the previous year. The good performance from the concession investments division is mainly due to the healthy increases in volume demands and higher installation incomes. This division also recorded a gain from the bargain purchase of a group of subsidiaries.

Organic Growth
During the period under review, the Group successfully completed the construction of a 48km raw water pipeline under Nan An Raw Water Supply Project in Fujian Province, China. The project, which has a 30-year concession period, provides an ultimate capacity of 345 MLD raw water supply from Jinjiang river to the three Nan An coastal towns of Guan Qiao, Shui Tou and Shi Jing. The Group completed the first phase of 175 MLD in November 2011. The achievement will further strengthen the Group's earnings contribution from the concession investments division, and provides an excellent platform to secure more projects in the future.

In Changle County, Shandong Province, the Group has also successfully completed the construction of a 100 MLD water treatment plant on a 110 mou site as well as a 100 MLD raw water transfer project, which involves the laying of 38 km of raw and treated water pipelines from the intake site at Gaoya Reservoir to the city centre. The total investment for both these projects is RMB230 million.

5. *Guan Qiao Booster Pumping Station in Nan An City, Fujian Province, China.*

Currently the Group is the sole integrated water and wastewater solution provider in Changle County i.e. supply and management of raw water resources, production and supply of treated water, provision of customer services, billing and collection as well as wastewater treatment services for the whole county. The Group also owns and operates a 40 MLD wastewater treatment plant in the county.

During the same period, the Group mutually ended its Changzhou Industrial Wastewater Treatment Concession

Management Review (cont'd)

Agreement with Changzhou City Tian Ning District Diao Zhuang Street Office following the government's re-acquisition of the plant for the redevelopment of the industrial zone. The net compensation amount will be utilized for the working capital and future business opportunities in the People's Republic of China.

Mergers and Acquisition – strategic expansion to build China assets portfolio

6. View of Qian Yuan Water Treatment Plant in Deqing County, Zhejiang Province, China with plant capacity of 100 MLD.

7. Yu Tian Booster Station, part of the Nan An Raw Water Supply Project in Nan An City, Fujian Province, China.

During the period under review, the Group expanded on its concession portfolio in China via the acquisition of a 60% stake in Salcon Darco Environmental Pte Ltd (formerly known as Darco Environment Pte Ltd). Through the acquisition, the Group owns and operates two existing water treatment plants namely 60 MLD Wukang and 100 MLD Qian Yuan Water Treatment Plant which are both located in Deqing County, Zhejiang Province, China, with a concession period of 22 years and 25 years respectively.

This acquisition marks another milestone for the Group in its strategy of expanding its China water assets and seeking out opportunities for listing. Over the years, the Group's focus are to invest in water and wastewater concessions located in the coastal areas, maintain good relationship with local governments and work closely with local authorities to ensure efficient and reliable delivery. These traits consistently form the basic foundation of the Group's business strategy to ensure the success of its concession investments.

Besides China concessions which provide a stable income stream, the Group has also been receiving consistent income generated by its Binh An Water Supply Concession in Ho Chi Minh, Vietnam since 1999.

The Group has applied several strategic initiatives in its concession investments to gain higher investment yields for our stakeholders. These include working closely with the local governments through partnerships with state-owned utilities to reduce investment risks and ensure government support, targeting concessions in coastal areas with conducive investment environment and cities which offer high growth potential in water and wastewater demands as well as working jointly with strategic partners with strong fundamentals and presence.

Management Review (cont'd)

Concessions owned by the Group:

No	Concession	Capacity	Location
1	Changle Water Treatment Plant	100 MLD	Changle County, Shandong Province
2	Changle Wastewater Treatment Plant	40 MLD	Changle County, Shandong Province
3	Changle Raw Water Supply	100 MLD	Changle County, Shandong Province
4	Linyi Water Supply	150 MLD	Linyi City, Shandong Province
5	Haining Water Treatment Plant in 2 phases of 150 MLD each	300 MLD	Haining City, Zhejiang Province
6	Nanan Raw Water Supply	Phase 1 – 175 MLD Phase 2 – 170 MLD	Nanan City, Fujian Province
7	Yizheng Salcon Wastewater Treatment Plant	50 MLD	Yizheng City, Jiangsu Province
8	Wukang Water Treatment Plant	Phase 1 – 60 MLD Phase 2 – 60 MLD	Deqing County, Zhejiang Province
9	Qian Yuan Water Treatment Plant	100 MLD	Deqing County, Zhejiang Province
10	Binh An Water Supply	100 MLD	Ho Chi Minh City, Vietnam

8. Charging pump at Wukang Water Treatment Plant with 60 MLD of treatment capacity.

GROWTH & DIVERSIFICATION - Property Development

The Group is constantly looking at ways to create new avenues to enhance its income base in order to generate more value to its stakeholders. The Group believes that via its strong management team and good business strategies, it can develop strong capabilities in the new segments of business which it operates in.

With the demand for property on an increasing trend over the years, property development remains a segment with high and attractive yields. Though the Group is new in the property development industry, the Group seeks to tap into the expertise of its Board Members and strategic partners to take advantage of this new business opportunity to broaden its fundamentals to be a multi-industry player. The outlook for the property market remains positive for the coming years, backed by the support given by the Government for first-time buyer as well as strategic and well-planned property schemes which attract both local and foreign investors.

Selayang Small Office Home Office (SOHO) Project

To build up new competencies, the Group has acquired a new subsidiary to undertake a property development project in Selayang. This marks the Group's maiden foray into the property development market. The project involves the construction of 280 Small Office Home Office (SOHO) units with floor sizes of between 845 and 880 square feet on two parcels of land identified as Lot 72341 and Lot 57274 in Selayang Jaya with total land area of 42,927 square feet.

The total Gross Development Value (GDV) of the project is estimated at RM138.4 million. Other facilities of the project include 12 units of 2-storey shop-offices, 499 car parking bays, swimming pool, children pool, playground, multipurpose hall, changing room, restaurant, gym room, game room and landscape garden.

Management Review (cont'd)

The Group foresees a good take up rate of the 21-level leasehold property with the gross selling price of RM454 to RM559 per square foot, attributable to its strategic location within the established neighbourhood in Selayang along Kepong Highway.

The Group believes that residential property will remain the core supporter for the property market. Besides the increasing demand and interest of new property types such as SOHO units, especially amongst the younger generation, the increasing cost and limitation of land have led to the popularity of such units.

9. Res 280 which is located in Selayang is the first property project by Salcon Berhad.

Johor Bahru Property Development

The Group has made a further progress in the property development market via its 50.01% subsidiary Nusantara Megajuta Sdn Bhd, which will be acquiring two parcels of land with a total land area of 12.72 acres in the city of Johor Bahru, Johor.

The land is proposed to be developed into a mixed residential and commercial development with a GDV of RM1.16 billion. This development will comprise a shopping mall with an indicative net lettable area of approximately 700,000 square feet, 37 units of five-storey shop offices and 1100 units of service apartments.

The surrounding area of the land is undergoing rapid development and transformation as it has been earmarked as one of the main development corridors under the Iskandar Malaysia, which continues to be the driving factor in boosting demand for properties in Johor Bahru. Iskandar Malaysia has successfully secured RM105.1 billion cumulative committed investments in various sectors since 2006. It will be the main catalyst to boost the Group's project in the coming years.

Going forward, the Group will continue to focus on managing and delivering the existing developments in hand while looking for opportunistic acquisition to penetrate into the property development market.

Management Review (cont'd)

OTHERS

The Group, via its subsidiary Eco-Coach & Tours (M) Sdn Bhd provides transportation service to all Intel staff in Penang and Kulim. At the moment, profit contribution from this division is relatively small ie 1.7% of the Group's total profit. However, the Group hopes to generate more and sustainable income from the division as we look to secure similar contracts with other multinational companies operating in Penang.

FYE 2013 OUTLOOK – A GOOD YEAR AHEAD

The Budget 2013 and Economic Transformation Programme (ETP) remains as the catalyst for Malaysia's economy growth. In addition, the 2013 Malaysian economy is forecasted to expand strongly between 4.5% to 5.5%, notwithstanding an uncertain global economy.

With a healthy Malaysian economy moving forward, the Group maintains a positive outlook for FYE 2013. Indeed, the Group has secured more than RM214.4 million worth of contracts since early this year, bringing its total outstanding order book to RM352 million. Water and wastewater business remains the core of the Group's business and we remain focused on building on our key competitive strengths in the design and construction of water and wastewater treatment plants, laying of water and sewer pipelines, and growing in niche markets such as Non Revenue Water management and control.

The Group is optimistic of further growth in emerging markets such as Sri Lanka and Indonesia, and will continue to replenish its current order book with new construction projects, both locally and overseas.

The Group will continue to focus on growing its water and wastewater concessions in the People's Republic of China through organic growth, mergers and/or acquisitions to build on its growing portfolio of China assets.

Concurrently, the Group's diversification into property development will boost our earnings growth in the medium to long term. The Group will continuously monitor and if necessary, refine development plans and fine tune marketing strategies in response to changes in the economic environment, consumers' preference and market demand.

With these strategic initiatives in place, the Group is well-prepared to further strengthen our performance and create more value for our shareholders.

10. Eco-Coach & Tours provides transportation service to all Intel staff in Penang and Kulim.

11. Meter point strainer service at Taman Murni for Sandakan Non-Revenue water project.

CREATE FASCINATING RESULT

We believe creativity and growth are two sides of the same coin. Accordingly we are continually seeking to create new business opportunities in prudent ways, in order to seize every market opportunity to increase revenue and maximise returns to our shareholders.

Corporate Responsibility Report

Introduction

This report provides an overview of Salcon's Corporate Responsibility (CR) programs, activities and the future commitments we have identified as most material to our business as well as our key stakeholders. Our report's contents and structure is based on our CR policy established in 2009, which is focused on four main pillars namely Marketplace, Workplace, Community and Environmental.

In reporting our CR milestones in the planning and conduct of operational activities, we have made references to the Bursa Malaysia CR Framework and the Global Reporting Initiative (GRI) Reporting Guidelines.

This report covers our worldwide operations and includes data from the Group's subsidiaries in Malaysia, China, Sri Lanka and Vietnam.

Economic Performance At A Glance

In the financial summary shown below, the Group recorded a decrease in gross economic value generated of RM385.2 million for FYE 2012 due to completion of major projects. Despite this, the Group remains profitable and has recorded an increase of 35% in net value added to RM30.3 million whilst maintaining a higher dividend payout to our shareholders compared to the previous year.

Economic Data - Group Level

Description	2010 RM '000	2011 RM '000	2012 RM '000
Revenue	549,879	472,462	340,806
Other income and interest income	19,843	24,912	44,612
Gross Value Generated	**569,722**	**497,374**	**385,418**
Our suppliers : operation costs	(489,619)	(416,630)	(287,361)
Our employees : salaries & benefits	(32,686)	(39,071)	(44,068)
Our lenders : payment to lenders (financial cost)	(6,747)	(15,134)	(18,428)
The Government : payment to Governments:			
Malaysia	(5,760)	(2,357)	(1,713)
Outside Malaysia	(2,842)	(1,341)	(5,720)
The Rakyat : Community Investments	(249)	(378)	(149)
Net-value added	**31,819**	**22,463**	**27,979**
Our shareholders : payment to shareholders	(7,015)	(7,115)	(7,826)
Our Future : Economic Value Retained	**24,804**	**15,348**	**20,153**

Revenue by Region

No	Region	Revenue (RM'000) 2010	2011	2012
1	Malaysia	273,046	288,626	156,415
2	Vietnam	28,960	(3,303)	1,136
3	China	198,122	166,859	165,803
4	Sri Lanka	48,997	20,066	5,779
5	Indonesia	715	214	-
6	United Kingdom	-	-	260
7	Others (Singapore / India)	39	-	11,413
	TOTAL	549,879	472,462	340,806

Corporate Responsibility Report (cont'd)

Marketplace

We believe that by constantly taking responsibility for actions in our supply chain and ensuring the quality of our services, we can play a key role in keeping a sustainable and rewarding relationship with our stakeholders such as suppliers, community and clients. Our commitment in ensuring quality services is manifested by the award and maintenance of the ISO 9001 certification by Bureau Veritas Certification since 1999. These standards help to direct, guide and maintain the quality of our services.

Goals & Achievements

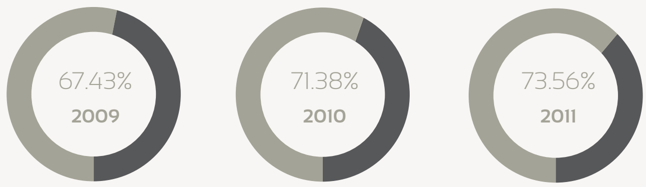
OUR GOAL IN 2012	ACHIEVEMENTS
• To achieve 75% customer satisfaction score*	• 73.56% achieved
• To meet 2012 profit budget	• Achieved
• 100% of new suppliers/sub-contractor to be given safety induction training and tool box training.	• 100% achieved
• Achieve at least 80% of suppliers' performance at Excellent grade	• 86.39% achieved
• To meet and exceed standards of ISO 9001	• Passed 1st surveillance audit
• To achieve 2,000 unique visitors for Salcon's blog	• 3,342 of unique visitors achieved
• To meet average call response time of 30 seconds at our Sandakan customer service centre	• Average 20 seconds achieved
• To achieve average call handling time of less than 5 minutes at our Sandakan customer service centre	• Average 4 minutes achieved

*Note: Latest Survey result is as at 2011 as data for 2012 is not available as at date of report

Unique visitors of Salcon Blog increased
140% compared to last year

Achieved of
68,141 of unique visitors to www.salcon.com.my

Customers Satisfaction



Sandakan Customer Service Centre Call Response Time

Call Responding Time	
Target average	30 sec
Achieved average	20 sec

Call Settling Time	
Target average	5 mins
Achieved average	4 mins

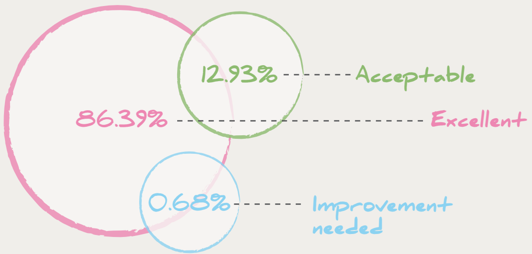
Corporate Responsibility Report (cont'd)

Sustainable Procurement

We require our suppliers and sub-contractors to meet the requirements stated in our quality, environmental, safety and health policy. To fulfil our commitments of sustainable services, we shall endeavour to

- Ensure we conduct our procurement processes in a manner that is ethical, fair and transparent;
- Select suppliers and sub-contractors stringently as per procedure on registration of suppliers based on their compliance of requirement, good track records, competitive pricing, delivery service, after sales service, recommendations and participation in main contract tender;
- Evaluate the performance of suppliers and sub-contractors by conducting a systematic evaluation every year;
- Deliver appropriate training to our suppliers and sub-contractors to enable effective policy implementation;

Performance Evaluation of Suppliers 2012



From the result of suppliers' performance evaluation for 2012, 86.39% of suppliers were graded as excellent, which is an increase of 12% compared to the previous year.

Investor Relations

The Group keeps the investor community up to date with corporate events or activities through various portals such as Annual General Meeting, Extraordinary General Meeting, regular investment briefings, timely press releases, corporate website, blog, Facebook page and many more.

In order to enable the stakeholders to review share price performance and news at the same time, an interactive chart at Salcon's official website enables stakeholders to view the share price chart in 3 different modes i.e. line, bar or OHLC (Open-High- Low- Close) for the duration from 1 month up to 5 years. The news includes corporate action news, insider trades or other announcements we make to Bursa Malaysia.


Annual General Meeting 2012

Customer Satisfaction

We are pleased to report that our Customer Satisfaction has improved from year to year. The Company seeks to further enhance customer satisfaction through regular review of customers' feedback and comments to improve our engagement with customers.

Customer Satisfaction Survey Results from 2009 to 2011

2011	**73.56%**
2010	71.38%
2009	67.45%

Note:
Latest survey result is as at 2011 as data for 2012 is not available as at date of report

Corporate Responsibility Report (cont'd)

Risk Management System

The Group strives to minimize strategic and operational risks through the implementation of a comprehensive risk management system. This enables the risks factors to be flagged periodically and efficiently for Management's attention and actions, which include further remedial and corrective actions.

The Audit Committee and Risk Management Committee ensure that the Group's Management adheres to the risk management system. Both Committees are assisted by the Internal Audit and Risk Management Department in its role as a facilitator in the implementation of risk management i.e. coordinating and reporting (risk management function) and reviewing of risks status (internal audit function).

Depending on the nature of applicable pertinent issues/findings, remedial actions that can be taken if negative findings are found include:

- 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;

Customer Service Centre

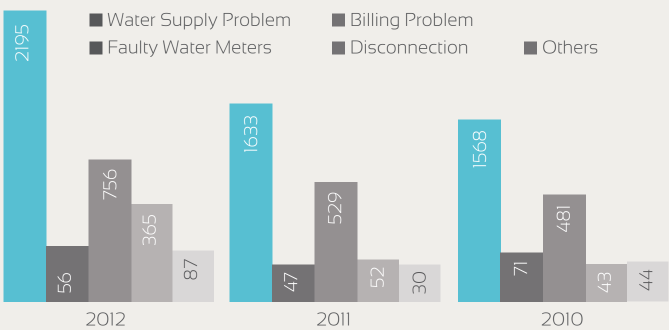
Salcon provides billing and collection services for three regions which are located in:

- Sandakan Customer Service Centre, Malaysia;
- Linyi Customer Service Centre, Shandong Province, PRC;
- Changle Customer Service Centre, Shandong Province, PRC.

The customer service centre offers the following services for the customers ie bill payment, inquiries, meter installation, handling complaints, receive leakage reports etc. General lines have also been set up for serving customers' enquiries, feedback and complaints efficiently.

Customer service centre of Linyi City, Shandong Province, PRC

Breakdown of Cases for Investigation



Note:
Data compiled from Sandakan, Linyi and Changle customer service centres

The majority of calls received at the three call centres in Sandakan, Linyi and Changle were related to water supply issues. Cases of water supply problems increased from 1,633 in 2011 to 2,195 in 2012 i.e. a 34% increase. This was due to the transition period of changing bulk meters to individual meters in Linyi City, Shandong Province, PRC, which had resulted in unstable water supply. However, the problems were settled immediately by the Linyi water service teams.

Corporate Responsibility Report (cont'd)

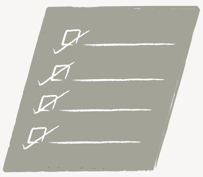
Workplace

The Group recognizes that every employee is crucial to the long-term success of a company. As such, we strived to create a company culture and workplace that promotes diversity, and mutual respect among the staff, and a workplace that ensures and safeguards the health and safety of all employees.

Goals & Achievements

OUR GOAL IN 2012	ACHIEVEMENTS
• To achieve zero Lost Time Injury (LTI)	• Achieved
• 60% of employees trained for personal or skill enhancement	• 63.04%
• To meet and exceed standards of OHSAS 18001	• Passed 1st surveillance audit
• To achieve zero major NCR at project sites	• Achieved
• 100% of employee to undergo performance appraisal system	• Achieved

% of employees undergoing performance appraisal



100%

Total amount spent by SRC on employees

RM 190,000

Total manhours without LTI

	target	achieved
2012	6.4mil	7.6mil
2011	4.5mil	6.1mil
2010	2.5mil	3.7mil

Zero

0

Major NCR at project sites

% of employees trained for personal or skill enhancement

60%	63.04%
Target	Achieved

Corporate Responsibility Report (cont'd)

Training and Career Development

Salcon offers various opportunities to the employees for career advancement and personal development by conducting different training courses. In 2012, the Group spent RM190,000 in conducting trainings for the employees in our local and overseas operation offices. The trainings are categorized into 5 main areas namely, personal and leadership development, motivational, functional, additional knowledge and others.

No. of employees of Salcon Group trained in 2011 and 2012 according to category

Category	2012	2011
Management	56	51
Executive	234	192
Non-executive	342	147
Total employees trained	648	669
% employee trained	63.04	60.43

Performance Measurement

Evaluating our employees' performance is a key component to monitor the quality of manpower in the Group. 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 and job upgrading may be recommended by the head of department based on the performance evaluation result and the discretion of the Management.

Work -Life Balance

The Group acknowledges the importance of work-life balance for the health and wellbeing of employees. This is important for sustainable organisational performance as stress and psychological issues may affect work effectiveness. Therefore, various activities and events related to health awareness ie office safety, laughter yoga, breast cancer awareness, self-defence, etc. have been organised to enlighten the staff on the respective subject matters, and also to create a positive and healthy workplace culture.

Salcon Futsal Tournament

The Salcon Recreation Club (SRC) was formed in year 2004 with the objectives of organising sports and recreational activities and fostering strong and harmonious relationship among employees of Salcon Group. In 2012, the club organised the company's Annual Dinner, a trip to Cambodia, Family Day at Sunway Lagoon and Felda Residence, Badminton Tournament, Bowling Tournament and Futsal Tournament. In 2012, the total amount spent for the activities and events was RM190,000.

Salcon Family Day at Sunway Lagoon

Besides this, the Group has also given away festive goodies and organised activities for the employees during major festivals such as Hari Raya, Chinese New Year, Deepavali and Christmas.

Ensuring a Safe & Healthy Workplace

Providing a safe and healthy workplace is fundamental to our sustainability and success. The Group views the safety and health of our employees very seriously. We believe that work related accidents can always be prevented through the implementation of effective policies as well as educating our employees in safety matters through trainings and educational program such as ERP training, toolbox training, safety awareness at workplace, OSH procedures, OHSAS awareness, OSH implementation at workplace, First Aid and CPR course, fire drill etc.

Besides this, inspection visits at project sites by our Safety and Health Committee is conducted throughout the year to ensure the compliance of safety and health procedures.

First Aid Training

Corporate Responsibility Report (cont'd)

We have formalised our safety and health, principles and policies through the establishment and implantation of an Occupational, Safety and Health Management System (OSHMS). Our OSHMS complies with the internationally recognised OHSAS 18001 standards which the Group has been certified with since 2008.

An audit is conducted by Bureau Veritas Certification Audit Team (Audit Team) every year on the compliance with the requirements of the audit standards. In 2012, the independent external Audit Team concluded that the Group had established and maintained its management system in line with the requirements of the standard and demonstrated the ability of the system to systematically achieve agreed requirements for its services within the scope and the organisation's policy and objectives.

OHSAS Campaign -Labour Safety and Hygiene Week at Binh An Water Treatment Plant

Lost Time Injury (LTI)

Particulars	2012	2011	2010
Target man hours without LTI	6,400,000	4,500,000	2,500,000
Achievement	7,563,093	6,154,632	3,703,581
Achievement (%)	118.17%	136.77%	148.14%

Achievement in meeting zero LTI for the past 3 years

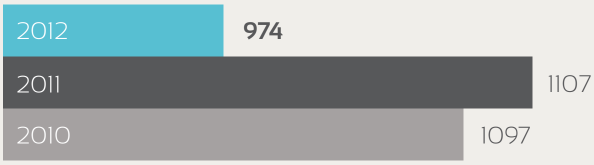
We have surpassed the target every year for the past 3 consecutive years which is a testament to our stringent Safety and Health management and control processes.

In order to promote employee engagement and awareness of Health and Safety issues, a Safety and Health Campaign Month is organized on a yearly basis. In 2012, the campaign was conducted from 4 May to 8 June 2012. Various activities such as health and safety talks, blood donation campaign, safety awards for offices and project sites, games, etc. were conducted during the month long period. The event received tremendous support from government bodies such as Department of Occupational Safety and Health (DOSH) Selangor, National Blood Bank, Breast Cancer Welfare Association (BCWA), Malaysia Council

Closing ceremony of Salcon Safety Campaign Month 2012

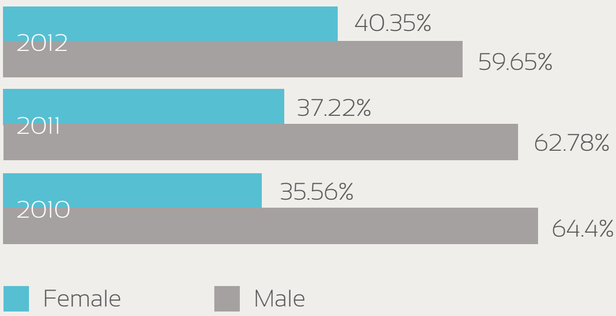
Diversity at the Workplace

Total headcount from 2010 to 2012



Total headcount reduced by 12% due to the handover of water treatment plants to the relevant government authorities in Negeri Sembilan upon the completion of the contract in September 2012.

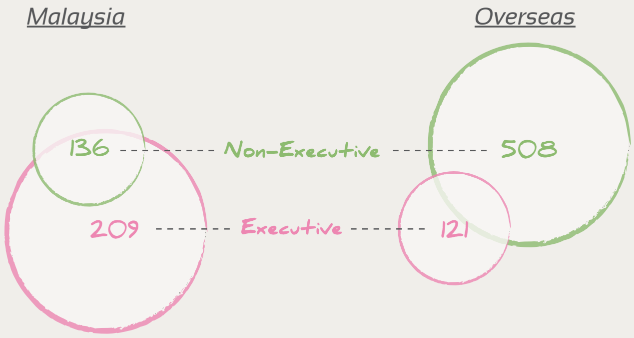
Breakdown by gender from 2010 to 2012



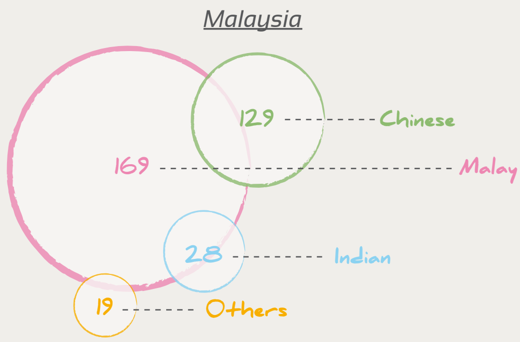
Due to the nature of our operations, the ratio of male employees is higher than female employees. The Group does not tolerate any form of discrimination and we continue to empower our female employees by promoting equal opportunities and providing assistance to help them balance their role at work and at home.

Corporate Responsibility Report (cont'd)

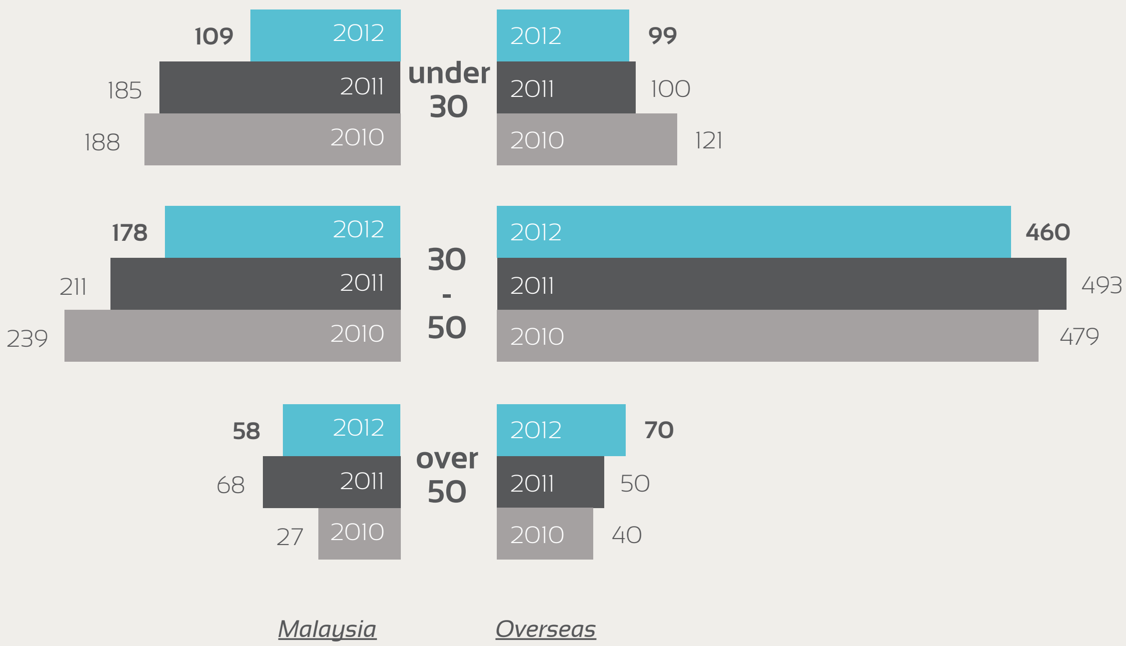
Breakdown of workforce by category in 2012



Diversity of workforce in 2012



Age Pyramid of workforce in 2012



Corporate Responsibility Report (cont'd)

Community

The Group actively engages the community within the vicinity of our operations. We contribute our knowledge and resources to raise awareness on water conservation and also to support the society in need. In 2012, the Group conducted various community events and activities such as river and water educational programme, charity run, blood donation campaign, home visits etc. We actively support and participate in programmes and activities with the aim of uplifting the community's living standards.

Goals & Achievements

OUR GOAL IN 2012	ACHIEVEMENTS
• Involve at least 150 pupils from primary schools in Klang Valley in the Salcon River & Water Awareness Programme	• 181 pupils from 5 different primary schools participated
• Invite at least 10 primary schools to participate in Salcon Inter-State River Competition 2012	• 12 primary schools participated in the competition
• Collect at least 100 pints of blood during the Annual Blood Donation Campaign	• 87 pints of blood collected.
• To receive recognition on Salcon's contribution in the area of corporate responsibility	• Awarded the Honorable Mention Award (Educational Service Award category) at the Asia-Pacific Enterprises Leadership Awards (APELA) in Singapore

No. of children who benefitted from Salcon River & Water Awardness Programme

150 Target

181 Achieved

Total pints of blood collected in Blood Donation Campaign

87 pints

Awarded

APELA

Honourable Mention Award (Educational Service Category) in Singapore

Total amount of donation to charity bodies

RM149,000

Corporate Responsibility Report (cont'd)

Salcon River & Water Awareness Educational Programme

The Group is committed to raising awareness on water conservation amongst the community especially the young generation through our 'Salcon River & Water Awareness Programme' for school children. To date, the river programme has benefited 7 schools and 4 orphanage homes involving more than 300 children since 2010.

Inter- State River & Water Awareness Competition 2012

Since the programme was launched in 2010, positive feedback has been received from the participating schools, public and media. On 14 March 2013, our contribution on the river programme was further recognised through the award of the Honorable Mention Award (Educational Service Award category) at the Asia-Pacific Enterprises Leadership Awards (APELA) 2013 conferred by Asia-Pacific Enterprises Cooperation (AP-EC) in Singapore.

Salcon instills love for our rivers in students of SK Bdr Utama Damansara

Recognition conferred by Asia- Pacific Enterprise Cooperation (APELA) in Singapore

Blood donation drive

Salcon has once again taken the initiative to organise a blood donation drive on 8 June 2012 at the Summit USJ Shopping Complex. The blood donation event saw the participation of 200 Salcon staff and public with a total of 87 pints of blood donated.

The Salcon blood donation campaign is conducted every year for staff and public

Charity support

The Group's contributions ranged from sponsorships and support for various non-profit organisations and campaigns to monetary and product donations for schools, orphanage homes and others both local and overseas.

Gifts for poor people in Binh Thang Community, Vietnam

Corporate Responsibility Report (cont'd)

Key charity events involved in 2012:

Name of events	What we do	Result
The Edge - Bursa Malaysia Kuala Lumpur Rat Race 2012	Five energetic and enthusiastic runners ran 4.5km through the commercial heart of Kuala Lumpur for a good cause.	RM18,000 was contributed and channeled to beneficiaries
Standard Chartered Bank Kuala Lumpur Marathon 2012	2 representatives ran 10km in Kuala Lumpur city centre.	RM10,000 was contributed and channeled to beneficiaries
Green Charity Drive	Helping the less fortunate in Rumah K.I.D.S. by selling potted plants to employees for charity drive	All the proceeds of purchase of plants were spent to buy sundry items for the orphanage home such as cooking oil, canned food, onion and garlic etc.
Back to School Outreach Programme	Giving a helping hand to Darul' Izzah Orphanage Home by reducing their burden of buying those items which children need when schools re-open.	Salcon sponsored each child with one set of school uniform, diary, recycle bag and mug to the children.


Kuala Lumpur Rat Race 2012


Green Charity Drive


Back to School Outreach Programme

Corporate Responsibility Report (cont'd)

Environmental

We recognise and value the benefits of healthy ecosystems for the well being of communities where we operate in. That is why we continually work to improve our systems and processes to reduce pollution and waste, to conserve natural resources and reduce potentially negative environmental impacts through stringent adherance to our Environmental Management Policy and Practices which complies with the Environmental Management Standards ISO 14001:2001.

Goals & Achievements

OUR GOAL IN 2012	ACHIEVED
• To meet and exceed standards of ISO 14001	• Passed 1st surveillance audit
• Total energy consumption <0.3 kWh	• 0.195 kWh
• Total water lost from the plants <1.5 million m3	• 0.92 million m3
• Total weight of sludge generated from operations <3.0 million kg	• 2.95 million kg generated

Total weight of paper recycled

3,328 kg

Total energy consumption to deliver 1m^3 of water

<0.3 kwh Target | 0.195 kwh Achieved

Total sludge generated from operations

<3.0 mil kg Target | 2.95 mil kg Achieved

Total water lost from the plant

<1.5 m^3 Target | 0.92 m^3 Achieved

* Data compiled from Linyi, Changle, Haining and Binh An Water Treatment Plants

Corporate Responsibility Report (cont'd)

Our Environmental Policy

We are committed to minimising and mitigating adverse environmental impact in our business operations by:

- Ensuring our operations and processes comply with relevant environmental legislations and regulations and the ISO 14001 standard;
- Ensuring continual improvement in preventing pollution;
- Promoting and educating our workforce and subcontractors on environmental protection; and
- Saving energy and conserving resources through recycling and waste reduction activities.

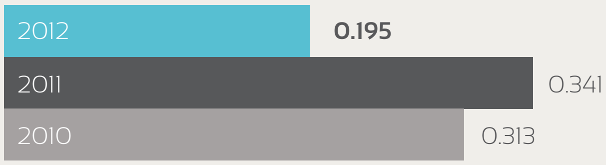
Environmental impact from operation

Energy Management

Employees are encouraged to conserve energy when using company vehicles, electrical items and computers. In Linyi, the company has implemented the 'Energy Saving System', by including electricity, petrol and other energy consumption in the Annual Key Performance Index (KPI) for every employee. Should the annual consumption exceed the overhead budgets, scores will be deducted from the employees' KPI which, in turn affects their performance evaluation.

By practicing routine and planned preventive maintenance, cost of repairs and maintenance can be reduced effectively. Management and close monitoring of booster pump systems and water pressure management has also reduced electricity consumption and energy costs.

Electricity used (kWh) to deliver 1 m^3 of water from 2010 to 2012

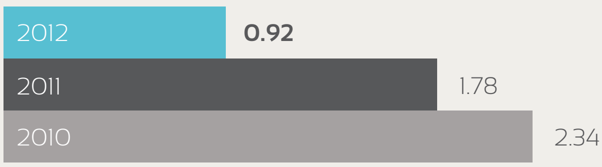


* *data from Linyi, Changle, Haining Water Treatment Plants in China and Binh An Water Treatment Plant in Vietnam*

On the average, the electricity consumption required to deliver 1 m^3 of water dropped 42.8% compared to 2011 i.e. from 0.341 kWh to 0.195kWh. The decrease in electricity consumption was mainly due to the commencement of the new 100MLD Changle water which delivers water by gravity vis-à-vis the old water treatment plant which uses booster pumps which consume high amounts of energy.

Water Management

Water lost from plants (millions m^3)



* *data from Linyi, Changle, Haining Water Treatment Plants in China and Binh An Water Treatment Plant in Vietnam*

In 2012, the water lost from plants managed by of the Group has dropped 48.31% i.e. from 1.78 millions m^3 to 0.92 millions m^3. This was achieved via to the higher quality of water source and the strengthening of back washing management in Linyi and Haining water treatment plant operations respectively.

View of back washing process at Linyi Water Treatment Plant

Corporate Responsibility Report (cont'd)

Waste Management

Sludge Generated from operations (kg)

** data from Linyi, Changle, Haining Water Treatment Plants in China and Binh An Water Treatment Plant in Vietnam*

Total sludge generated from plant operations has reduced from 2,983,980 kg to 2,947,920 kg i.e. 1.2%. The reduction of sludge generated was achieved through to the new water resource management which was implemented in Linyi operations last year.

Noise Management

There are a number of sources of noise that are typically associated with our plant operations such as excavation and land clearing works, piling works, general fabrication works, movement of vehicles at site and operation of general equipment and machinery.

We aim to be proactive and to ensure the noise level do not exceed the level recommended by Department of Environment Malaysia through stringent environmental monitoring process, so as to avoid generating noise issue for our communities.

Recycling Efforts

We believe that good practices have to start from within. With this, 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, oil and electrical products such as batteries and computer hardware.

In 2012, a total of 3,328 kg of paper was recycled, an increase of 129% compared to the year before. The increase was due to the supports and efforts contributed by our employees during the recycling campaign which is conducted at least twice a year.

Salcon Recycling Campaign

Conclusion

The Group's commitment to sustainability is reflected in our continual efforts to deliver quality products and services. We will continue to drive improvements throughout our value chain and, in doing so, bring value to our stakeholders. We seek to extend and improve our CR initiatives and look forward to achieving new heights through our commitment as a responsible corporate citizen.

Corporate Governance Statement

The Board of Directors ("the Board") of SALCON BERHAD ("Salcon") continues to uphold its commitment to the highest standard of corporate governance in managing the affairs of the Company and its subsidiaries ("the Group") guided by the Principles and Recommendations of the Malaysian Code on Corporate Governance 2012 (the "MCCG 2012"). This statement outlines how the Group has applied the Principles and Recommendations of the MCCG 2012 during the financial year ended 31 December 2012. The reasons for non-observance of the few Recommendations 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 strategy planning, oversight and overall management of the Group. To ensure the Board members are aware on their duties and responsibilities, the Board has 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 the respective approved Terms of References.

The Chief Operating Officer ("COO") has been delegated to oversee and support the day-to-day operation and 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 2012, while the Company continued to focus on improving market penetration in the Company's core businesses of water and waste water systems and managements, 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 exposures 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 businesses and operations. The COO is assisted by the various divisions' 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 tabled 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.

Corporate Governance Statement (cont'd)

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 senior management 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 Controls as set out in pages 62 to 63 of this Annual Report.

1.3. Code of Ethics and Conduct

The Board has adopted and implemented Code of Ethics and Conduct ("COEC") which reflects the Group's vision and mission. The Board expects the behavior 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 of 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 dedicated phone line, fax and email address.

These COEC and Whistle-blowing Policy demonstrate and emphasise 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

Corporate Governance Statement (cont'd)

1.4. Strategies promoting sustainability

The Board recognizes the importance of sustainability into 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 2012 is presented in the Corporate Responsibility Statement in pages 26 to 39 of this Annual Report.

1.5. Access to information and advice

Board meetings are structured with a pre-set agenda, providing the Directors with relevant and timely information to enable them to discharge their duties and responsibilities. Board papers which provide updates on operational, financial and corporate developments are circulated in sufficient time to enable Directors 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 who 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 for the Directors as and when the needs 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 for 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 the Board's effectiveness and relevance. The Board Charter is available on the Company's website.

Corporate Governance Statement (cont'd)

2. Strengthen composition

2.1. Nomination Committee ("NC")

The principal responsibility of the NC is to assist the Board in nominating new nominees for appointment to the Board of Directors and to ensure the BOD 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 of 3 Non-Executive Directors ("NED"), with majority of them are independent Directors.

The duties and responsibilities of NC are as follow:

- Identify and recommend to the Board, candidates for directorships of the Company to be filled by the Board. The candidates must have integrity character and time in addition to being skillful, knowledgeable and posses expertise and experiences relevant to Company's principal activities;
- Recommend to the Board, directors to fill the seats on Board Committees;
- 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;
- 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 Bursa Securities' guidelines on continuing education;
- 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.

As guided by the MCCG 2012, Dato' Dr. Freezailah bin Che Yeom who is also the Senior Independent Non-Executive Director has been re-designated as Chairman of the NC, in place of Dato' Seri (Dr.) Goh Eng Toon.

Corporate Governance Statement (cont'd)

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 good mix of skills, knowledge, expertise, experience, professionalism and integrity to enable the Board to discharge its responsibilities effectively.

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 of 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 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 taken based on such feedback.

The NC had on 30 April 2013 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, 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.

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.

Corporate Governance Statement (cont'd)

2.3. Remuneration policies and procedures

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

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

In determining the remuneration package, the Executive Directors abstain from the deliberations and voting decisions in respect to their remunerations. The Board, as a whole, will decide on the Non-Executive Directors' remuneration packages. Each of the Non-Executive Director 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 2012 are as follows:

a) Aggregate remuneration of the Directors categorised into appropriate components:

Directors' Remuneration	**Executive Directors (RM'000)**	**Non-Executive Directors (RM'000)**
Salary	1,020.0	-
Bonus	85.0	-
Fees	-	150.0
Meeting Allowances	-	20.0
Benefits-In-Kind	63.9	-
Statutory Contribution	132.6	-
Total	**1,301. 5**	**170.0**

b) Like other companies, the Board has resolved to disclose their salaries 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 RM500,000	0
RM500,001 – RM550,000	1
RM700,001 – RM750,000	1
Non-Executive Directors	
Less than RM50,000	3
RM50,001 – RM100,000	1

Corporate Governance Statement (cont'd)

3. Reinforce independence

3.1. Annual assessment of independence

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

Based on the above assessment for the year 2012, 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(9) years

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

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

ii) He is familiar with the Company's business operations as he has been with the Company for more than nine(9) years;

iii) He has devoted sufficient time and attention to his responsibilities as an Independent Non-Executive Director of the Company; and

iv) He has exercised due care during his tenure as an Independent Director of the Company and carried out his duty in the interest of the Company and shareholders.

Based on the recommendation of the NC, the Board is satisfied with the knowledge, contributions and independent judgment that Dato' Dr. Freezailah bin Che Yeom brings to the Board. Therefore, the Board recommends and supports his re-appointment as Independent Non-Executive Director of the Company, which is to be tabled for shareholder's approval at the forthcoming 10th AGM of the Company.

Corporate Governance Statement (cont'd)

3.4. Separation of positions of the Chairman and COO

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

While the Board composition complied with the Bursa Securities Main Market Listing Requirements, the NC will source for an additional independent director to meet the recommendations of the MCCG 2012.

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 issues to be discussed.

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

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

Corporate Governance Statement (cont'd)

The attendance of Board members at Board meetings and various Committees meetings during the financial year ended 31 December 2012 is as set out below:

#	Name	Designation	Number of meetings attended				
			BD	**AC**	**NC**	**RC**	**RMC**
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				
3	Dato' Leong Kok Wah	Executive Director	5/5				0/2
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	2/2
6	Dato' Choong Moh Kheng	Independent Non-Executive Director	5/5				

BD - Board of Directors
AC - Audit Committee
NC - Nomination Committee
RC - Remuneration Committee
RMC - Risk Management 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 to assist them in the discharge of their duties as Directors. The CS updates the applicable changes to the Directors on any revisions or changes to new/existing legislations and regulatory requirements.

All the Directors attended 2013 Budget Tax Briefing during the year under review.

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 experiences.

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 Group and Company's financial statements in the presence of internal and 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 Malaysia Financial Reporting Standards and the provisions of the Companies Act, 1965, in Malaysia.

The Statement by Directors in respect of the preparation of the annual audited financial statements is set out on page 171 in the Financial Statements section of this Annual Report.

Corporate Governance Statement (cont'd)

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 10th 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 ERM 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 risk 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 in pages 62 to 63 of this Annual Report.

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

Corporate Governance Statement (cont'd)

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's profile or future directions. An alternate channel to reach out to a broader range of the public, shareholders and interested parties is via Facebook. The Company's CAD will 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 possible.

8. Strengthen relationship between company and shareholders

8.1. Encourage shareholder participation at general meetings

Salcon sends Notice of AGM to all shareholders at least twenty-one (21) days prior to the date of the scheduled AGM together with the 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 is not readily answered at the AGM.

Corporate Governance Statement (cont'd)

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 both the Company's 9th AGM and Extraordinary General Meeting ("EGM") held on 20 June 2012, the Chairman informed shareholders of their right to demand a poll vote at the commencement of the general meeting for the substantive resolutions. All resolutions for both the 9th AGM and EGM put forth for shareholders approval were voted by show of hands.

8.3. Effective communication and proactive engagements with shareholders

At the 9th AGM and EGM, all Directors were present to demonstrate their commitment and stewardship of the Company. The Chairman encouraged all shareholders present 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

Utilisation of Proceeds

The Group disposed 40% of its holdings in six (6) China concessions (Disposal). Accordingly, the status of the utilisation of the proceeds as at 30 April 2013 is as follows:

	Proposed revised utilisation RM'000	Utilised RM'000	Unutilised/ (Over) RM'000
Future investments	84,380	(84,380)	-
Repayment of bank borrowings	10,000	(10,000)	-
Defraying estimated expenses relating to the Disposal	1,200	(1,200)	-
Total	95,580	(95,580)	-

Corporate Governance Statement (cont'd)

The Group has 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, has raised gross proceeds of RM23,715,390.00. The status of utilisation of the proceeds from the private placement as of 30 April 2013 is as follows:

	Proposed utilisation RM'000	Utilised RM'000	Unutilised/ (Over) RM'000
Repayment of existing borrowings	23,515	(19,500)	4,015
Estimated expenses for the proposed private placement	200	(96)	104
Total	23,715	(19,596)	4,119

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 2012.

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 2012:

Auditor	Services	Amount Paid (RM)
KPMG	Professional services in connection with the review of the Statement on Risk Management and Internal Control	12,000
KPMG	Extended audit scope on the process of compilation of the disclosure of realised and unrealised profits or losses	15,000
KPMG	Professional services in connection with the adoption of Malaysian Financial Reporting Standards ("MFRS")	35,000

Variation in Results for the Financial Year

The audited financial statements for the financial year ended 31 December 2012, contained in this Annual Report does not deviate by more than 10% from the unaudited results of the Group announced on 27 February 2013.

Share Buybacks

The Company did not enter into any share buyback transactions during the financial year ended 31 December 2012.

Options or Convertible Securities

The Company did not issue any options or convertible securities during the financial year ended 31 December 2012 save for Employees' Share Options Scheme (ESOS) as below:

i) ESOS offered to all employees
The Company's ESOS was approved at Extraordinary General Meeting (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 2012, three (3) offers have been made to the employees as detailed below:

Corporate Governance Statement (cont'd)

Date of Allocation	Exercise Price	Total ESOS		
		Granted ('000)	Exercised / Lapsed('000)	Outstanding ('000)
9 July 2010	RM0.57	31,499	(11,491)	20,008
1 July 2011	RM0.52	1,647	-	1,647
2 July 2012	RM0.50	348	-	348
		33,494	(11,491)	22,003

ii) ESOS to Executive Directors and Senior Management
Under the ESOS, there were no share options offered to and exercised by Executive Directors pursuant to the Company's ESOS for the financial year ended 31 December 2012.

However, a total of 750,000 share options 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 2012 and since the commencement of the ESOS are as follows:

	Financial Year 2012		Since the Commencement of the ESOS	
	Maximum Allowable Allocation (%)	Actual Allocation (%)	Maximum Allowable Allocation (%)	Actual Allocation (%)
Executive Directors and Senior Management	50	9	50	20

iii) ESOS to Non-Executive Directors
As at financial year ended 31 December 2012, ESOS allocation to Non-Executive Directors are as follows:-

No	Name of Director	Amount of options/ shares granted	Amount of options exercised/shares vested	Amount of options/shares outstanding
1	Dato' Seri (Dr.) Goh Eng Toon	1,500,000	-	1,500,000
2	Dato' Dr. Freezailah Bin Che Yeom	1,200,000	-	1,200,000
3	Mr. Ho Tet Shin	1,200,000	-	1,200,000
4	Dato' Choong Moh Kheng	1,200,000	-	1,200,000
	Total	5,100,000	-	5,100,000

Further details in regards to the Company's ESOS are available in the Directors' Report in the Financial Statements on pages 65 to 72 of this Annual Report.

Depository Receipt Programme
The Company did not sponsor any depository receipt programmes during the financial year ended 31 December 2012.

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.

Corporate Governance Statement (cont'd)

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 2012, 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.

Audit Committee Report

The Audit Committee of Salcon Berhad is pleased to present its report for the financial year ended 31 December 2012.

MEMBERSHIP AND ACTIVITIES

Membership

In compliance with the Bursa Securities Main Market Listing Requirements, 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 Accountants as well as a Fellow of the Institute of Chartered Accountants in England and Wales.

Meetings

During the financial year ended 31 December 2012, 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 Head of Finance and Accounts were also present in the meetings to assist in the deliberations, where necessary.

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 2013 Budget Tax Briefing.

Audit Committee Report (cont'd)

Summary of Activities of the Committee

The activities carried out by the Committee during the financial year ended 31 December 2012 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 23 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 Requirements, Malaysian Accounting Standards Board (MASB) and other relevant legal and regulatory requirements.
- Reviewed the Internal Audit & Risk Management Department's resource requirements, performance appraisals, programs and plans for the financial year ending 2012.
- 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 rationalisation measures, reorganisation 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 Requirements.
- Reviewed the verification exercise conducted by the internal auditor on the Employee Share Option Scheme (ESOS) allocation for the financial year ended 31 December 2012 to ensure compliance with the criteria as approved and disclosed by the ESOS Committee.
- Reviewed the suitability and independence of external auditors.

Audit Committee Report (cont'd)

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 clearly 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 Sri Lanka, Vietnam, India and China;
- Reviewed the adequacy of existing procedures in regards to the business development, 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 action were also tabled to the Audit Committee.

All internal audit activities for the financial year ended 31 December 2012 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 620,000.

Audit Committee Report (cont'd)

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 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 Committee should be financially literate and at least one member of the 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.

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.

Audit Committee Report (cont'd)

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 the 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 Listing Requirements 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.

Audit Committee Report (cont'd)

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.

Audit Committee Report (cont'd)

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. 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 Committees was established on 7 July 2010, i.e. the effective date of ESOS, to administer the ESOS of Salcon Berhad. The ESOS Committee main responsibility is to administer the ESOS in accordance to Group's approved By-Laws. The members of the ESOS Committee are provided in page 2 of this Annual Report.

The Audit Committee has verified the third allocation of 8,385,000 options granted of which only 6,198,000 accepted to the eligible employees and Non-Executive Directors for the financial year ended 31 December 2012 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 2012 is 43,355,700 ordinary shares of RM0.50 each.

Statement on Risk Management and Internal Control

Bursa Securities Main Market Listing Requirements, Paragraph 15.26(b) requires the Board of Directors of Listed Issuers to include a Statement of Risk Management and Internal Control in their Annual Reports about the state of internal control in their companies as a group. The MCCG 2012 stipulates that the Board should establish a sound risk management framework and internal control system to safeguard shareholders' investments and the Company's assets. In pursuance thereof and in accordance to the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers, the Board is pleased to report to the shareholders the state of risk management and internal controls that affected the Group during the period under review.

Board Responsibilities

The Board affirms the overall responsibility for maintaining a sound system of internal controls and to review its adequacy and integrity so as to safeguard shareholders' investments and the Group's assets. The Group's system of internal controls cover, inter alia, risk management, financial, operational, organizational, management information system and compliance controls. The systems of internal controls are designed to ensure that the risks facing the Group's businesses in pursuit of its objectives are continuously identified and managed at acceptable levels.

Due to the inherent limitations in any system of internal controls, these systems are designed to manage and thereby, to the maximum extent possible, mitigate, rather than to eliminate, the risk of failure to achieve its corporate objectives fully. Accordingly, these systems can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board has also received assurance from the COO and the Financial Controller that the Group's risk management and internal control system is operating adequately and effective, in all material aspects, based on the risk management and internal control system of the Group.

Risk Management

The Board confirms that there is an embedded process for the ongoing identification, evaluation and reporting of the major business risks faced by the Group, excluding associated company, during the financial year ended 31 December 2012 up to the date of the annual report and financial statements.

The Group has in place a Risk Management Committee 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 operation 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 operation area having its respective risk register. The risk registers are compiled to form the Corporate Risk Register for reporting to the Risk Management Committee on a semi-annual basis. The overall process is facilitated by the Internal Audit & Risk Management Department who are dedicated to the role.

Internal Audit Function

The Board complies with the MCCG 2012, in setting up an internal audit function within the Group. As part of its key functions, the internal audit process reports directly to the Audit Committee 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.

Statement on Risk Management and Internal Control (cont'd)

Other Risks and Control Processes

The Board is pleased to summarise below, the other elements and control processes implemented in reviewing the effectiveness, adequacy and integrity of the system of internal control 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 well as 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 also put in place an organisational 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.

- Business development and management meetings, which involve the Chief Operating Officer, Executive Directors and selected personnel, are held to promptly 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

During the year under review, the Internal Audit & Risk Management Department has performed reviews on all major subsidiaries in Malaysia, project operations in Sri Lanka, Vietnam, India and six (6) out of the thirteen (13) main subsidiaries in China. 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.

Financial Statements

Directors' Report

For the year ended 31 December 2012

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 2012.

PRINCIPAL ACTIVITIES

The Company is principally engaged in investment holding, whilst the principal activities of the subsidiaries are as 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	11,282	5,901
Non-controlling interests	20,180	-
	31,462	5,901

RESERVES AND PROVISIONS

There were no material transfers to or from reserves and provisions during the financial year under review except as disclosed in the financial statements.

DIVIDENDS

Since the end of the previous financial year, the Company paid a first and final dividend of 1.5 sen per ordinary share, single tier totalling RM7,826,000 in respect of the financial year ended 31 December 2011 on 20 July 2012.

The first and final single tier dividend of 1 sen per ordinary share totalling RM5,217,000 recommended by the Directors in respect of the financial year ended 31 December 2012, 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' Report

For the year ended 31 December 2012 (cont'd)

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 1.1.2012	Bought	Sold	At 31.12.2012
The Company				
Direct interest				
Tan Sri Dato' Tee Tiam Lee	26,796,400	-	-	26,796,400
Dato' Leong Kok Wah	700,000	-	-	700,000
Dato' Dr. Freezailah bin Che Yeom	50,400	-	-	50,400
Dato' Choong Moh Kheng	2,055,000	-	-	2,055,000
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)	66,909,600	100,000	-	67,009,600
Ho Tet Shin (4)	21,400	-	-	21,400
Dato' Choong Moh Kheng (5)	10,000,000	-	-	10,000,000

	Number of options over ordinary shares of RM0.50 each			
	At 1.1.2012	Granted	Exercised	At 31.12.2012
The Company				
Direct interest				
Tan Sri Dato' Tee Tiam Lee	1,400,000	-	-	1,400,000
Dato' Leong Kok Wah	1,400,000	-	-	1,400,000
Dato' Seri (Dr.) Goh Eng Toon	-	1,500,000	-	1,500,000
Dato' Dr. Freezailah bin Che Yeom	-	1,200,000	-	1,200,000
Ho Tet Shin	-	1,200,000	-	1,200,000
Dato' Choong Moh Kheng	-	1,200,000	-	1,200,000

Directors' Report

For the year ended 31 December 2012 (cont'd)

DIRECTORS' INTERESTS (CONTINUED)

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

	Number of Warrants 2007/2014			
	At 1.1.2012	Acquired	Exercised/ Disposed	At 31.12.2012
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)	16,704,800	-	-	16,704,800
Ho Tet Shin (4)	10,700	-	-	10,700

(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 Shen, 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").

Directors' Report

For the year ended 31 December 2012 (cont'd)

Issue of shares and debentures

During the financial year, the Company issued 47,430,780 new ordinary shares of RM0.50 each for total cash consideration amounting to RM23,715,000 via private placement.

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 (2011: 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).

Directors' Report

For the year ended 31 December 2012 (cont'd)

OPTIONS GRANTED OVER UNISSUED SHARES (CONTINUED)

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.

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.

Directors' Report

For the year ended 31 December 2012 (cont'd)

OPTIONS GRANTED OVER UNISSUED SHARES (CONTINUED)

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 1.1.2012**	**Granted**	**Exercised**	**Lapsed**	**At 31.12.2012**
9 July 2010	RM0.57	20,008,700	-	-	2,235,800	17,772,900
1 July 2011	RM0.52	1,647,000	-	-	522,000	1,125,000
2 July 2012	RM0.50	-	6,198,000	-	-	6,198,000

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 210,000 options for the new options granted in 2012. 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 2012 of 210,000 or more ordinary shares of RM0.50 each are disclosed in Note 35 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.

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

Directors' Report

For the year ended 31 December 2012 (cont'd)

OTHER STATUTORY INFORMATION (CONTINUED)

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 acquisition of new subsidiaries during the financial year as disclosed in Note 34 to the financial statements, the financial performance of the Group and of the Company for the financial year ended 31 December 2012 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.

Directors' Report

For the year ended 31 December 2012 (cont'd)

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: 30 April 2013

Statements of Financial Position

at 31 December 2012

	Note	Group 31.12.2012 RM'000	Group 31.12.2011 RM'000	Group 1.1.2011 RM'000	Company 31.12.2012 RM'000	Company 31.12.2011 RM'000	Company 1.1.2011 RM'000
Assets							
Property, plant and equipment	3	81,219	28,842	8,467	-	-	-
Intangible assets	4	138,704	135,060	115,073	-	-	-
Trade and other receivables	5	515,236	376,555	274,959	-	-	-
Investment properties	6	8,446	5,104	3,443	-	-	-
Investments in subsidiaries	7	-	-	-	204,874	156,027	80,675
Investment in associate	8	28,329	28,650	30,690	-	-	-
Other investments	10	86	86	86	-	-	-
Deferred tax assets	11	2,420	2,420	2,420	-	-	-
Total non-current assets		774,440	576,717	435,138	204,874	156,027	80,675
Trade and other receivables, including derivatives	5	309,674	286,603	272,404	201,683	186,928	231,138
Inventories	12	26,404	2,940	5,421	-	-	-
Current tax assets		1,366	717	143	1,314	506	-
Assets classified as held for sale	13	-	-	653	-	-	-
Cash and cash equivalents	14	115,392	214,531	145,230	4,733	9,665	2,289
Total current assets		452,836	504,791	423,851	207,730	197,099	233,427
Total assets		1,227,276	1,081,508	858,989	412,604	353,126	314,102
Equity							
Share capital		260,869	237,154	236,774	260,869	237,154	236,774
Reserves		75,995	76,009	59,373	62,686	61,124	59,373
Retained earnings/ (Accumulated losses)		79,691	76,235	26,958	(6,714)	(4,789)	(37,002)
Total equity attributable to owners of the Company	15	416,555	389,398	323,105	316,841	293,489	259,145
Non-controlling interests		225,490	159,032	89,362	-	-	-
Total equity		642,045	548,430	412,467	316,841	293,489	259,145

Statements of Financial Position

at 31 December 2012 (cont'd)

		Group			Company		
	Note	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Liabilities							
Loans and borrowings	16	263,078	243,563	195,882	59,540	38,000	38,000
Deferred tax liabilities	11	6,495	402	79	-	-	-
Total non-current liabilities		269,573	243,965	195,961	59,540	38,000	38,000
Trade and other payables, including derivatives	18	230,429	227,768	205,519	9,223	9,137	8,930
Loans and borrowings	16	80,582	59,622	40,305	27,000	12,500	8,000
Current tax liabilities		4,647	1,723	4,737	-	-	27
Total current liabilities		315,658	289,113	250,561	36,223	21,637	16,957
Total liabilities		585,231	533,078	446,522	95,763	59,637	54,957
Total equity and liabilities		1,227,276	1,081,508	858,989	412,604	353,126	314,102

The notes on pages 83 to 170 are an integral part of these financial statements.

Statements of Comprehensive Income

for the year ended 31 December 2012

		Group		Company	
		2012	2011	2012	2011
	Note	RM'000	RM'000	RM'000	RM'000
Revenue	19	340,806	472,462	16,070	617
Cost of sales		(273,522)	(392,713)	-	-
Gross profit		67,284	79,749	16,070	617
Other income		31,120	13,156	316	44,379
Distribution expenses		(4,892)	(9,638)	(82)	(12)
Administrative expenses		(51,592)	(52,775)	(3,862)	(6,000)
Other expenses		(1,572)	(953)	(3,605)	-
Results from operating activities		40,348	29,539	8,837	38,984
Finance income		13,492	11,756	3,644	2,700
Finance costs	21	(18,428)	(15,134)	(3,832)	(2,792)
Operating profit		35,412	26,161	8,649	38,892
Share of profit of equity-accounted investee, net of tax		3,483	2,892	-	-
Profit before tax		38,895	29,053	8,649	38,892
Income tax	22	(7,433)	(3,698)	(2,748)	436
Profit for the year	23	31,462	25,355	5,901	39,328
Other comprehensive (expense)/ income, net of tax					
Foreign currency translation differences for foreign operations		(4,546)	26,155	-	-
Total other comprehensive (expense)/ income for the year, net of tax	24	(4,546)	26,155	-	-
Total comprehensive income for the year		26,916	51,510	5,901	39,328

Statements of Comprehensive Income

for the year ended 31 December 2012 (cont'd)

		Group		Company	
		2012	2011	2012	2011
	Note	RM'000	RM'000	RM'000	RM'000
Profit attributable to:					
Owners of the Company		11,282	14,645	5,901	39,328
Non-controlling interests		20,180	10,710	-	-
Profit for the year		31,462	25,355	5,901	39,328
Total comprehensive income attributable to:					
Owners of the Company		9,706	29,530	5,901	39,328
Non-controlling interest		17,210	21,980	-	-
Total comprehensive income for the year		26,916	51,510	5,901	39,328
Basic earnings per ordinary share (sen)	25	2.21	3.09		

The notes on pages 83 to 170 are an integral part of these financial statements.

Statements of Changes in Equity

for the year ended 31 December 2012

		Attributable to Owners of the Company								
			Non-distributable				*Distributable*			
Group	**Note**	**Share capital RM'000**	**Share premium RM'000**	**Warrant reserve RM'000**	**Translation reserave RM'000**	**Share option reserve RM'000**	**Retained earnings RM'000**	**Total RM'000**	**Non-controlling interests RM'000**	**Total equity RM'000**
At 1 January 2011		236,774	36,445	22,150	-	778	26,958	323,105	89,362	412,467
Foreign currency translation differences for foreign operations		-	-	-	14,885	-	-	14,885	11,270	26,155
Total other comprehensive income for the year		-	-	-	14,885	-	-	14,885	11,270	26,155
Profit for the year		-	-	-	-	-	14,645	14,645	10,710	25,355
Total comprehensive income for the year		-	-	-	14,885	-	14,645	29,530	21,980	51,510
Share options exercised		380	53	-	-	-	-	433	-	433
Share-based payment transactions	17	-	-	-	-	1,698	-	1,698	-	1,698
Dividends to owners	26	-	-	-	-	-	(7,115)	(7,115)	-	(7,115)
Dividends to non-controlling interests		-	-	-	-	-	-	-	(3,538)	(3,538)
Total contribution from/ distribution to owners		380	53	-	-	1,698	(7,115)	(4,984)	(3,538)	(8,522)
Changes in ownership interests in subsidiaries		-	-	-	-	-	41,747	41,747	51,228	92,975
Total transaction with owners		380	53	-	-	1,698	34,632	36,763	47,690	84,453
Transfer to share premium for share options exercised		-	129	-	-	(129)	-	-	-	-
At 31 December 2011		237,154	36,627	22,150	14,885	2,347	76,235	389,398	159,032	548,430
		Note 15	Note 15	Note 15	Note 15	Note 15	Note 15			

Statements of Changes in Equity

for the year ended 31 December 2012 (cont'd)

Group	Note	Share capital RM'000	Share premium RM'000	Warrant reserve RM'000	Translation reserave RM'000	Share option reserve RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interests 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	26	-	-	-	-	-	(7,826)	(7,826)	-	(7,826)
Dividends to non-controlling interests		-	-	-	-	-	-	-	(4,140)	(4,140)
Total contribution from/ distribution to owners		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			

Statements of Changes in Equity

for the year ended 31 December 2012 (cont'd)

Company	Note	Share capital RM'000	Share premium RM'000	Warrant reserve RM'000	Share option reserve RM'000	Accumulated losses RM'000	Total equity RM'000
			← Non-Distributable		→		
At 1 January 2011		236,774	36,445	22,150	778	(37,002)	259,145
Profit and total comprehensive income for the year		-	-	-	-	39,328	39,328
Share options exercised		380	53	-	-	-	433
Share-based payment transactions	17	-	-	-	1,698	-	1,698
Dividends to owners	26	-	-	-	-	(7,115)	(7,115)
Total contribution from/ distribution to owners		380	53	-	1,698	(7,115)	(4,984)
Transfer to share premium for share options exercised		-	129	-	(129)	-	-
At 31 December 2011/ 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 contribution from/ distribution to owners		23,715	-	-	1,562	(7,826)	17,451
At 31 December 2012		260,869	36,627	22,150	3,909	(6,714)	316,841
		Note 15	Note 15	Note 15	Note 15		

The notes on pages 83 to 170 are an integral part of these financial statements.

Statements of Cash Flows

for the year ended 31 December 2012

	Group		Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Cash flow from operating activities				
Profit before tax	38,895	29,053	8,649	38,892
Adjustments for:				
Amortisation of concession intangible assets	3,213	5,801	-	-
Amortisation of government grant	(626)	(605)	-	-
Amortisation of intangible assets	412	412	-	-
Bad debts written off	-	10	-	-
Change in fair value of investment properties	-	528	-	-
Depreciation of property, plant and equipment	4,256	2,912	-	-
Dividend income		-	(16,070)	(617)
Equity settled share-based payment transactions	1,562	1,698	239	230
Finance costs	18,428	15,134	3,832	2,792
Finance income	(13,492)	(11,756)	(3,644)	(2,700)
Gain on bargain purchase	(10,993)	(21)	-	-
Gain on disposal of property, plant and equipment	(32)	(53)	-	-
Gain on disposal of assets classified as held for sale	-	-	-	-
Gain on disposal of equity interest	-	-	-	(41,747)
Loss on disposal of investment properties	-	100	-	-
Loss on disposal of property, plant and equipment	-	46	-	-
Share of profit of equity accounted associate	(3,483)	(2,892)	-	-
Property, plant and equipment written off	110	12	-	-
Unrealised loss/(gain) on foreign exchange	401	(57)	2,175	(2,390)
Operating profit/(loss) before changes in working capital	38,651	40,322	(4,819)	(5,540)
Changes in trade and other receivables	(2,266)	(86,042)	(3,921)	(104,977)
Changes in inventories	(3,588)	2,481	-	-
Changes in trade and other payables	(27,848)	9,321	399	207
Cash generated from/(used in) operations	4,949	(33,918)	(8,341)	(110,310)

Statements of Cash Flows

for the year ended 31 December 2012 (cont'd)

	Group		Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Cash generated from/(used in) operations	4,949	(33,918)	(8,341)	(110,310)
Interest paid	(16,295)	(15,134)	(3,832)	(2,792)
Tax paid	(4,924)	(7,221)	(56)	(97)
Net cash used in operating activities	(16,270)	(56,273)	(12,229)	(113,199)
Cash flows from investing activities				
Acquisition of property, plant and equipment	(55,061)	(3,934)	-	-
Acquisition of concession intangible assets	(10,156)	(21,916)	-	-
Acquisition of investment properties	(3,342)	(3,791)	-	-
Acquisition of subsidiary, net of cash acquired	(53,445)	(16,122)	(48,847)	-
Dividends received from				
- Associated company	3,804	4,932	-	-
- Subsidiaries	-	-	571	28,076
Interest received	2,898	11,756	3,644	2,700
Proceeds from disposal of assets classified as held for sale	-	653	-	-
Proceeds from disposal of investment properties	-	1,502	-	-
Proceeds from disposal of property, plant and equipment	606	117	-	-
Proceeds from disposal of equity interest	-	-	-	91,981
Fund placed with debts service reserve account	-	(2,201)	-	(2,201)
Net cash (used in)/generated from investing activities	(114,696)	(29,004)	(44,632)	120,556
Cash flows from financing activities				
Acquisition of non-controlling interests	-	994	-	-
Dividends paid to non-controlling interests	(3,146)	(3,538)	-	-
Dividends paid to owners of the Company	(7,826)	(7,115)	(7,826)	(7,115)
Proceeds from issuance of equity shares in subsidiaries to non-controlling interests	8,680	91,981	-	-
Net proceeds from issue of share capital	23,715	433	23,715	433
Proceeds from borrowings	101,753	129,179	51,040	12,500
Repayment of borrowings	(77,723)	(62,362)	(15,000)	(8,000)
Payment of finance lease liabilities	(4,957)	(2,660)	-	-
Net cash generated from/(used in) financing activities	40,496	146,912	51,929	(2,182)

Statements of Cash Flows

for the year ended 31 December 2012 (cont'd)

	Group		Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Net (decrease)/increase in cash and cash equivalents	(90,470)	61,635	(4,932)	5,175
Cash and cash equivalents at 1 January	208,626	139,400	5,263	88
Effect of exchange rate fluctuations on cash held	(7,750)	7,591	-	-
Cash and cash equivalents at 31 December	110,406	208,626	331	5,263

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	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Deposits placed with licensed banks	41,362	131,717	-	5,000
Cash and bank balances	74,030	82,814	4,733	4,665
Bank overdrafts	(584)	(1,503)	-	-
	114,808	213,028	4,733	9,665
Less : Amount placed with debts service reserve account	(4,402)	(4,402)	(4,402)	(4,402)
	110,406	208,626	331	5,263

ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment with an aggregate cost of RM57,274,000 (2011: RM22,989,000), of which RM2,213,000 (2011: RM19,055,000) were acquired by means of finance leases.

Notes to the 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 2012 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 2012 do not include other entities.

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

These financial statements were authorised for issue by the Board of Directors on 30 April 2013.

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 ("MFRSs"), International Financial Reporting Standards and the Companies Act, 1965 in Malaysia. These are the Group and the Company's first financial statements prepared in accordance with MFRSs and MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards has been applied.

In the previous financial years, the financial statements of the Group and the Company were prepared in accordance with Financial Reporting Standards ("FRSs") in Malaysia. The financial impacts on transition to MFRSs are disclosed in Note 36.

The following are accounting standards, amendments and interpretations of the MFRS framework 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 July 2012

- Amendments to MFRS 101, Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2013

- MFRS 10, Consolidated Financial Statements
- MFRS 11, Joint Arrangements
- MFRS 12, Disclosure of Interests in Other Entities
- MFRS 13, Fair Value Measurement
- MFRS 119, Employee Benefits (2011)
- MFRS 127, Separate Financial Statements (2011)
- MFRS 128, Investments in Associates and Joint Ventures (2011)

Notes to the Financial Statements (cont'd)

1. BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2013 (continued)

- IC Interpretation 20, Stripping Costs in the Production Phase of a Surface Mine
- Amendments to MFRS 7, Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
- Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards – Government Loans
- Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2009-2011 Cycle)
- Amendments to MFRS 101, Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)
- Amendments to MFRS 116, Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)
- Amendments to MFRS 132, Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle)
- Amendments to MFRS 134, Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)
- Amendments to MFRS 10, Consolidated Financial Statements: Transition Guidance
- Amendments to MFRS 11, Joint Arrangements: Transition Guidance
- Amendments to MFRS 12, Disclosure of Interests in Other Entities: Transition Guidance

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

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2015

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

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

- from the annual period beginning on 1 January 2013 for those standards, amendments or interpretations that are effective for annual periods beginning on or after 1 July 2012 and 1 January 2013, except for IC Interpretation 20 which is not applicable to the Group and the Company.

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

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

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

Notes to the Financial Statements (cont'd)

1. BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

(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.

The adoption of MFRS 9 will result in a change in accounting policy. The Group is currently assessing the financial impact of adopting MFRS 9.

(ii) MFRS 10, Consolidated Financial Statements

MFRS 10 introduces a new single control model to determining which investees should be consolidated. MFRS 10 supersedes MFRS 127, Consolidated and Separate Financial Statements and IC Interpretation 112, Consolidation – Special Purpose Entities. There are three elements to the definition of control in MFRS 10:

(i) power by investor over an investee,
(ii) exposure, or rights, to variable returns from investor's involvement with the investee, and
(iii) investor's ability to affect those returns through its power over the investee.

The Group is currently assessing the financial impact of adopting MFRS 10.

(iii) MFRS 11, Joint Arrangements

MFRS 11 establishes the principles for classification and accounting for joint arrangements and supersedes MFRS 131, Interests in Joint Ventures. Under MFRS 11, a joint arrangement may be classified as joint venture or joint operation. Interest in joint venture will be accounted for using the equity method whilst interest in joint operation will be accounted for using the applicable MFRSs relating to the underlying assets, liabilities, income and expense items arising from the joint operations.

The Group is currently assessing the financial impact of adopting MFRS 11.

(iv) MFRS 119, Employee Benefits (2011)

The amendments to MFRS 119 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor method' permitted under the previous version of MFRS 119 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to MFRS 119 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application. The amendments to MFRS 119 have no significant impact to the Group.

Notes to the Financial Statements (cont'd)

1. BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

(v) Amendments to MFRS 116, Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)

The amendments to MFRS 116 clarify that items such as spare parts, stand-by equipment and servicing equipment shall be recognised as property, plant and equipment when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.

The initial application of other standards, amendments and interpretations is not expected to have any material financial impacts to the current and prior periods financial statements of the Group and the Company upon their first adoption.

(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.

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 6 - valuation of investment properties
- Note 11 - recognition of unutilised tax losses
- Note 12 - valuation of recoverability and impairment of receivables

Notes to the Financial Statements (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, and in preparing the opening MFRS statements of financial position of the Group and of the Company at 1 January 2011 (the transition date to MFRS framework), unless otherwise stated.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities, including unincorporated entities, controlled by the Company. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that the control commences until the date that control ceases. Control exists when the Company 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. In assessing control, potential voting rights that presently are exercisable are taken into account.

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. The cost of investments includes transaction costs.

The accounting policies of subsidiaries are changed when necessary to align them with the policies adopted by the Group.

(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.

Acquisitions on or after 1 January 2011

For acquisitions on or after 1 January 2011, the Group measures 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.

Costs related to the acquisition, 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.

Notes to the Financial Statements (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (continued)

(ii) Accounting for business combinations (continued)

Acquisitions before 1 January 2011

As part of its transition to MFRS, the Group elected not to restate those business combinations that occurred before the date of transition to MFRSs, i.e. 1 January 2011. Goodwill arising from acquisitions before 1 January 2011 has been carried forward from the previous FRS framework as at the date of transition.

(iii) Accounting for acquisitions of 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 subsidiary, any non-controlling interests and the other components of equity related to the 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 previous 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.

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.

Notes to the Financial Statements (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (continued)

(vi) Jointly-controlled operation and assets

A jointly controlled operation is a joint venture carried on by each venturer using its own assets in pursuit of the joint operations. The consolidated financial statements include the assets that the Group controls and the liabilities that it incurs in the course of pursuing the joint operation, and the expenses that the Group incurs and its share of the income that it earns from the joint operation.

(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.

(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 associates are eliminated against the investment to the extent of the Group's interest in the associates. 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.

Notes to the Financial Statements (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Foreign currency (continued)

(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 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 profit 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.

(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.

Notes to the Financial Statements (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

(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.

Notes to the Financial Statements (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

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

(c) Available-for-sale financial assets (continued)

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)).

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 unquoted equity 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.

Notes to the Financial Statements (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

(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.

(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.

Notes to the Financial Statements (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment (continued)

(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.

(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.

Notes to the Financial Statements (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Leased assets (continued)

(i) Finance lease (continued)

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.

(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.

Notes to the Financial Statements (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Intangible assets (continued)

(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.

(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 and are amortised over the concession period on a straight line amortisation. 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 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.

Notes to the Financial Statements (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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 other comprehensive income and accumulated in equity as revaluation reserve. 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.

(iii) Determination of fair value

An external, independent valuation firm, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property portfolio every year.

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably.

Notes to the Financial Statements (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Investments properties (continued)

(iii) Determination of fair value (continued)

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A market yield that reflects the specific risks inherent in the net cash flows is then applied to the net annual cash flows to arrive at the property valuation. When actual rents differ materially from the estimated rental value, adjustment are made to reflect actual rents.

Valuations reflect, where appropriate:

- the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, and the market's general perception of their creditworthiness;
- the allocation of maintenance and insurance responsibilities between the Group and the lessee; and
- the remaining economic life of the property.

When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices and where appropriate counter-notices, have been served validly and within the appropriate time.

(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 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).

Notes to the Financial Statements (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 to sell.

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 investees ceases once classified as held for sale.

(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 revenue 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.

Notes to the Financial Statements (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Impairment (continued)

(i) Financial assets (continued)

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.

(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 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 to sell. 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.

Notes to the Financial Statements (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Impairment (continued)

(ii) Other assets (continued)

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 the group of cash-generating units and then to reduce the carrying amount 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.

Notes to the Financial Statements (cont'd)

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. Once the contributions have been paid, the Group has no further payment obligations.

(iii) Share-based payment transactions

The grant date fair value of share-based payment awards 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 actual number of share options that vested during the period.

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.

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.

Notes to the Financial Statements (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Provisions (continued)

Contingent liabilities (continued)

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.

(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/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.

Notes to the Financial Statements (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Revenue and other income (continued)

(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.

(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.

Notes to the Financial Statements (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 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.

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.

A tax incentive that is not a tax base of an asset is recognised as a reduction of tax expense in profit or loss as and when it is granted and claimed. Any unutilised portion of the tax incentive is recognised as a deferred tax asset to the extent that it is probable that future taxable profits will be available against which the unutilised tax incentive can be utilised.

(u) 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.

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.

(v) 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 assess its performance, and for which discrete financial information is available.

Notes to the Financial Statements (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) 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 consumer 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).

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.

Notes to the Financial Statements (cont'd)

3. PROPERTY, PLANT AND EQUIPMENT

Group	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
Cost							
At 1 January 2011	1,156	409	863	10,047	5,258	-	17,733
Acquisition through business combinations	-	-	150	-	-	-	150
Other additions	-	-	2	22,377	610	-	22,989
Disposals	-	-	(271)	(571)	(511)	-	(1,353)
Write-off	-	-	-	-	(21)	-	(21)
Effect of movements in exchange rates	-	-	-	288	76	-	364
At 31 December 2011/ 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	1,156	409	1,189	32,173	5,637	55,221	95,785

Notes to the Financial Statements (cont'd)

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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 2011	62	73	669	4,768	3,694	-	9,266
Depreciation for the year	4	10	239	2,150	509	-	2,912
Disposals	-	-	(254)	(570)	(465)	-	(1,289)
Write-off	-	-	-	-	(9)	-	(9)
Effect of movements in exchange rates	-	-	-	95	45	-	140
At 31 December 2011/ 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	70	93	711	9,692	4,000	-	14,566
Carrying amounts							
At 1 January 2011	1,094	336	194	5,279	1,564	-	8,467
At 31 December 2011/ 1 January 2012	1,090	326	90	25,698	1,638	-	28,842
At 31 December 2012	1,086	316	478	22,481	1,637	55,221	81,219

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 RM19,880,000 (2011: RM21,239,000).

Notes to the Financial Statements (cont'd)

4. INTANGIBLE ASSETS

Group	Goodwill RM'000	Concession rights RM'000	Concession intangible assets RM'000	Total RM'000
Cost				
At 1 January 2011	3,683	13,175	108,857	125,715
Addition	-	-	21,916	21,916
Effect of movements in exchange rates	-	-	6,348	6,348
At 31 December 2011/1 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	3,683	13,191	143,711	160,585
Amortisation				
At 1 January 2011	-	1,153	9,489	10,642
Amortisation for the year	-	412	5,801	6,213
Effect of movements in exchange rates	-	-	2,064	2,064
At 31 December 2011/1 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	-	1,977	19,904	21,881
Carrying amounts				
At 1 January 2011	3,683	12,022	99,368	115,073
At 31 December 2011/1 January 2012	3,683	11,610	119,767	135,060
At 31 December 2012	3,683	11,214	123,807	138,704

Included in concession intangible assets are capital work-in-progress relates to costs incurred to date in respect of the construction of water treatment plant in China amounting to RM4.0 million (2011: RM2.4 million) and are not depreciated.

Notes to the Financial Statements (cont'd)

4. INTANGIBLE ASSETS (CONTINUED)

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).

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 2011 and 2012, 3 years cash flow projections were prepared. An average growth rate of 5 percent (2011: 6 percent) was incorporated into the projections.

- A pre-tax discount rate of 10 percent (2011: 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, Jiangsu Salcon Water & Environmental Development Company Limited and Yizheng Rong Xin Wastewater Treatment Company Limited and of 50 years for Shandong Changle Salcon Water Company Limited.

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.

Notes to the Financial Statements (cont'd)

5. TRADE AND OTHER RECEIVABLES, INCLUDING DERIVATIVES

	Note	Group 31.12.2012 RM'000	Group 31.12.2011 RM'000	Group 1.1.2011 RM'000	Company 31.12.2012 RM'000	Company 31.12.2011 RM'000	Company 1.1.2011 RM'000
Non-current							
Trade							
Receivables from concession arrangements		510,451	371,247	274,959	-	-	-
Non-trade							
Other receivables	5.1	4,785	5,308	-	-	-	-
		515,236	376,555	274,959	-	-	-
Current							
Trade							
Trade receivables	5.2	157,425	139,899	103,847	-	-	-
Amount due from contract customers	5.3	70,021	77,933	112,931	-	-	-
		227,446	217,832	216,778	-	-	-
Non-trade							
Amount due from associate	5.4	5	5	1	-	-	-
Amount due from subsidiaries	5.5	-	-	-	189,394	179,390	230,434
Other receivables	5.6	67,142	47,724	48,695	12,289	-	-
Deposits	5.7	13,592	15,514	1,790	-	7,530	-
Prepayments		1,403	5,425	4,800	-	8	704
Financial assets at fair value through profit or loss: - Held for trading, including derivatives		86	103	340	-	-	-
		82,228	68,771	55,626	201,683	186,928	231,138
		309,674	286,603	272,404	201,683	186,928	231,138
		824,910	663,158	547,363	201,683	186,928	231,138

Notes to the Financial Statements (cont'd)

5. TRADE AND OTHER RECEIVABLES, INCLUDING DERIVATIVES (CONTINUED)

5.1 In 2011, a subsidiary of the Company has entered into a debt settlement agreement with a debtor to restructure its debts. The debt settlement agreement involves a 8-year installments plan to be repaid by cash and the amount is non-interest bearing and unsecured.

5.2 Included in trade receivables of the Group are retention sums amounting to RM17,806,000 (31 December 2011: RM24,630,000; 1 January 2011: RM13,956,000) relating to construction work-in-progress. Retentions are unsecured, interest-free and are expected to be collected as follows:

		Group	
	31.12.2012 RM'000	**31.12.2011 RM'000**	**1.1.2011 RM'000**
Within 1 year	569	2,992	100
1 - 2 years	2,843	8,286	3,473
2 - 3 years	8,083	4,035	4,774
3 - 4 years	3,583	2,315	932
4 - 5 years	2,728	7,002	4,677
	17,806	24,630	13,956

5.3 Amount due from contract customers

			Group	
	Note	**31.12.2012 RM'000**	**31.12.2011 RM'000**	**1.1.2011 RM'000**
Aggregate costs incurred to date		1,204,555	930,942	908,511
Add: Attributable profit		137,265	102,227	136,839
		1,341,820	1,033,169	1,045,350
Less: Progress billings		(1,297,344)	(976,244)	(947,689)
		44,476	56,925	97,661
Amount due to contract customers	18	25,545	21,008	15,270
Amount due from contract customers		70,021	77,933	112,931

Included in aggregate costs incurred during the year are personnel expenses and hiring of equipment amounting to RM9,886,000 (31 December 2011: RM9,538,000; 1 January 2011: RM6,862,000) and RM1,028,000 (31 December 2011: RM1,465,000; 1 January 2011: RM1,273,000) respectively.

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

5.5 The amount due from subsidiaries are unsecured, interest free and repayable upon demand except for an amount due from a subsidiary amounting to RM114.3 million (31 December 2011: RM123.2 million; 1 January 2011: RM65 million) which bear interest ranging from 2% to 5.8% (31 December 2011: 2% to 5.8%; 1 January 2011: 5.20%) per annum.

Notes to the Financial Statements (cont'd)

5. TRADE AND OTHER RECEIVABLES, INCLUDING DERIVATIVES (CONTINUED)

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

i) RM491,000 (31 December 2011: RM14,896,000; 1 January 2011: RM15,700,000) being advance payments to sub-contractors/suppliers of subsidiaries which was paid in accordance with the terms of the contract.

ii) In 2011, accumulated pre-commencement projects expenses of RM4,456,000 incurred in prior years have been charged out to profit or loss.

iii) Allowance for impairment losses is amounting to RM362,000 (31 December 2011: RM271,000; 1 January 2011: RM132,000).

iv) Advances paid to contractors in constructing the water treatment plants in China amounted to RM nil (31 December 2011: RM834,000; 1 January 2011: RM3.1 million).

v) Advances amounting to RM14.7 million (31 December 2011: RM15.5 million; 1 January 2011: RM14 million) paid to a joint venture partner of a subsidiary in arranging advance payment to the respective sub-contractors for construction of water transmission project.

vi) During the financial year, a subsidiary has terminated its concession agreement with the local authority for a net compensation of RM31,074,000 receivable before 1 November 2015 (Note 37).

5.7 In 2011, included in deposits of the Group and of the Company is a refundable deposit amounted to RM7,350,000 relating to deposit paid to Darco Water Technologies Limited ("Darco") for the acquisition of 60% equity interest in Darco Environmental Pte. Ltd., a subsidiary of Darco.

6. INVESTMENT PROPERTIES

		Group	
		2012	2011
	Note	RM'000	RM'000
As at 1 January		5,104	3,443
Acquisition through business combination	34	19,720	-
Acquisitions		3,342	3,791
Disposal		-	(1,602)
Change in fair value		-	(528)
Transfer to inventories	12	(19,720)	-
At 31 December		8,446	5,104

Notes to the Financial Statements (cont'd)

6. INVESTMENT PROPERTIES (CONTINUED)

Included in the above are:

	Group 31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Freehold land	319	319	230
Freehold land and buildings	511	511	2,642
Leasehold land and buildings with unexpired lease period of more than 50 years	7,616	4,274	571
	8,446	5,104	3,443

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

	Group 2012 RM'000	2011 RM'000
Retail income	25	41
Direct operating expenses:		
- income generating investment properties	5	10

The titles to the leasehold land and buildings with carrying amount of RM7,122,000 (2011: RM3,781,000) are in the process of being transferred to the subsidiaries.

The Directors estimate the fair value of investment properties based on comparable market value of similar properties. Based on the Directors' estimation, the fair value of the investment properties approximates their carrying amounts at 31 December 2012 and 31 December 2011.

7. INVESTMENTS IN SUBSIDIARIES

	Company 31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Unquoted shares, at cost	204,464	155,617	80,265
Unquoted preference shares, at cost	7,267	7,267	7,267
Less: Impairment losses	(6,857)	(6,857)	(6,857)
	204,874	156,027	80,675

Notes to the Financial Statements (cont'd)

7. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Details of the subsidiaries are as follows:-

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest 31.12.2012 %	31.12.2011 %	1.1.2011 %
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	100
Salcon Water (Asia) Limited +	Hong Kong	Investment holding	60	60	100
Integrated Water Services (M) Sdn. Bhd.	Malaysia	Operation and maintenance of a water treatment plant.	51	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	100	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	100
Salcon Water International Limited +	Hong Kong	Dormant	100	100	100
Salcon Capital Sdn. Bhd.	Malaysia	Investment holding	100	100	100
Salcon Power (HK) Limited +	Hong Kong	Dormant	100	100	100

Notes to the Financial Statements (cont'd)

7. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest 31.12.2012 %	31.12.2011 %	1.1.2011 %
Salcon Water (HK) Limited +	Hong Kong	Dormant	100	100	100
Salcon Water International Pte. Ltd. ^	Singapore	Dormant	100	100	100
Salcon Darco Environmental Pte Ltd (formerly known as Darco Environmental Pte Ltd)^	Singapore	Investment holding	60	-	-
Salcon Development Sdn. Bhd.	Malaysia	Investment holding	100	-	-
Kencana Kesuma Sdn. Bhd.	Malaysia	Dormant	100	-	-
Gerbang Mawar Sdn. Bhd.	Malaysia	Dormant	100	-	-
Satria Megajuta Sdn. Bhd.	Malaysia	Dormant	100	-	-
Subsidiaries of Salcon Engineering Berhad:					
Salcon-Centrimax Engineering Sdn. Bhd.	Malaysia	Dormant	100	100	100
Precise Metal Sdn. Bhd.	Malaysia	Dormant	100	100	100
Salcon Power Sdn. Bhd.	Malaysia	Investment holding	100	100	100

Notes to the Financial Statements (cont'd)

7. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest 31.12.2012 %	31.12.2011 %	1.1.2011 %
Subsidiaries of Salcon Engineering Berhad (continued):					
Salcon Resources Sdn. Bhd.	Malaysia	Dormant	100	100	100
Salcon Environmental Services Sdn. Bhd.	Malaysia	Operation and maintenance of water treatment plants.	100	100	100
Envitech Sdn. Bhd.	Malaysia	Design, building, operation and maintenance of wastewater and sewage treatment plants.	60	60	60
Glitteria Sdn. Bhd. @	Malaysia	Provision of engineering works	50	50	50
Bumi Tiga Enterprise Sdn. Bhd.	Malaysia	Investment holding	100	100	100
Salcon Corporation Sdn. Bhd.	Malaysia	Dormant	100	100	100
Salcon (Perak) Sdn. Bhd. @	Malaysia	Dormant	40	40	40
Tanjung Jutaria Sdn. Bhd.	Malaysia	Dormant	100	-	-
Salcon (Sarawak) Sdn. Bhd.	Malaysia	Dormant	100	100	100
Salcon Holdings (Mauritius) Limited ^	Mauritius	Investment holding	100	100	100
Salcon Engineering Vietnam Company Limited ^	Vietnam	Dormant	100	100	100

Notes to the Financial Statements (cont'd)

7. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest 31.12.2012 %	31.12.2011 %	1.1.2011 %
Subsidiaries of Bumi Tiga Enterprise Sdn. Bhd:					
Skeel Engineering Sdn. Bhd.	Malaysia	Dormant	100	100	100
Salcon Building Services Sdn. Bhd.	Malaysia	Dormant	100	100	100
Eagle Metalizing & Coatings Company Sdn. Bhd. *	Malaysia	Dormant	60	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	100
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	100
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	100
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	100

Notes to the Financial Statements (cont'd)

7. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of subsidiary	Country of incorporation	Principal activities	31.12.2012 %	Effective ownership interest 31.12.2011 %	1.1.2011 %
Subsidiaries of Salcon Water (Asia) Limited: (continued)					
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	100
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	65
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	60
Subsidiaries of Linyi Salcon Water Company Limited:					
Linyi Runcheng Water Supply Project Company Limited +	People's Republic of China	Repair and maintenance of municipal water supply pipeline, equipment, water supply equipment.	36	36	60
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	-

Notes to the Financial Statements (cont'd)

7. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of subsidiary	Country of incorporation	Principal activities	31.12.2012 %	Effective ownership interest 31.12.2011 %	1.1.2011 %
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. Sdn. Bhd.	36	36	60
Subsidiaries 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	100
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	100
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	67	67

Notes to the Financial Statements (cont'd)

7. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest 31.12.2012 %	31.12.2011 %	1.1.2011 %
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	67	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	51.3	51.3	-
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	100

Notes to the Financial Statements (cont'd)

7. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest 31.12.2012 %	31.12.2011 %	1.1.2011 %
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	100
Subsidiary of Salcon Development Sdn. Bhd.:					
Azitin Venture Sdn. Bhd.	Malaysia	Property development	50	-	-
Nusantara Megajuta	Malaysia Sdn. Bhd.	Property development	50	-	-
Subsidiary of Salcon Darco Environmental Pte Ltd (formerly known as 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	-	-
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	-	-

Notes to the Financial Statements (cont'd)

7. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

+ 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.

8. INVESTMENT IN ASSOCIATE

		Group	
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Unquoted shares, at cost	11,800	11,800	11,800
Unquoted preference shares, at cost	10,000	10,000	10,000
Share of post-acquisition profits	6,529	6,850	8,890
	28,329	28,650	30,690

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
31 December 2012						
EUC*	Malaysia	40%	22,711	8,708	47,395	786
31 December 2011						
EUC*	Malaysia	40%	22,405	7,229	50,291	1,302
1 January 2011						
EUC*	Malaysia	40%	23,632	9,107	67,078	885

* 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.

Notes to the Financial Statements (cont'd)

9. INVESTMENT IN JOINTLY CONTROLLED ENTITY

Details of jointly controlled entity is as follows:

	Principal activities	Proportion of ownership interest 31.12.2012 %	31.12.2011 %	1.1.2011 %
WET - Envitech Joint Venture	Construction of sewage treatment plants, project management on sewage treatment plants and related activities.	50	50	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 is dormant during the financial year.

There are no contingencies and commitments relating to the Group's interest in the jointly controlled entity.

10. OTHER INVESTMENTS

Group	Total RM'000	Unquoted shares RM'000	Other investment RM'000
31 December 2012			
Non-current			
Available-for-sale financial assets	4,815	175	4,640
Less: Impairment loss	(4,729)	(175)	(4,554)
	86	-	86
31 December 2011			
Non-current			
Available-for-sale financial assets	4,815	175	4,640
Less: Impairment loss	(4,729)	(175)	(4,554)
	86	-	86
1 January 2011			
Non-current			
Available-for-sale financial assets	4,815	175	4,640
Less: Impairment loss	(4,729)	(175)	(4,554)
	86	-	86

Notes to the Financial Statements (cont'd)

10. OTHER INVESTMENTS (CONTINUED)

Company	Total RM'000	Unquoted shares RM'000	Other investment RM'000
31 December 2012			
Non-current			
Available-for-sale financial assets	4,500	-	4,500
Less: Impairment loss	(4,500)	-	(4,500)
	-	-	-
31 December 2011			
Non-current			
Available-for-sale financial assets	4,500	-	4,500
Less: Impairment loss	(4,500)	-	(4,500)
	-	-	-
1 January 2011			
Non-current			
Available-for-sale financial assets	4,500	-	4,500
Less: Impairment loss	(4,500)	-	(4,500)
	-	-	-

Notes to the Financial Statements (cont'd)

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		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Property, plant and equipment	-	-	-	(1,288)	(761)	(520)	(1,288)	(761)	(520)
Provisions	229	179	590	(225)	-	-	4	179	590
Other items	37	-	-	(5,749)	(181)	(126)	(5,712)	(181)	(126)
Tax losses carry-forwards	2,835	2,781	2,397	-	-	-	2,835	2,781	2,397
Unabsorbed capital allowances	86	-	-	-	-	-	86	-	-
Tax assets/(liabilities)	3,187	2,960	2,987	(7,262)	(942)	(646)	(4,075)	2,018	2,341
Set off of tax	(767)	(540)	(567)	767	540	567	-	-	-
Net tax assets/(liabilities)	2,420	2,420	2,420	(6,495)	(402)	(79)	(4,075)	2,018	2,341

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 RM11.3 million will not be available to the Group, resulting in a decrease in deferred tax assets of RM2.8 million.

Notes to the Financial Statements (cont'd)

11. DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

Unrecognised deferred tax assets

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

	Group			Company		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Unabsorbed capital allowance	849	465	40	-	-	-
Unutilised tax losses	3,812	1,060	702	-	-	-
	4,661	1,525	742	-	-	-

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 there from.

Movement in temporary differences during the year

Group	At 1.1.2011 RM'000	Recognised in profit or loss (Note 22) RM'000	At 1.1.2012 RM'000	Acquisition through business combination (Note 34) RM'000	Recognised in profit or loss (Note 22) RM'000	At 31.12.2012 RM'000
Property, plant and equipment	(520)	(241)	(761)	-	(527)	(1,288)
Provisions	590	(411)	179	-	(175)	4
Other items	(126)	(55)	(181)	(5,749)	218	(5,712)
Tax losses carry-forwards	2,397	384	2,781	-	54	2,835
Unabsorbed capital allowances	-	-	-	-	86	86
	2,341	(323)	2,018	(5,749)	(344)	(4,075)

Notes to the Financial Statements (cont'd)

12. INVENTORIES

		Group		
	Note	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
At cost:				
Raw materials and consumables		3,931	2,927	4,886
Spares		1,259	13	535
Land held for property development	12.1	21,214	-	-
		26,404	2,940	5,421

In 2012, inventories recognised as cost of sales amounted to RM11,164,000 (2011: RM8,089,000).

12.1 Land held for property development

	Note	Group RM'000
At 1 January 2011/1 January 2012		-
Transfer from investment properties	6	19,720
Additions during the year		1,494
At 31 December 2012		21,214

13. ASSETS CLASSIFIED AS HELD FOR SALE

	Group RM'000
Assets classified as held for sale	
At 1 January 2011	653
Disposal	(653)
At 31 December 2011	-

In 2011, the Group disposed of the investment properties for a total consideration of RM653,000 to a third party.

Notes to the Financial Statements (cont'd)

14. CASH AND CASH EQUIVALENTS

	Group			Company		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Deposits placed with licensed banks						
- Malaysia	24,195	110,053	37,684	-	-	-
- Outside Malaysia	17,167	21,664	51,079	-	-	-
	41,362	131,717	88,763	-	-	-
Cash and bank balances						
- Malaysia	37,073	25,371	18,118	4,733	9,665	2,289
- Outside Malaysia	36,957	57,443	38,349	-	-	-
	74,030	82,814	56,467	4,733	9,665	2,289
	115,392	214,531	145,230	4,733	9,665	2,289

Included in the cash and bank balances is RM4,402,000 (31 December 2011: RM4,402,000; 1 January 2011: RM2,201,000) placed in a debts service reserve account with restricted withdrawal of fund.

The currency profile of cash and cash equivalents is as follows:

	Group			Company		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Ringgit Malaysia (RM)	54,771	135,194	45,764	4,714	9,596	2,289
Renminbi (RMB)	46,151	65,846	87,992	-	-	-
U.S. Dollar (USD)	8,094	10,333	5,485	19	69	-
Japanese Yen (JPY)	54	10	23	-	-	-
Vietnamese Dong (VND)	231	340	1,848	-	-	-
Sri Lanka Rupee (LKR)	1,422	1,528	2,901	-	-	-
Thai Baht (THB)	233	46	69	-	-	-
Hong Kong Dollar (HKD)	2,757	1,066	27	-	-	-
Euro (EUR)	10	24	990	-	-	-
Indonesian Rupiah (IDR)	6	5	8	-	-	-
Pound Sterling (GBP)	109	49	-	-	-	-
Indian Rupees (Rs)	1,554	90	123	-	-	-
	115,392	214,531	145,230	4,733	9,665	2,289

Notes to the Financial Statements (cont'd)

15. CAPITAL AND RESERVES

	Group and Company					
	Amount 31.12.2012 RM'000	Number of shares 31.12.2012 '000	Amount 31.12.2011 RM'000	Number of shares 31.12.2011 '000	Amount 1.1.2011 RM'000	Number of shares 1.1.2011 '000
Authorised						
Ordinary shares of RM0.50 each	500,000	1,000,000	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	237,154	474,308	236,774	473,548	233,860	467,720
Issued for cash under Employees Share Option Scheme	-	-	380	760	2,914	5,828
Issued for cash under private placement	23,715	47,430	-	-	-	-
At 31 December	260,869	521,738	237,154	474,308	236,774	473,548

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 effected 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.

Notes to the Financial Statements (cont'd)

15. CAPITAL AND RESERVES (CONTINUED)

Section 108 tax credit

The Company has opted for the single tier income tax system. As such, Section 108 tax credit is no longer available to the Company.

16. LOANS AND BORROWINGS

	Group			Company		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Non-current						
Finance lease liabilities	11,966	14,571	2,276	-	-	-
Term loans (unsecured)	251,112	228,992	193,606	59,540	38,000	38,000
	263,078	243,563	195,882	59,540	38,000	38,000
Current						
Bank overdrafts (unsecured)	584	1,503	3,629	-	-	-
Bankers' acceptances (unsecured)	6,120	-	1,726	-	-	-
Revolving credits (unsecured)	3,000	3,564	4,444	-	-	-
Term loans (unsecured)	66,414	49,953	28,979	27,000	12,500	8,000
Finance lease liabilities	4,464	4,602	1,527	-	-	-
	80,582	59,622	40,305	27,000	12,500	8,000

Included in unsecured term loans of the Group is RM16,073,000 (31 December 2011: RM16,483,000; 1 January 2011: RM16,875,000) being term loan obtained from Linyi Municipal Government which bear interest at rate of 2.90% (31 December 2011: 2.55%; 1 January 2011: 2.55%) per annum.

Notes to the Financial Statements (cont'd)

16. LOANS AND BORROWINGS (CONTINUED)

16.1 Security

All of the facilities granted to the subsidiaries are guaranteed by the Company.

16.2 Finance lease liabilities

Finance lease liabilities are payable as follows:

Group	Future minimum lease payments 31.12.2012 RM'000	Interest 31.12.2012 RM'000	Present value of minimum lease payments 31.12.2012 RM'000	Future minimum lease payments 31.12.2011 RM'000	Interest 31.12.2011 RM'000	Present value of minimum lease payments 31.12.2011 RM'000	Future minimum lease payments 1.1.2011 RM'000	Interest 1.1.2011 RM'000	Present value of minimum lease payments 1.1.2011 RM'000
Less than one year	5,376	(912)	4,464	5,680	(1,078)	4,602	1,701	(174)	1,527
Between one and five years	13,070	(1,104)	11,966	16,302	(1,731)	14,571	2,410	(134)	2,276
	18,446	(2,016)	16,430	21,982	(2,809)	19,173	4,111	(308)	3,803

Notes to the Financial Statements (cont'd)

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.

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 employees on 1 July 2011	1,647	Eligible employees are confirmed and eligible employees 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

Notes to the Financial Statements (cont'd)

17. EMPLOYEE BENEFITS (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
Total share options	39,344		

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

	Weighted average exercise price RM	Group and Company 2012 '000	2011 '000
Outstanding at 1 January	0.57	21,655	24,430
Granted during the year	0.50	6,198	1,647
Lapsed during the year	0.56	(2,758)	(3,662)
Exercised during the year	0.57	-	(760)
Outstanding at 31 December	0.54	25,095	21,655

The options outstanding at 31 December 2012 have an exercise price in the range of RM0.50 to RM0.57 (2011: RM0.52 to RM0.57) and a weighted average contractual life of 4 years (2011: 4 years).

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:

	2012	2011
Fair value of share options and assumptions		
Fair value at grant date	RM0.08	RM0.12
Weighted average share price	RM0.61	RM0.56
Exercise price	RM0.50	RM0.52
Expected volatility (weighted average volatility)	2.08%	1.98%
Option life (expected weighted average life)	3 years	4 years
Risk-free interest rate (based on Malaysian government bonds)	4.012%	4.26%

Notes to the Financial Statements (cont'd)

17. EMPLOYEE BENEFITS (CONTINUED)

Value of employee services received for issue of share options

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Expenses recognised as share-based payments	1,562	1,698	239	230

18. TRADE AND OTHER PAYABLES, INCLUDING DERIVATIVES

		Group			Company		
	Note	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Trade							
Trade payables		93,831	92,114	91,990	-	-	-
Amount due to contract customers	5	25,545	21,008	15,270	-	-	-
		119,376	113,122	107,260	-	-	-
Non-trade							
Amount due to associate	18.1	2	2	1	-	-	-
Amount due to subsidiaries	18.2	-	-	-	8,067	8,368	8,132
Other payables	18.3	93,664	97,691	81,908	565	589	739
Accrued expenses		5,179	2,049	849	591	180	59
Deferred income	18.4	12,208	14,904	15,501	-	-	-
		111,053	114,646	98,259	9,223	9,137	8,930
		230,429	227,768	205,519	9,223	9,137	8,930

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) RM19.1 million (31 December 2011: RM26.9 million; 1 January 2011: RM19.5 million) being amount payable to the Linyi Municipal Government for the acquisition of water related assets.

ii) Advances received from contract customers amounting to RM24.4 million (31 December 2011: RM43.4 million; 1 January 2011: RM40.6 million) being mobilisation costs received in advance in accordance with terms of the contracts.

Notes to the Financial Statements (cont'd)

18. TRADE AND OTHER PAYABLES, INCLUDING DERIVATIVES (CONTINUED)

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

iii) Dividend payable by a subsidiary to non-controlling interest of RM1,553,000 million (31 December 2011: RM559,000; 1 January 2011: RM280,000).

18.4 The deferred income relates to government grant received from the Government of China amounting to RM12.2 million (31 December 2011: RM14.9 million; 1 January 2011: RM15.5 million) for the water concession investment in China. The amount will be recognised in profit or loss over the remaining concession period of 24 years.

19. REVENUE

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Sales	19,441	29,562	-	-
Services	13,771	9,724	-	-
Construction	190,617	341,774	-	-
Operating concession revenue	116,977	91,402	-	-
Dividends	-	-	16,070	617
	340,806	472,462	16,070	617

20. KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensation is as follows:

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Directors of the Company:				
- Fees	150	150	150	150
- Remuneration	4,152	3,667	-	-
- Other short term employee benefits (including estimated monetary value of benefit-in-kind)	200	155	20	18
-Share-based payments	366	233	133	-
	4,868	4,205	303	168

Notes to the Financial Statements (cont'd)

21. FINANCE COSTS

	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Finance costs on:				
- Bank overdraft	36	62	-	-
- Loans	18,550	15,976	3,832	2,792
- Other borrowings	1,136	423	-	-
	19,722	16,461	3,832	2,792
Less: Capitalised on qualifying assets:				
- Concession intangible assets	(1,294)	(1,327)	-	-
	18,428	15,134	3,832	2,792

22. INCOME TAX

Recognised in the profit or loss

	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Income tax expense/(credit)	7,433	3,698	2,748	(436)
Current tax expense				
Malaysian - current year	2,513	3,222	3,651	253
- prior year	(768)	(1,188)	(903)	(689)
Overseas - current year	5,344	2,224	-	-
- prior year	-	(883)	-	-
Total current tax expense/(credit)	7,089	3,375	2,748	(436)
Deferred tax expense				
Origination and reversal of temporary differences	284	47	-	-
Under provision in prior years	60	276	-	-
Total deferred tax expense	344	323	-	-
Total income tax expense/(credit)	7,433	3,698	2,748	(436)

Notes to the Financial Statements (cont'd)

22. INCOME TAX (CONTINUED)

	Group		Company	
	2012	**2011**	**2012**	**2011**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Reconciliation of effective tax expense				
Profit for the year	31,462	25,355	5,901	39,328
Total income tax expense/(credit)	7,433	3,698	2,748	(436)
Profit excluding tax	38,895	29,053	8,649	38,892
Income tax calculated using Malaysian tax rate of 25% (2011: 25%)	9,724	7,263	2,162	9,723
Effect of tax rates in foreign jurisdiction	(2,001)	(6,255)	-	-
Non-deductible expenses	5,315	11,240	2,006	57
Tax exempt income	(5,681)	(9,530)	(517)	(9,250)
Effect of deferred tax assets not recognised	784	196	-	-
Other items	-	2,579	-	(277)
	8,141	5,493	3,651	253
Over provision in prior years	(708)	(1,795)	(903)	(689)
	7,433	3,698	2,748	(436)

The subsidiaries operating in the People's Republic of China ("China") are entitled for a full tax exemption on profits for the first three years in operations and half tax exemption thereafter for the next two years.

23. PROFIT FOR THE YEAR

	Group		Company	
	2012	**2011**	**2012**	**2011**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Profit for the year is arrived at after charging:				
Allowance for impairment losses				
- Trade receivables	1,496	277	-	-
- Other receivables	91	139	-	-
Amortisation of concession intangible assets	3,213	5,801	-	-
Amortisation of intangible assets	412	412	-	-

Notes to the Financial Statements (cont'd)

23. PROFIT FOR THE YEAR (CONTINUED)

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Profit for the year is arrived at after charging: (continued)				
Auditors' remuneration:				
- Audit fees				
- Current year				
KPMG Malaysia	229	220	50	50
Overseas affiliates of KPMG Malaysia	657	537	-	-
Other auditors	91	26	-	-
- Underprovision in prior year				
KPMG Malaysia	30	-	30	-
- Non-audit fees				
- Current year				
KPMG Malaysia	62	42	62	-
- Underprovision in prior year				
KPMG Malaysia	2	-	2	-
Bad debt written off	-	10	-	-
Depreciation of property, plant and equipment	4,256	2,912	-	-
Change in fair value of investment properties	-	528	-	-
Loss on disposal of investment properties	-	100	-	-
Loss on disposal of property, plant and equipment	-	46	-	-
Personnel expenses (including key management personnel):				
- Contributions to Employees Provident Fund	3,157	3,001	352	357
- Share-based payments	1,562	1,698	238	230
- Wages, salaries and others	49,335	43,236	2,843	3,075
Property, plant and equipment written off	110	12	-	-
Realised loss on foreign exchange	241	1,053	-	-
Rental of expense in respect of:				
- Equipment	6	13	-	-
- Premises	1,425	844	-	-
Unrealised loss on foreign exchange	516	912	2,491	236

Notes to the Financial Statements (cont'd)

23. PROFIT FOR THE YEAR (CONTINUED)

	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
and after crediting:				
Allowance for impairment losses no longer required - Trade receivables	2,293	2,925	-	-
Amortisation of government grant	605	605	-	-
Dividend income from subsidiaries (unquoted)	-	-	16,070	617
Gain on bargain purchase	10,993	21	-	-
Gain on disposal of equity interest	-	-	-	41,747
Gain on disposal of property, plant and equipment	32	53	-	-
Gain on disposal of assets classified as held for sale	-	-	-	-
Finance income:				
- Subsidiaries	-	-	3,639	2,658
- Others	2,898	2,536	5	42
- Concession receivables	10,594	9,220	-	-
Realised gain on foreign exchange	823	263	-	-
Rental income on premises	231	228	-	-
Rental income on investment properties	25	41	-	-
Unrealised gain on foreign exchange	115	969	316	2,626

24. OTHER COMPREHENSIVE (EXPENSES)/INCOME

Group	Before tax RM'000	Tax RM'000	Net of tax RM'000
2012			
Foreign currency translation differences for foreign operations			
- Losses arising during the year	(4,546)	-	(4,546)
2011			
Foreign currency translation differences for foreign operations			
- Gains arising during the year	26,155	-	26,155

Notes to the Financial Statements (cont'd)

25. EARNINGS PER ORDINARY SHARE - GROUP

Basic earnings per share

The calculation of basic earnings per share at 31 December 2012 was based on the profit attributable to owners of the Company of RM11,282,000 (2011: RM14,645,000) and the weighted average number of ordinary shares outstanding calculated as follows:

Weighted average number of ordinary shares

	2012 '000	2011 '000
Issued ordinary shares at 1 January	474,308	473,548
Effect of shares issued	36,415	648
Weighted average number of ordinary shares at 31 December	510,723	474,196

	2012 sen	2011 sen
Basic earnings per share	2.21	3.09

Diluted earnings per share

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, the diluted earnings per share is not presented.

26. DIVIDENDS

Dividends recognised in the current year by the Company are:

	Sen per share	Total amount RM'000	Date of payment
2012			
Final 2011 ordinary (single tier)	1.5	7,826	20 July 2012
Total amount		7,826	
2011			
Final 2010 ordinary (single tier)	1.5	7,115	22 July 2011
Total amount		7,115	

Notes to the Financial Statements (cont'd)

26. DIVIDENDS (CONTINUED)

After the reporting period, the following 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
Final ordinary (single tier)	1.0

27. 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.

The accounting policies of the reportable segments are the same as described in Note 2(v).

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.

Notes to the Financial Statements (cont'd)

27. OPERATING SEGMENTS (CONTINUED)

	Constructions 2012 RM'000	Concessions 2012 RM'000	Trading 2012 RM'000	Total 2012 RM'000
Segment profit	10,321	51,372	3,450	65,143
Included in the measure of segment profit are:				
Revenue from external customers	141,891	185,866	13,049	340,806
Share of profit of associate	-	3,483	-	3,483
Not included in the measure of segment profit but provided to Chief Operating Officer:				
Depreciation and amortisation	(1,278)	(4,379)	(2,224)	(7,881)
Finance costs	(3,957)	(13,430)	(1,041)	(18,428)
Finance income	2,292	11,178	22	13,492
Income tax expense	(1,250)	(5,552)	(631)	(7,433)
Segment assets	279,302	858,798	89,176	1,227,276
Included in the measure of segment assets are:				
Investment in associate	-	28,329	-	28,329
Additions to non-current assets other than financial instruments and deferred tax assets	3,440	11,816	55,516	70,772

Notes to the Financial Statements (cont'd)

27. OPERATING SEGMENTS (CONTINUED)

	Constructions 2011 RM'000	Concessions 2011 RM'000	Trading 2011 RM'000	Total 2011 RM'000
Segment profit	22,863	31,542	1,502	55,907
Included in the measure of segment profit are:				
Revenue from external customers	265,627	193,408	13,427	472,462
Impairment of investment properties	(528)	-	-	(528)
Share of profit of associate	-	2,892	-	2,892
Not included in the measure of segment profit but provided to Chief Operating Officer:				
Depreciation and amortisation	(1,418)	(6,940)	(767)	(9,125)
Finance costs	(2,905)	(11,879)	(350)	(15,134)
Finance income	1,505	10,238	13	11,756
Income tax expense	(2,100)	(1,207)	(391)	(3,698)
Segment assets	365,098	687,698	28,712	1,081,508
Included in the measure of segment assets are:				
Investment in associate	-	28,650	-	28,650
Additions to non-current assets other than financial instruments and deferred tax assets	703	22,494	21,708	44,905

Notes to the Financial Statements (cont'd)

27. OPERATING SEGMENTS (CONTINUED)

Reconciliations of reportable segment profit or loss, assets and other material items

	2012 RM'000	2011 RM'000
Profit		
Total profit or loss for reportable segments	65,143	55,907
Depreciation and amortisation	(7,881)	(9,125)
Finance costs	(18,428)	(15,134)
Finance income	13,492	11,756
Unallocated expenses:		
Corporate expenses	(13,431)	(14,351)
Consolidated profit before tax	38,895	29,053

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 2012 RM'000	Non current assets 2012 RM'000	Revenue 2011 RM'000	Non-current assets 2011 RM'000
Malaysia	156,415	35,066	288,626	37,577
China	165,803	43,538	166,859	40,152
Sri Lanka	5,779	-	20,066	-
Vietnam	1,136	31	(3,303)	-
Other countries	11,673	55,256	214	160
	340,806	133,891	472,462	77,889

Notes to the Financial Statements (cont'd)

28. FINANCIAL INSTRUMENTS

28.1 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
31 December 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)	-	-

Notes to the Financial Statements (cont'd)

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.1 Categories of financial instruments (continued)

	Carrying amount RM'000	L&R/ (OL) RM'000	AFS RM'000	FVTPL -HFT RM'000
31 December 2011				
Financial assets				
Group				
Other investments	86	-	86	-
Trade and other receivables, including derivatives	657,733	657,630	-	103
Cash and cash equivalents	214,531	214,531	-	-
	872,350	872,161	86	103
Company				
Trade and other receivables	186,920	186,920	-	-
Cash and cash equivalents	9,665	9,665	-	-
	196,585	196,585	-	-
Financial liabilities				
Group				
Loans and borrowings	(303,185)	(303,185)	-	-
Trade and other payables, including derivatives	(227,768)	(227,768)	-	-
	(530,953)	(530,953)	-	-
Company				
Loans and borrowings	(50,500)	(50,500)	-	-
Trade and other payables	(9,137)	(9,137)	-	-
	(59,637)	(59,637)	-	-

Notes to the Financial Statements (cont'd)

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.1 Categories of financial instruments (continued)

	Carrying amount RM'000	L&R/ (OL) RM'000	AFS RM'000	FVTPL -HFT RM'000
1 January 2011				
Financial assets				
Group				
Other investments	86	-	86	-
Trade and other receivables, including derivatives	542,563	542,223	-	340
Cash and cash equivalents	145,230	145,230	-	-
	687,879	687,453	86	340
Company				
Trade and other receivables	230,434	230,434	-	-
Cash and cash equivalents	2,289	2,289	-	-
	232,723	232,723	-	-
Financial liabilities				
Group				
Loans and borrowings	(236,187)	(236,187)	-	-
Trade and other payables, including derivatives	(205,519)	(205,519)	-	-
	(441,706)	(441,706)	-	-
Company				
Loans and borrowings	(46,000)	(46,000)	-	-
Trade and other payables	(8,930)	(8,930)	-	-
	(54,930)	(54,930)	-	-

Notes to the Financial Statements (cont'd)

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.2 Net gains and losses arising from financial instruments

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Net gains/(losses) arising on:				
Loans and receivables	895	13,522	(2,175)	5,090
Financial liabilities measured at amortised cost	(18,428)	(15,134)	(3,832)	(2,792)
	(17,533)	(1,612)	(6,007)	2,298

28.3 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

28.4 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.

Notes to the Financial Statements (cont'd)

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.4 Credit risk (continued)

Receivables (continued)

The exposure of credit risk for receivables as at the end of the reporting period by geographic region was:

	Group		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Domestic	125,342	145,804	141,158
Sri Lanka	16,712	18,601	28,175
Vietnam	39,181	46,677	49,130
China	627,841	443,199	322,920
Others	14,431	3,452	1,180
	823,507	657,733	542,563

At date of statement of financial position, there were no significant concentrations of credit risk except for ten (2011: ten) major project debts which accounted for 13% (2011: 59%) of net trade receivables. The Group would normally require advance payments to be paid for these projects and after taking into account advances received from these major project debts, net concentrations of credit risk amount to approximately 8% (2011: 42%) of net trade receivables. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

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
31 December 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
31 December 2011			
Not past due	128,744	-	128,744
Past due 1 - 30 days	18,519	-	18,519
Past due 31 - 120 days	18,768	-	18,768
Past due more than 120 days	72,669	(20,868)	51,801
	238,700	(20,868)	217,832

Notes to the Financial Statements (cont'd)

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.4 Credit risk (continued)

Receivables (continued)

Group	Gross RM'000	Individual impairment RM'000	Net RM'000
1 January 2011			
Not past due	152,854	-	152,854
Past due 1 - 30 days	11,150	-	11,150
Past due 31 - 120 days	15,519	-	15,519
Past due more than 120 days	60,808	(23,553)	37,255
	240,331	(23,553)	216,778

Although these trade receivables are past due and have 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:

	2012 RM'000	2011 RM'000
At 1 January	(20,868)	(23,553)
Impairment loss recognised	(1,496)	(277)
Impairment loss reversed	2,293	2,925
Impairment loss written off	179	37
At 31 December	(19,892)	(20,868)

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.

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.

Notes to the Financial Statements (cont'd)

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.4 Credit risk (continued)

Financial guarantees (continued)

Exposure to credit risk, credit quality and collateral

The maximum exposure to credit risk amounts to RM214,478,000 (2011: RM123,365,000) 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.

28.5 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 for as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

Notes to the Financial Statements (cont'd)

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.5 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:

Group	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
31 December 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	-

Notes to the Financial Statements (cont'd)

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.5 Liquidity risk (continued)

Maturity analysis (continued)

Group	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
31 December 2011							
Non-derivative financial liabilities							
Unsecured bank facilities	282,509	2.90% to 7.94%	332,127	69,847	68,949	114,441	78,890
Bank overdraft	1,503	7.60% to 8.35%	1,503	1,503	-	-	-
Finance lease liabilities	19,173	3.00% to 3.45%	21,982	5,680	4,955	11,347	-
Trade and other payables	227,778	-	227,778	227,778	-	-	-
	530,963		583,390	304,808	73,904	125,788	78,890
Company							
Non-derivative financial liabilities							
Unsecured bank facility	50,500	5.80%	55,561	15,067	18,711	21,783	-
Trade and other payables	9,137	-	9,137	9,137	-	-	-
	59,637		64,698	24,204	18,711	21,783	-

Notes to the Financial Statements (cont'd)

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.5 Liquidity risk (continued)

Maturity analysis (continued)

Group	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
1 January 2011							
Non-derivative financial liabilities							
Unsecured bank facilities	228,755	2.25% to 5.50%	279,118	43,884	48,331	129,184	57,719
Bank overdraft	3,629	6.55% to 8.05%	3,629	3,629	-	-	-
Finance lease liabilities	3,803	2.25% to 3.77%	4,111	1,700	1,357	1,054	-
Trade and other payables	205,767	-	205,767	205,767	-	-	-
	441,954		492,625	254,980	49,688	130,238	57,719
Company							
Non-derivative financial liabilities							
Unsecured bank facility	46,000	5.20% to 5.50%	48,530	8,440	8,440	31,650	-
Trade and other payables	8,930	-	8,930	8,930	-	-	-
	54,930		57,460	17,370	8,440	31,650	-

Notes to the Financial Statements (cont'd)

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.6 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.

28.6.1 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.

Notes to the Financial Statements (cont'd)

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.6 Market risk (continued)

28.6.1 Currency risk (continued)

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					
Group	**AUD RM'000**	**EUR RM'000**	**USD RM'000**	**JPY RM'000**	**VND RM'000**	**LKR RM'000**
31 December 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**
31 December 2011						
Trade receivables	-	2,834	2,831	5,175	5,522	985
Cash and cash equivalents	-	24	10,333	10	340	1,528
Trade payables and other payables	-	(1,998)	(17)	(25,870)	(7,029)	(10,190)
Forward exchange contracts	9	4	2	77	-	-
Amount due from contract customers	-	-	-	5,326	-	-
Net exposure	**9**	**864**	**13,149**	**(15,282)**	**(1,167)**	**(7,677)**
1 January 2011						
Trade receivables	-	14	3,071	4,660	2,153	3,290
Cash and cash equivalents	-	990	5,485	23	1,848	2,901
Trade payables and other payables	-	(7,335)	(15)	(23,758)	(2077)	(14,925)
Forward exchange contracts	248	305	-	(213)	-	-
Amount due from contract customers	-	-	-	9,580	-	-
Net exposure	**248**	**(6,026)**	**8,541**	**(9,708)**	**1,924**	**(8,734)**

Notes to the Financial Statements (cont'd)

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.6 Market risk (continued)

28.6.1 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	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
AUD	-	-	-	-
EUR	891	64	891	64
USD	650	986	650	986
JPY	838	(1,146)	838	(1,146)
VND	(169)	(87)	(169)	(87)
LKR	37	(575)	37	(575)
	2,247	(758)	2,247	(758)

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.

28.6.2 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.

Notes to the Financial Statements (cont'd)

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.6 Market risk (continued)

28.6.2 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		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Fixed rate instruments						
Financial assets	41,362	131,717	88,763	-	-	-
Financial liabilities	32,503	19,173	3,803	-	-	-
Floating rate instruments						
Financial liabilities	311,157	284,012	232,384	86,540	50,500	46,000

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
2012				
Floating rate instruments	(2,333)	2,333	(649)	649
2011				
Floating rate instruments	(2,130)	2,130	(378)	378

Notes to the Financial Statements (cont'd)

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.7 Fair value of financial instruments

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 fair values of other financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	31.12.2012		31.12.2011		1.1.2011	
Group	**Carrying amount RM'000**	**Fair value RM'000**	**Carrying amount RM'000**	**Fair value RM'000**	**Carrying amount RM'000**	**Fair value RM'000**
Forward exchange contracts:						
Assets	86	86	103	103	340	340
Unsecured bank loans	326,647	276,326	278,945	264,466	228,755	211,741
Finance lease liabilities	16,430	16,160	19,173	17,448	3,803	3,644
Company						
Unsecured bank loans	86,540	84,318	50,500	49,162	46,000	38,514

Notes to the Financial Statements (cont'd)

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.7 Fair value of financial instruments (continued)

Derivatives

The fair value of forward exchange contracts is based on their quoted price, if available. If a quoted price is not available, then fair value 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).

28.7.1 Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Group	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
31 December 2012				
Financial assets				
Forward exchange contracts	-	86	-	86
31 December 2011				
Financial assets				
Forward exchange contracts	-	103	-	103
1 January 2011				
Financial assets				
Forward exchange contracts	-	340	-	340

29. 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.

Notes to the Financial Statements (cont'd)

29. CAPITAL MANAGEMENT (CONTINUED)

The debt-to-equity ratios at 31 December 2012, 31 December 2011 and 1 January 2011 were as follows:

	Group		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Total borrowings (Note 16)	343,660	303,185	236,187
Less: Cash and cash equivalents (Note 14)	(115,392)	(214,531)	(145,230)
Net debt	228,268	88,654	90,957
Total equity	642,045	548,430	412,467
Debt-to-equity ratio	0.35	0.16	0.22

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.

30. CONTINGENCIES

The unrecognised contingencies of the Group and the Company at the end of the reporting period are summarised at below:

	Group			Company		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Bank guarantees given to financial institutions in respect of facilities granted to subsidiaries	-	-	-	419,369	595,029	533,213
Bank guarantees given to third parties relating to performance, tender and advance payment bonds - unsecured	110,297	115,401	163,180	-	-	-
Guarantees given in favour of main contractors of the subsidiaries - unsecured	10,918	10,918	10,918	10,918	10,918	10,918

Notes to the Financial Statements (cont'd)

31. 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 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 or common significant influence. 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	
	2012 RM'000	2011 RM'000
Interest income	3,639	2,658

The outstanding balances due from subsidiaries are disclosed in Note 5.

32. OPERATING LEASES

Lease as lessee

Non-cancellable operating lease rentals are payable as follows:

	Group	
	2012 RM'000	2011 RM'000
Less than one year	1,455	772
Between one and five years	2,381	768
More than five years	3,076	292
	6,912	1,832

Notes to the Financial Statements (cont'd)

32. OPERATING LEASES (CONTINUED)

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.

33. CAPITAL AND OTHER COMMITMENTS

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Capital expenditure commitments			
Contracted but not provided for	5,399	116,621	154,329
Guaranteed minimum gross rental			
Contracted but not provided for in the financial statements	6,912	1,832	894

34. ACQUISITION OF SUBSIDIARIES

Business combination

(i) On 28 March 2012, Salcon Development Sdn Bhd, a wholly-owned subsidiary of the Company, entered into several Share Sale Agreements with Wong Yoon Kim, Png Chiew Chuan and Mepro Holdings Berhad to acquire 500,001 ordinary shares of RM1.00 each, representing 50% plus one (1) share of the issued and paid up share capital of Azitin Venture Sdn Bhd ("AVSB") comprising 1,000,000 ordinary shares of RM1.00 each. AVSB is a property development company and is a legal and registered owner of two parcels of leasehold land.

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

	RM'000
Fair value of consideration transferred	
Cash and cash equivalents	7,200

	Note	RM'000
Identifiable assets acquired and liabilities assumed		
Property, plant and equipment	3	10
Land held for property development	6	19,720
Other debtors and prepayment		74
Cash and cash equivalents		10
Trade and other payables		(3,752)
Deferred tax liabilities	11	(3,382)
Total identifiable net assets		12,680
Non-controlling interest		(5,480)
		7,200

Notes to the Financial Statements (cont'd)

34. ACQUISITION OF SUBSIDIARIES (CONTINUED)

Business combination (continued)

	RM'000
Net cash arising from acquisition of subsidiary	
Purchase consideration settled in cash and cash equivalents	7,200
Cash acquired from acquisition	(10)
	7,190

(ii) On 8 August 2012, the Group and the Company subscribed for 15.5 mil ordinary shares of S$1.00 each, representing 60% equity interest in Darco Environmental Pte Ltd. and its subsidiaries with purchase consideration of RM47,848,000.

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

	RM'000
Fair value of consideration transferred	
Cash and cash equivalents	47,848

	Note	RM'000
Identifiable assets acquired and liabilities assumed		
Property, plant and equipment	3	122
Receivables from concession arrangements		131,544
Inventories		156
Trade and other receivables		19,803
Cash and cash equivalents		1,593
Trade and other payables		(26,390)
Current tax liabilities		(110)
Deferred tax liabilities	11	(2,367)
Borrowings		(26,283)
Total identifiable net assets		98,068
Net cash arising from acquisition of subsidiary		
Purchase consideration settled in cash and cash equivalents		47,848
Cash and cash equivalents acquired		(1,593)
		46,255

Notes to the Financial Statements (cont'd)

34. ACQUISITION OF SUBSIDIARIES (CONTINUED)

Gain on bargain purchase

Gain on bargain purchase was recognised as a result of the acquisition as follows:

	RM'000
Total consideration transferred	47,848
Fair value of net identifiable assets	(98,068)
Non-controlling interests, based on their proportionate interest in the recognised amounts of the asset and liabilities of the acquiree	39,227
	(10,993)

35. 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 210,000 share options for the new options granted in 2012 in the Company pursuant to the ESOS are as follows:

	Numbers of options over ordinary shares of RM0.50 each				
	At 1.1.2012	Granted	Exercised	Lapsed	At 31.12.2012
Ooi Cheng Swee	-	750,000	-	-	750,000
Wong Wan Theen	-	210,000	-	-	210,000

36. EXPLANATION OF TRANSITION TO MFRSs

As stated in Note 1(a), these are the first financial statements of the Group and of the Company prepared in accordance with MFRSs.

The accounting policies set out in Note 2 have been applied in preparing the financial statements of the Group and of the Company for the financial year ended 31 December 2012, the comparative information presented in these financial statements for the financial year ended 31 December 2011 and in the preparation of the opening MFRS statement of financial position at 1 January 2011 (the Group's date of transition to MFRSs).

The transition to MFRSs does not have financial impact to the separate financial statements of the Company.

In preparing the opening consolidated statement of financial position at 1 January 2011, the Group has adjusted amounts reported previously in financial statements prepared in accordance with previous FRSs. An explanation of how the transition from previous FRSs to MFRSs has affected the Group's financial position, financial performance and cash flows is set out as follows:

Notes to the Financial Statements (cont'd)

36. EXPLANATION OF TRANSITION TO MFRSs (CONTINUED)

36.1 Reconciliation of financial position

	Note	FRSs RM'000	1.1.2011 Effect of Transition to MFRSs RM'000	MFRSs RM'000
Translation reserves	36.4 (b)	(8,658)	8,658	-
Revaluation reserves	36.4 (a)	150	(150)	-
Retained earnings	36.4 (c)	35,466	(8,508)	26,958

	Note	FRSs RM'000	31.12.2011 Effect of Transition to MFRSs RM'000	MFRSs RM'000
Translation reserves	36.4 (b)	6,227	8,658	14,885
Revaluation reserves	36.4 (a)	150	(150)	-
Retained earnings	36.4 (c)	84,743	(8,508)	76,235

36.2 Reconciliation of profit or loss and other comprehensive income for the year ended 31 December 2011

There were no material differences between the statements of comprehensive income presented under MFRSs and the statements of comprehensive income presented under FRSs.

36.3 Material adjustments to the statements of cash flows for the year ended 31 December 2011

There were no material differences between the statement of cash flows presented under MFRSs and the statement of cash flows presented under FRSs.

36.4 Notes to reconciliations

(a) Property, plant and equipment – Deemed cost exemption – previous revaluation

Under FRSs, the Group measured its land and buildings at valuation. The last valuation was carried out on 31 December 2007.

Upon transition to MFRSs, Group elected to apply the optional exemption to use that previous revaluation as deemed cost under MFRSs. The revaluation reserve after non-controlling interest of RM150,000 at 1 January 2011 and 31 December 2011 was reclassified to retained earnings.

The aggregate fair value of the land and buildings at 31 December 2007 was determined to be RM1,110,000 compared to the then carrying amount of RM860,000 under FRSs.

Notes to the Financial Statements (cont'd)

36. EXPLANATION OF TRANSITION TO MFRSs (CONTINUED)

36.4 Notes to reconciliations (continued)

(a) Property, plant and equipment – Deemed cost exemption – previous revaluation (continued)

	Group	
	1.1.2011 RM'000	31.12.2011 RM'000
Consolidated statement of financial position		
Revaluation reserve	150	150
Adjustment to retained earnings	150	150

(b) Foreign currency translation differences

Under FRSs, the Group recognised foreign currency translation differences in other comprehensive income and accumulated the amount in the foreign currency translation reserve in equity.

Upon transition to MFRSs, the Group has elected to deem all foreign currency translation differences that arose prior to the date of transition in respect of all foreign operations to be nil at the date of transition.

(c) Retained earnings

The changes that affected the retained earnings are as follows:

		Group	
	Note	1.1.2011 RM'000	31.12.2011 RM'000
Revaluation reserve	a	150	150
Foreign currency translation reserve	b	(8,658)	(8,658)
Decrease in retained earnings		(8,508)	(8,508)

37. SIGNIFICANT EVENT

During the financial year, Salcon Changzhou (HK) Limited ("SCHK") and Changzhou Salcon Wastewater Treatment Company Limited ("CSWT") had on 12 November 2012 terminated a 30 years concession agreement with Changzhou City Tian Ning District Diao Zhuang Street Office ("Changzhou City District Office") which was signed on 21 March 2011. A concession termination agreement has been signed and the parties agreed that Changzhou City District Office is to compensate SCHK and CSWT a net sum of RM31,074,000, payable before 1 November 2015. The net gain arising from the termination is RM348,000.

Notes to the Financial Statements (cont'd)

38. SUBSEQUENT EVENT

On 26 April 2013, the Company entered into a Sale and Purchase Agreement with Darco Water Technologies Ltd to acquire 10,307,383 ordinary shares of S$1.00 each fully paid in Salcon Darco Environmental Pte Ltd (formerly known as Darco Environmental Pte Ltd) ("SDE"), representing the remaining 40% of the total issued and paid-up share capital of SDE not owned by the Company, for a cash consideration of approximately RM31,028,000.

Notes to the Financial Statements (cont'd)

39. 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	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Total retained earnings/ (accumulated losses) of the Company and its subsidiaries				
- realised	117,303	108,811	(1,037)	(7,180)
- unrealised	(4,476)	2,075	(5,676)	2,391
	112,827	110,886	(6,713)	(4,789)
Share of retained earnings of associates				
- realised	6,529	6,850	-	-
Share of retained earnings of jointly controlled entities				
- realised	1,496	1,496	-	-
	120,852	119,232	(6,713)	(4,789)
Less: Consolidation adjustments	(41,161)	(34,489)	-	-
Total retained earnings	79,691	84,743	(6,713)	(4,789)

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 73 to 169 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 2012 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 39 on page 170 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: 30 April 2013

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 73 to 170 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 30 April 2013.

....

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 2012 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 73 to 169.

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 2012 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.

Independent Auditors' Report

to the members of Salcon Berhad (cont'd)

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 39 on page 170 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: 1745/12/13(J)
Chartered Accountant

Petaling Jaya, Selangor

Date: 30 April 2013

Particulars of Group Properties

The properties of the Group as at 31 December 2012 and their net book values ("NBV") are indicated below:

FREEHOLD BUILDINGS AND LAND

Company	Location/Address	Size & Usage	Approximate age of building	Acquisition/ Date of 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	16 years	14/03/2002	248
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	33 years	15/03/2002	812
					1,060

LEASEHOLD LAND

Company	Location/Address	Size & Usage	Approximate age of building	Acquisition/ Date of 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	114
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	114
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	114
					342

Particulars of Group Properties (cont'd)

INVESTMENT PROPERTIES

Company	Location/Address	Size & Usage	Approximate age of building	Acquisition/ Date of 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	10 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	4 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	4 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	3 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	3 years	1/11/2011	353
Envitech Sdn Bhd	Ukay Perdana Shoplot as Lot No. SB-SG13	920 sq. ft. of intermediate shop	3 years	10/11/2011	284
Envitech Sdn Bhd	Ukay Perdana Shoplot as Lot No. SB-SG16	920 sq. ft. of intermediate shop	3 years	10/11/2011	284

Particulars of Group Properties (cont'd)

INVESTMENT PROPERTIES

Company	Location/Address	Size & Usage	Approximate age of building	Acquisition/ Date of Revaluation	NBV RM'000
Envitech Sdn Bhd	Ukay Perdana Shoplot as Lot No. SB-SG18	920 sq. ft. of intermediate shop	3 years	10/11/2011	298
Envitech Sdn Bhd	Ukay Perdana Shoplot as Lot No. SB-SG20	920 sq. ft. of intermediate shop	3 years	10/11/2011	298
Envitech Sdn Bhd	Ukay Perdana Shoplot as Lot No. SB-SG21	920 sq. ft. of intermediate shop	3 years	10/11/2011	284
Envitech Sdn Bhd	Ukay Perdana Shoplot as Lot No. SB-SG23	920 sq. ft. of intermediate shop	3 years	10/11/2011	473
Envitech Sdn Bhd	Ukay Perdana Shoplot as Lot No. SA-0106	920 sq. ft. of intermediate shop	3 years	10/11/2011	306
Envitech Sdn Bhd	Ukay Perdana Shoplot as Lot No. SB-0111	920 sq. ft. of intermediate shop	3 years	10/11/2011	406
Envitech Sdn Bhd	Unit No. Parcel 12A, 150 Ground Floor, Block D Shop & Office At Pulau Melaka	1,300 sq. ft. of end lot shop	1 year	22/11/2012	367
Envitech Sdn Bhd	Unit No. Parcel 12, LOT151 Ground Floor, Block E Shop & Office At Pulau Melaka	1,300 sq. ft. of end lot shop	1 year	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	1 year	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	1 year	22/11/2012	338
Envitech Sdn Bhd	Unit No. Parcel 6, 154 Ground Floor, Block E Shop & Office At Pulau Melaka	1,300 sq. ft. of intermediate shop	1 year	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 itermediate shop	1 year	22/11/2012	338

Particulars of Group Properties (cont'd)

Company	Location/Address	Size & Usage	Approximate age of building	Acquisition/ Date of Revaluation	NBV RM'000
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	1 year	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	1 year	22/11/2012	323
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	1 year	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	1 year	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	1 year	22/11/2012	136
Salcon Engineering Berhad	B-PH-07, Casa Subang, Service Apartment Subang USJ 1.	1,555 sq. ft. of service apartment	5 years	5/10/2007	511
					8,446

LAND HELD FOR PROPERTY DEVELOPMENT

Company	Location/Address	Size & Usage	Approximate age of building	Acquisition/ Date of Revaluation	NBV RM'000
Azitin Venture Sdn Bhd	PM 316, Lot 57274 Mukim Batu, Daerah Gombak, Selangor Darul Ehsan	2,186 sq. metres	99 years lease-hold expiring on 20.07.2093	28/03/2012	11,631
Azitin Venture Sdn Bhd	PN 93034, Lot 72341. (formerly held under H.S.(D) 48151, P.T. 1440), Bandar Selayang, Daerah Gombak, Selangor Darul Ehsan	1,801 sq. metres	99 years lease-hold expiring on 13.11.2102	28/03/2012	9,583
					21,214

Analysis of Shareholdings

As at 30 April 2013

ANALYSIS OF SHAREHOLDINGS

Authorised share capital		: RM500,000,000
Issued and paid-up share capital		: RM260,869,292.00
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	1,419	72,360	0.014
100 – 1,000	840	457,399	0.088
1,001 – 10,000	3,167	18,684,276	3.581
10,001 – 100,000	2,184	72,300,359	13.857
100,001 – less than 5% of issued shares	368	307,320,790	58.903
5% and above of issued shares	3	122,903,400	23.557
TOTAL	**7,981**	**521,738,584**	**100.000**

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	12.786	-	-
Infra Tropika Sdn. Bhd.	29,397,400	5.635	-	-
Tan Sri Dato' Tee Tiam Lee	26,796,400	5.136	29,397,400 (1)	5.635
Tee Xun Hao	-	-	29,397,400 (1)	5.635
Dato' Seri (Dr.) Goh Eng Toon	-	-	66,709,600 (2)	12.786
Datin Goh Phaik Lynn	-	-	300,000 (3)	0.058
			700,000 (4)	0. 134
			66,709,600 (5)	12.786
Dato' Leong Kok Wah	700,000	0.134	300,000 (3)	0.058
			66,709,600 (6)	12.786

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

Analysis of Shareholdings

As at 30 April 2013 (cont'd)

LIST OF 30 LARGEST SHAREHOLDERS

No.	Name of Shareholders	No. of Shares	Percentage of Issued Capital
1	NAGA MUHIBAH SDN BHD	66,709,600	12.786
2	INFRA TROPIKA SDN BHD	29,397,400	5.635
3	TAN SRI DATO' TEE TIAM LEE	26,796,400	5.136
4	SIM KENG CHOR	23,715,390	4.545
5	DATO' WONG SWEE YEE	23,715,390	4.545
6	LEE THIAM LAI	20,319,800	3.894
7	TENG LI LING	18,013,800	3.452
8	HSBC NOMINEES (ASING) SDN BHD COUTTS & CO LTD SG FOR BEADLE GROUP LIMITED	16,693,300	3.199
9	KONG SUM MOOI	10,630,500	2.037
10	PEMBINAAN PUNCA CERGAS SDN. BHD.	10,000,000	1.916
11	HSBC NOMINEES (ASING) SDN BHD COUTTS & CO LTD SG FOR GRANDLY STAR CAPITAL LIMITED	9,700,000	1.859
12	HOW TENG TENG	9,638,400	1.847
13	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR CREDIT SUISSE (SG BR-TST-ASING)	8,344,800	1.599
14	WARISAN HARTA SABAH SDN BHD	5,785,200	1.108
15	SHERMAN KAM HOCK LEONG	5,440,000	1.042
16	HLB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR HARI NARAYANAN A/L GOVINDASAMY (SIN 90558-4)	4,400,000	0.843
17	YAP SOOK CHIN	4,000,000	0.766
18	CHIN LAI YING	3,897,300	0.746
19	CITIGROUP NOMINEES (ASING) SDN BHD CIPLC FOR PHEIM SICAV-SIF	3,667,600	0.702

Analysis of Shareholdings

As at 30 April 2013 (cont'd)

No.	Name of Shareholders	No. of Shares	Percentage of Issued Capital
20	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (PHEIM)	3,667,000	0.702
21	LEONG LAI SHEN	2,624,833	0.503
22	HDM NOMINEES (TEMPATAN) SDN BHD HDM CAPITAL SDN BHD FOR TAN KOO CHING	2,500,000	0.479
23	TAN HENG TA	2,420,000	0.463
24	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR OCBC SECURITIES PRIVATE LIMITED (CLIENT A/C-R ES)	2,276,300	0.436
25	PNG CHIEW CHUAN	2,073,600	0.397
26	CHIN KONG FAR	2,033,000	0.389
27	CHAN SENG FATT	2,000,000	0.383
28	DATO' CHOONG MOH KHENG	2,000,000	0.383
29	JFCB HOLDINGS SDN BHD	2,000,000	0.383
30	LEONG FEE FOON	2,000,000	0.383
	TOTAL	**326,459,613**	**62.571**

Analysis of Warrantholdings

As at 30 April 2013

ANALYSIS OF WARRANTHOLDINGS

Number of outstanding warrants 2007/2014		:	104,912,701
Exercise price		:	RM0.75
Exercise period		:	18 May 2007 to 17 May 2014
Exercise rights		:	Each warrant entitles the holder to subscribe for one new ordinary share of RM0.50 each in the Company
Voting rights :	On show of hands	:	One vote for each warrantholder
	On poll	:	One vote for each warrant

DISTRIBUTION OF WARRANTHOLDINGS

Size of Warrantholdings	Number of Warrantholders	Number of Warrants	Percentage of Outstanding Warrants
Less than 100	373	17,238	0.016
100 – 1,000	292	157,563	0.150
1,001 – 10,000	451	2,121,347	2.022
10,001 – 100,000	274	9,788,810	9.330
100,001 – less than 5% of outstanding warrants	76	45,740,925	43.599
5% and above of outstanding warrants	5	47,086,818	44.882
TOTAL	**1,471**	**104,912,701**	**100.00**

LIST OF 30 LARGEST WARRANTHOLDERS

No.	Name of Warrantholders	No. of Warrants	Percentage of Outstanding Warrants
1	NAGA MUHIBAH SDN BHD	16,704,800	15.923
2	LEONG LAI SHEN	10,827,088	10.320
3	INFRA TROPIKA SDN BHD	7,370,650	7.026
4	TENG LI LING	6,878,500	6.556
5	HSBC NOMINEES (ASING) SDN BHD COUTTS & CO LTD SG FOR BEADLE GROUP LIMITED	5,305,780	5.057
6	CHAI SEONG MIN	5,028,450	4.792
7	KONG SUM MOOI	4,764,750	4.541
8	CHAI MOY FONG	3,867,615	3.686
9	DATO' LEONG KOK WAH	3,600,000	3.431
10	HSBC NOMINEES (ASING) SDN BHD COUTTS & CO LTD SG FOR GRANDLY STAR CAPITAL LIMITED	2,500,000	2.382

Analysis of Warrantholdings

As at 30 April 2013 (cont'd)

No.	Name of Warrantholders	No. of Warrants	Percentage of Outstanding Warrants
11	SERAYA ACRES SDN BHD	2,500,000	2.382
12	HOW TENG TENG	2,409,600	2.296
13	SHUM YUEN MING	1, 417,000	1.350
14	MAYBANK NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LIM GIM LEONG	1, 375,800	1.311
15	LEONG FEE FOON	1,000,000	0.953
16	CARTABAN NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR EASTSPRING INVESTMENTS BERHAD	919,750	0.876
17	HLB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR HARI NARAYANAN A/L GOVINDASAMY (SIN 90558-4)	850,000	0.810
18	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR NG SENG POH (8068615)	751,400	0.716
19	LEE THIAM LAI	655,600	0.624
20	JAGJIVAN SINGH SINDHU	572,500	0.545
21	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB FOR CHEAH SENG CHYE (PB)	566,100	0.539
22	FOO KHOW LIN	557,500	0.531
23	LEE THIAM LAI	500,000	0.476
24	ONG AUN KUNG	500,000	0.476
25	MAHADEVAN A/L KATHIRGAMATHAMBY	482,950	0.460
26	ENG BOON CHONG	480,000	0.457
27	HOW SEE HOCK	469,950	0.447
28	TAN HOCK HIN	406,000	0.386
29	NORAMA BINTI MOHAMMAD SALLEH	401,000	0.382
30	ANTARA CONSOLIDATED SDN BHD	350,000	0.333
	TOTAL	**84,012,783**	**80 . 078**

Analysis of Warrantholdings

As at 30 April 2013 (cont'd)

DIRECTORS' INTERESTS IN THE COMPANY

	Direct Interest		Indirect Interest	
Name of Directors	No. of Shares	Percentage of Issued Capital (%)	No. of Shares	Percentage of Issued Capital (%)
Dato' Seri (Dr.) Goh Eng Toon	-	-	66,709,600 (1)	12.786
Dato' Dr. Freezailah Bin Che Yeom	50,400	0.010	-	-
Tan Sri Dato' Tee Tiam Lee	26,796,400	5.136	29,397,400 (2)	5.635
Dato' Leong Kok Wah	700,000	0.134	300,000 (3)	0.058
			66,709,600 (4)	12.786
Ho Tet Shin	-	-	21,400 (5)	0.004
Dato' Choong Moh Kheng	2,055,000	0.394	10,000,000 (6)	1.917

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

DIRECTORS' WARRANTHOLDINGS

	Direct Interest		Indirect Interest	
Name of Directors	No. of Warrants	Percentage of Outstanding Warrants (%)	No. of Warrants	Percentage of Outstanding Warrants (%)
Dato' Seri (Dr.) Goh Eng Toon	-	-	16,704,800 (1)	15.923
Dato' Dr. Freezailah Bin Che Yeom	12,700	0.012	-	-
Tan Sri Dato' Tee Tiam Lee	-	-	7,370,650 (2)	7.026
Dato' Leong Kok Wah	3,600,000	3.431	16,704,800 (3)	15.923
Ho Tet Shin	-	-	10,700 (4)	0.010
Dato' Choong Moh Kheng	-	-	-	-

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 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)

Notice of Tenth Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Tenth Annual General Meeting of the Company will be held at Selangor Ballroom 2, Dorsett Grand Subang, Jalan SS12/1, 47500 Subang Jaya, Selangor Darul Ehsan on Thursday, 20 June 2013 at 10.30a.m. for the following purposes:-

AGENDA

1. To receive the Audited Financial Statements for the financial year ended 31 December 2012 together with the Reports of the Directors and Auditors thereon. **[SEE NOTE 2]**

2. To approve the payment of the first and final single tier dividend of 1.0 sen per ordinary share in respect of the financial year ended 31 December 2012. [Resolution 1]

3. To approve the payment of Directors' fees for the financial year ended 31 December 2012. [Resolution 2]

4. To re-elect Dato' Leong Kok Wah who retires pursuant to Article 96 of the Company's Articles of Association. [Resolution 3]

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: **[SEE NOTE 3]**

   a) Dato' Seri (Dr.) Goh Eng Toon [Resolution 4]
   b) Dato' Dr. Freezailah Bin Che Yeom [Resolution 5]

6. To re-appoint Messrs KPMG as Auditors of the Company and authorise the Directors to fix their remuneration. [Resolution 6]

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 **[SEE NOTE 4(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 7]

Notice of Tenth Annual General Meeting (cont'd)

8. **Ordinary Resolution** **[SEE NOTE 4(b)]**
   Continuing in Office as Independent Non-Executive Director

   "THAT, subject to the passing of Ordinary Resolution 5, approval be and is hereby given to 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 8]

9. To transact any other business of which due notice have been given.

NOTICE OF DIVIDEND ENTITLEMENT AND PAYMENT

NOTICE IS HEREBY GIVEN that subject to the approval of the shareholders at the Tenth Annual General Meeting to be held on 20 June 2013, a first and final single tier dividend of 1.0 sen per ordinary share of RM0.50 each in respect of the financial year ended 31 December 2012 will be paid on 27 August 2013.

The entitlement date for the dividend is 29 July 2013.

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 29 July 2013 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

Ng Yen Hoong (LS 008016)
Lim Poh Yen (MAICSA 7009475)
Company Secretaries

Kuala Lumpur
Date: 29 May 2013

Notice of Tenth Annual General Meeting (cont'd)

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 13 June 2013 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 YEAR ENDED 31 DECEMBER 2012

The Audited Financial Statements in Agenda 1 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-APPOINTMENT OF DIRECTORS PURSUANT TO SECTION 129(6) OF THE COMPANIES ACT, 1965

The Resolution 4 and Resolution 5, 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.

4. 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 7 is the renewal of the mandate obtained from the members at the last Annual General Meeting ("the previous mandate"). The previous mandate was not utilised and accordingly no proceeds were raised.

The proposed Resolution 7, 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.

Notice of Tenth Annual General Meeting (cont'd)

(b) CONTINUING IN OFFICE AS INDEPENDENT NON-EXECUTIVE DIRECTOR

Pursuant to the Malaysian Code on Corporate Governance 2012, the Board of Directors has via the Nomination Committee assessed the Independence of 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, and recommended him to continue to act as an Independent Non-Executive Director of the Company based on the following justifications:-

(i) he fulfills the criteria of an Independent Director pursuant to the Main Market Listing Requirements of Bursa Malaysia Securities Berhad;
(ii) he is familiar with the Company's business operations as he has been with the Company for more than 9 years;
(iii) he has devoted sufficient time and attention to his responsibilities as an Independent Non-Executive Director of the Company; and
(iv) He has exercised due care during his tenure as an Independent Director of the Company and carried out his duty in the interest of the Company and shareholders.

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 Tenth 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 9 to 11 . The details of their respective interests in the securities of the Company are set out in the section entitled "Analysis of Shareholdings and Warrantholdings" on pages 179 to 184.

salcon

PROXY FORM

I/We ....

(PLEASE USE BLOCK CAPITAL)

of ....

(FULL ADDRESS)

being a member/members of SALCON BERHAD hereby appoint ....

of ....

or failing whom, ...of ....

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 Tenth Annual General Meeting of the Company to be held at Selangor Ballroom 2, Dorsett Grand Subang, Jalan SS12/1, 47500 Subang Jaya, Selangor Darul Ehsan on Thursday, 20 June 2013 at 10.30a.m., and at any adjournment thereof.

NO.	RESOLUTIONS	*FOR	*AGAINST
1.	To approve the payment of the first and final single tier dividend of 1.0 sen per ordinary share in respect of the financial year ended 31 December 2012.		
2.	To approve the payment of Directors' fees for the financial year ended 31 December 2012.		
3.	To re-elect Dato' Leong Kok Wah as Director.		
4.	To re-appoint Dato' Seri (Dr.) Goh Eng Toon as Director.		
5.	To re-appoint Dato' Dr. Freezailah Bin Che Yeom as Director.		
6.	To re-appoint Messrs KPMG as Auditors of the Company and to authorise the Directors to fix their remuneration.		
7.	To grant authority to allot and issue shares in general pursuant to Section 132D of the Companies Act, 1965.		
8.	To approve Dato' Dr. Freezailah Bin Che Yeom to continue to act as an Independent Non-Executive Director.		

*(*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 ____________2013.

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:

....

Signature of Shareholder or Common Seal

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 13 June 2013 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
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SALCON BERHAD (593796-T)

15th Floor, Menara Summit
Persiaran Kewajipan, USJ1
47600 UEP Subang Jaya
Selangor Darul Ehsan

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